The original documents are located in Box C38, folder "Presidential Handwriting, 4/13/1976 (2)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

ECONOMIC POLICY BOARD MEETING

Tuesday, April 13, 1976

2:00 P. M.

THE PRESIDENT HAS SEEN....

Jim Connor

Roger Porter said that the handling of this decision was discussed at Senior Staff Meeting --- since they have until April 20 to do something they are keeping this very quiet until then.

Trudy

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

April 12, 1976

MEETING WITH ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

April 13, 1976
2:00 p.m.
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To discuss the footwear import relief case.

B. To discuss the Administration's response to the Congressional Budget Resolution.

C. To discuss progress toward the establishment of a Commission on Employment and Unemployment Statistics.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Report is attached at Tab B.

On February 20, 1976 the U.S. International Trade Commission (USITC) submitted its finding that the domestic footwear industry has been seriously injured by imports. The provisions of the Trade Act of 1974 require that your decision of whether to grant import relief to the domestic footwear industry be published by April 20.

The Trade Policy Committee, chaired by Ambassador Dent, has considered at length the issues posed by this case. A memorandum on the footwear import relief case outlining the options and agency positions is attached at Tab C.

The Senate and House Budget Committees have recently reported their proposed Budget resolutions. The new Budget procedures have established May 15 as the deadline for passage of a concurrent Budget resolution. The Budget procedures do not include any formal action by the President, but you will most certainly be asked for your position on the level of Federal spending in FY 1977 and on your tax proposals in light of the congressional Budget resolution. The EPB Executive Committee has discussed at length alternative Administration responses on this issue which are outlined in a memorandum attached at Tab D.

On December 9 you approved establishment of a Presidentially appointed commission to conduct a review of the Federal Government's employment and unemployment statistics. Burt Malkiel has met with representatives of a number of labor unions and of various business management organizations to explain the need for such a study, review the Commission's terms of reference, and seek advice and suggestions on particular individuals to serve on the Commission. A memorandum outlining current progress and the next steps in appointing a Commission Chairman is attached at Tab E. Mr. Malkiel has worked closely with the Personnel Office in the preparation of the list of possible appointees.

B. Participants: The Vice President, William E. Simon, L. William Seidman, James T. Lynn, Alan Greenspan, Elliot L. Richardson, W.J. Usery, Brent Scowcroft, John O. Marsh, Frederick B. Dent, James M. Cannon, Frank G. Zarb, Burton G. Malkiel.

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Footwear Import Relief Case

Ambassador Dent will review the issues involved and the options recommended by the Trade Policy Committee on the footwear import relief case.

B. Administration's Reponse to the Congressional Budget Resolution

Jim Lynn will discuss alternative Administration responses to the Congressional Budget Resolution.

C. Commission on Employment and Unemployment Statistics

Burt Malkiel will discuss the progress and next steps in the establishment of a Commission on Employment and Unemployment Statistics.

A

April 12, 1976

WEEKLY ECONOMIC FACT SHEET

The economic statistics of the past month have continued to be encouraging. Retail sales are strong. Businesses are now faced with the need to rebuild inventories and new orders have begun to rise more rapidly. Production and employment have continued to advance, the decline in unemployment has continued and price pressures are receding. The statistics continue to indicate a solid, well established, and balanced recovery which appears to be accelerating.

Production

Industrial production is estimated to have risen by 0.5 percent in February. The gain in production was fairly widespread, extending across consumer goods, business equipment, and industrial materials. Since the recession low of last April industrial production has risen at a 12 percent annual rate.

Personal Income

Personal income rose strongly again in February although the $12.9 billion rise was slightly less than the $14.8 billion rise in January. Strong gains in income have helped fuel strong increases in retail sales while holding personal savings rates at relatively high levels. Since last April personal income has advanced at a 12.4 percent annual rate.

Retail Sales

Retail sales are rising strongly. Advance estimates indicate a spurt in March of 2.8 percent, bringing the increase over the past 12 months to 17.2 percent. Sales of domestic automobiles continued to rise sharply last month with sales of new domestic models at a 9.5 million annual rate.

Housing Starts

Housing starts jumped in February by 27 percent. Much of the increase may represent temporary factors such as unseasonally warm weather. The basic factors influencing housing have continued to show improvement. Even if the March figure falls back somewhat the evidence continues to point toward a continued recovery in housing over the balance of the year.

Prices

The consumer price index (CPI) rose by a seasonally adjusted 0.1 percent in February, the smallest monthly increase since September 1971. During the past three months the CPI has risen at a 4.4 percent annual rate seasonally adjusted. Declining food and energy prices continued to exert an important influence on the overall CPI last month. These trends cannot be safely extrapolated very far into the future. Nevertheless, the March wholesale price index rose by only 0.2 percent, and wholesale farm product prices fell by two percent.

Employment and Unemployment

Employment, as measured in the household survey rose by 375,000 in March. Nonfarm payroll employment, which tends to be a more reliable indicator, rose impressively by 200,000. The length of the average workweek declined in March, however, probably as employers moved to adjust their operations to the large increase in their work force during the past several months.

The unemployment rate declined to 7.5 percent of the labor force in March.

Key Figures to be Reported in the Next Ten Days

April 14	Manufacturing and Trade Inventories (for February)
April 15	Industrial Production (for March)
April 16	Preliminary estimate of Gross National Product (for the first quarter)
April 16	Housing Starts (during March)
April 21	Consumer Price Index (for March)
April 21	Durable Goods Orders (during March)

CEA

B

April 10, 1976

ECONOMIC POLICY BOARD REPORT

<u>Issues Considered by the Executive Committee April 1-9</u>

1. Tax Policy Strategy
   Reviewed a memorandum on the legislative status of the President's 1976 tax program and a memorandum on tax policy strategy. Approved submitting to the President a memorandum on the issue of tax policy strategy.

2. Economic Assumptions and Spring Budget Planning Ceilings
   Agreed that the Administration should not undertake a new official forecast until the mid-year budget review but that minor modifications in the January forecast would be made for the purpose of helping to establish the spring budget planning ceilings to reflect the most recent economic statistics and outlook. CEA and OMB will coordinate the development of a set of economic assumptions for use in the OMB spring budget planning process.

3. Task Force on Small Business
   Established a Task Force on Small Business, chaired by the Administrator of the SBA and including representatives from the Departments of Treasury, Commerce, Labor, OMB, CEA, Domestic Council and the office of the Assistant to the President for Economic Affairs.

4. Presidential Commission on Employment and Unemployment Statistics
   Reviewed status of efforts to complete a list of potential appointees and the reactions of the labor and business communities.

5. Inflation Impact Statement Evaluation
   Reviewed a memorandum prepared by OMB and CWPS evaluating the inflation impact statement process and containing recommendations for changes in the OMB circular to strengthen the monitoring and control function. OMB and CWPS will meet with selected departments and agencies involved in preparing inflation impact statements to discuss their views on the inflation impact statement process and to get their comments on the proposed changes recommended by OMB and CWPS.

6. U.S. Contributions to International Financial Institutions
   Approved recommending a supplemental request for additional funds for the U.S. contribution to IDA IV and the Asian Development Fund in order that the U.S. not be in violation of its commitments to these institutions.

7. Report of Labor Negotiations Committee
   Reviewed 1976 collective bargaining negotiations in the trucking, rubber, electrical equipment, meatpacking, automobile, farm equipment, construction and retail food industries.

8. Profile of the Unemployed
   Reviewed a CEA paper on "A Profile of the Unemployed." CEA will prepare an options paper on proposals to more efficiently target unemployment assistance to specific groups.

9. Extending the Jones Act to the Virgin Islands for Oil Products (S.2422)
   Discussed an OMB memorandum on S. 2422. The bill is currently scheduled for mark-up in late April. An information memorandum for the President will be prepared on the current legislative status and on agency positions on the bill.

10. Product Liability Insurance
    Reviewed a preliminary staff study prepared by the Department of Commerce on product liability insurance.

Major Upcoming Agenda Items

1. Price Outlook for Food, Energy and Manufactured Goods
2. Next Steps for the President's Regulatory Reform Program
3. Report of the Commodity Policy Coordinating Committee
4. Tax Legislation Status Report
5. Report of Subcommittee on Economic Statistics
6. Report of Interagency Task Force on Fertilizer
7. Capital Formation Study
8. Codes of Conduct and the MNC's

C

THE WHITE HOUSE

WASHINGTON

April 12, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Footwear Import Relief Case

On February 20, 1976, the U.S. International Trade Commission (USITC) submitted its finding that the domestic footwear industry has been seriously injured by imports. The USITC finding of injury was unanimous but the Commissioners differed on whether the relief should take the form of substantially increasing footwear tariffs (three Commissioners), a tariff rate quota (two Commissioners), or the provision of adjustment assistance (one Commissioner). The provisions of the Trade Act of 1974 require that your decision of whether to grant import relief to the domestic footwear industry be published by April 20. Under the Trade Act, relief must be granted unless you determine that the provision of import relief would be contrary to the national economic interest.

The Trade Policy Committee, chaired by Ambassador Dent, has considered at length the issues posed by this case. A memorandum from Ambassador Dent outlining the injury to the domestic footwear industry; describing existing efforts to help the U.S. shoe industry; assessing the impact of granting relief on U.S. international economic interests; and seeking to clarify the Administration's commitments, both in general with respect to import-injured industries and specifically in regard to the shoe industry, at the time of the passage of the Trade Act of 1974 is attached at Tab A.

Ambassador Dent's memorandum outlines two options supported by members of the Trade Policy Committee and two options proposed by the U.S. footwear industry.

Option 1 would provide adjustment assistance relief for the U.S. footwear industry with no import relief. The President would determine that provision of import relief is not in the national economic interest of the United States.

Option 2 would provide adjustment assistance relief combined with a moderate tariff rate quota based on recent trade patterns. A 30 percent tariff surcharge would be assessed against shoe imports in excess of the quota levels, effectively preventing overall growth in footwear imports. Low priced shoes (under $2.50--about 45 percent of imports) would be excluded from the tariff rate quotas. The quotas would be increased gradually to permit 3 percent a year growth of footwear imports. The 30 percent tariff over quota rate would be reduced 4 percent a year for the next 5 years whereupon it would expire.

Option 3 would provide a stringent tariff rate quota with a prohibitive over-quota rate. All footwear would be covered without exception. This is the proposal of the American Footwear Industries Association.

Option 4 would provide for the negotiation of orderly marketing agreements with five principal supplying countries. If agreements were not negotiated, quotas having a similar effect would be imposed on or before July 19, 1976. This is the proposal of the Footwear Union.

A memorandum from Secretaries Kissinger and Simon outlining their assessment of the advantages and disadvantages of providing import relief and recommending that relief be limited to a comprehensive program of domestic adjustment assistance is attached at Tab B.

A memorandum from Alan Greenspan outlining his assessment of the economic effects of import restrictions and recommending that relief be limited to domestic adjustment assistance is attached at Tab C.

A letter from Secretary Butz describing his concern that restrictions on footwear imports will result in retaliation against U.S. agricultural exports and recommending that relief be limited to adjustment assistance is attached at Tab D.

A memorandum from Brent Scowcroft outlining his views of the perception abroad of a decision to impose import restrictions on shoes and recommending that relief be limited to adjustment assistance is attached at Tab E.

A memorandum from Max Friedersdorf listing the congressional correspondence which has been received recommending import relief for the footwear industry and indicating his support for a tariff rate quota (Option 2) is attached at Tab F. A breakdown showing the 13 Senators and Representatives who recommend imposing tariff rate quotas and

81 Senators and Representatives who supported "an appropriate and effective remedy" is also attached at Tab F.

Appropriate senior White House staff were also requested to provide their comments and recommendations on Ambassador Dent's memorandum. Their recommendations and those of members of the Trade Policy Committee are listed below.

Decision

Option 1 ___GRF___ Provide adjustment assistance relief for the U.S. footwear industry with no import relief. The President would determine that provision of import relief is not in the national economic interest of the United States.

Supported by: State, Treasury, Council of Economic Advisers, Agriculture, Justice, National Security Council, Domestic Council, OMB.

Option 2 __________ Provide adjustment assistance relief combined with a moderate tariff rate quota based on recent trade patterns. A 30 percent tariff surcharge would be assessed against shoe imports in excess of the quota levels, effectively preventing overall growth in footwear imports. Low priced shoes (under $2.50--about 45 percent of imports) would be excluded from the tariff rate quotas. The quotas would be increased gradually to permit 3 percent a year growth of footwear imports. The 30 percent tariff over-quota rate would be reduced 4 percent a year for the next 5 years, whereupon it would expire.

Supported by: Special Representative for Trade Negotiations, Commerce, Labor, Defense, CIEP, White House Counsel's Office, Marsh, Friedersdorf.

Option 3 _________ Provide a stringent tariff rate quota with a prohibitive over-quota rate. All footwear would be covered without exception.

Supported by: American Footwear Industries Association.

Option 4 _________ Provide for the negotiation of orderly marketing agreements with five principal supplying countries. If agreements were not negotiated, quotas having a similar effect would be imposed on or before July 19, 1976.

Supported by: The Footwear Union.

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 00961

Collection/Series/Folder ID No.	:	004700495
Reason for Withdrawal	:	NS,National security restriction
Type of Material	:	MEM,Memo(s)
Creator's Name	:	Frederick Dent
Receiver's Name	:	President
Description	:	re footwear import relief case
Creation Date	:	04/05/1976
Volume (pages)	:	8
Date Withdrawn	:	05/24/1988

ANNEX A

FOOTWEAR TARIFF QUOTA

Base Period:	Consistent with the most recent trade patterns.
Exclusions:	Footwear under $2.50 in value
Country Allocations:	(1) European Community (EC) and Spain (2) All other
Value categories:	(1) Under $6.00 (2) $6.00 and over
Over-quota rate:	an additional 30% above existing rates of duty, phased down by 4% per year.

1st yr.	2nd yr.	3rd Yr.	4th yr.	5th yr.
+30%	+26%	+22%	+18%	+14%

Duration:	5 years
Growth:	3% per year for each category covered.

Explanation - The tariff-rate quota has been designed to except from its coverage the least expensive shoes. Protection for low-priced footwear would affect consumers the most without sufficient offsetting benefits for the domestic industry. Keen competition under $2.50 should be present to keep lower income consumers supplied with adequate quantities of footwear at reasonable prices. (The values given are in terms of foreign export prices. Domestic consumers would pay between $7.50 and $10.00 for a shoe that has a foreign export price of $2.50, before freight, insurance, and distribution costs are added.)

Having excluded the least expensive footwear, the tariff-quota would have its greatest adverse effect on traditional suppliers of leather footwear, the European Community and Spain. Therefore, allocations have been given specifically to these two suppliers, to minimize the need for compensation, or risk of retaliation. The remaining suppliers, lead by Brazil and Korea, are placed in a basket category, as this is favorable both to these countries and to consumers, due to the competitive strength of these producers.

Using two value categories of footwear covered by the quota, under $6.00, and $6.00 and above, will help to prevent footwear prices from climbing rapidly as foreign supply is restricted relative to demand. Since a substantial quantity of shoes must enter under $6.00 to benefit from under-quota tariff rates, there will be a disincentive for foreign exporters to raise prices.

The over quota surcharge rate is set initially at 30%, (added to existing duties). It is estimated that a surcharge of 25% would be adequate to prevent overall growth in footwear imports. However, as rates vary in effectiveness depending on the price and type of footwear, a 30% rate has been selected to provide additional assurance that the surcharge will be effective. The phase-down of 4% a year will gradually restore increasing competition to the domestic industry, and avoid a sudden change between protection and free competition.

A minimum flat rate of growth of 3%/year is provided in case domestic production does not respond to domestic demand. Since growth in consumption has been through increasing imports, it is important to allow imports to expand at a moderated rate even if domestic production does not grow at an equal rate. This will dampen the inflationary impact.

Because the adjustment of this industry, largely to productive uses outside footwear production, promises to be a slow and difficult process, a full five years of relief (the maximum allowed under the Trade Act at this time) is recommended.

Review at the end of three years is recommended to determine whether the quota amounts require modification in light of domestic demand and the health of the domestic industry. We should also promise to consult with foreign supplying countries at any time on specific problems that they may raise about the impact of the tariff-rate quota.

American Footwear Industries Association
Tariff Rate Quota Recommendation

The tariff quota system should be based on the following points:

1. The level of imports which would be permitted on the basis of current tariffs should be those which occurred in calendar year 1974.

2. The remedy should be in effect for five years.

3. The tariff quota should cover all nonrubber footwear, except zoris and disposable paper slippers.

4. There should be no scaling down of the over-quota tariff rate during the five-year period that the remedy is in effect.

5. The over-quota tariff rate should be the maximum permitted under the Trade Act of 1974, namely, 50 percentage points ad valorem above current rates.

6. No growth should be permitted in the annual under-quota import levels.

7. Individual country quotas should be established for at least the leading fifteen foreign supplying countries, with all other countries sharing in a "basket" representing the difference between total 1974 import levels and aggregate imports of the countries for which individual quotas are established.

8. For purposes of implementation and to avoid an "upgrading" of imports, there should be a control mechanism using either price breaks or the TSUS numbers in which imports occurred in 1974, with a quarterly or semi-annual allocation of the under-quota rate.

9. No additional allocation should be made for "new starters". Imports from such countries should utilize the "basket".

10. The present spread between tariff rates in column 1 and 2 should be maintained by adding the over-quota tariff rate to the levels of column 2.

If it is deemed desirable that annual growth beyond the first year be provided in the under-quota import levels, this should be done only as a result of bilateral government-to-government negotiations. Growth may be provided as the price for a foreign government relinquishing its rights to compensation, if any should arise, for the effects of the tariff quota system. Providing annual growth beyond the first year must be the only concession made by the U.S. The growth rate permitted should be related strictly to the growth in the U.S. market for nonrubber footwear, to be implemented one year after the growth has occurred.

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

LIMITED OFFICIAL USE

April 5, 1976

MEMORANDUM FOR THE PRESIDENT

From: Ambassador Frederick B. Dent

Subject: Congressional Consultations and Mail on Footwear

To assist in your decision on the footwear escape clause case, I have consulted with a number of Senate and House leaders on an individual basis to obtain their views.

Three recommended that you do nothing. They were guided by a combination of basic free trade philosophy and concern over the international implications.

Three other men recommended that you do as little as possible. They were motivated by the same combination of reasons.

On the other hand, 12 men recommended that you take positive action. Included in this group are Chairmen Russell Long and Al Ullman, Senators Hugh Scott, Bill Brock, McClellan, Abe Ribicoff, Hathaway, McIntyre and Representatives Landrum, Green, Wilbur Mills, and others.

The factors of importance to this group were:

- the unanimous finding of injury from imports by the USITC.

- Administration commitments to assist the industry which are recorded in the Trade Act of 1974's legislative history.

- a desire to preserve an element of this basic industry in the U.S. to avoid total foreign dependence.

- maintenance and possible expansion of American jobs.

These men also felt that adjustment assistance is not a viable option in this case, as it has been tried and proven ineffective. I also pointed out to them that substantial foreign concern had been expressed to us about taking any action that might be interpreted as protectionist. This was generally disregarded by them in the belief that others look out for their national interests and we must do likewise to some extent.

None of these men recommend severe action. It is my judgment that they would favor a tariff rate quota system designed in a fashion to blend the interests of U.S. consumers and footwear products. I believe that Option II which has been submitted to you would be acceptable to these men.

Mail communication from 28 Senators and 51 Members of the House has been received urging you to take prompt and effective action to provide a remedy to limit the flow of non-rubber footwear imports...consistent with the unanimous finding of the USITC with regard to serious injury.

The Congressional override authority regarding a Presidential decision in this footwear case has been limited due to the lack of an ITC majority recommendation regarding the remedy to be adopted. Normally a Congressional override of your decision would result in the adoption of the majority ITC recommendation.

In this case if you elect not to provide a remedy, an override resolution might attract strong support because it would be in effect a vote for American jobs and a U.S. industry without the burden of imposing restrictive measures. Normally the agriculturally oriented members could be counted on to oppose any override that might react unfavorably on agricultural exports, but that would not be the case in this instance.

If you elect to announce a decision favoring adjustment assistance, a negative Congressional reaction might be avoided by meeting with concerned members of the House and Senate to explain the circumstances upon which your decision was based.

ITEM WITHDRAWAL SHEET
WITHDRAWAL ID 00962

Collection/Series/Folder ID No. ..... : 004700495
Reason for Withdrawal .... : NS,National security restriction
Type of Material .... : MEM,Memo(s)
Creator's Name .... : William Simon and Henry Kissinger
Receiver's Name .... : President
Description .... : re decision on the shoe escape cl
ause case
Creation Date .... : 04/07/1976
Volume (pages) .... : 5
Date Withdrawn .... : 05/24/1988

Economic Condition of the Shoe Industry

1. The U.S. industry is showing signs of recovery

The most recent indicators are encouraging:

Indicator	Period	Percent Change Over Comparable 1975 Period
Domestic Production	January, 1976	+20.8%
Factory Shipments	January, 1976	+25.9%
Production Worker Employment	February, 1976	+ 9.9%
Retail Sales	Week Ending March 20, 1976	+31.0%

These specific indicators reflect a fundamental improvement in the shoe industry's health:

-- Sales since May 1975 have been higher every month than the same month the year before

-- Production for the year should be 20% above 1974 levels, according to production schedules

-- Capacity is supposed to be pinching according to U.S. shoe retailers. They have been unable to quantify it, but they insist that they cannot get more shoes from U.S. producers in the short term.

-- Earnings are rebounding. For example, the Brown Group's earnings for the fourth quarter of fiscal 1975 were up 48 percent, and up another 142 percent in the first quarter of fiscal 1976. Craddock-Terry's earnings rose 70 percent according to its latest report. Morse Shoe's earnings were up 120 percent; SCOA up 7~~8 percent; U.S. Shoe up 179 percent;~~ and Weyenberg up 102 percent.

This upturn in the domestic shoe industry is substantiated further by the results of a telephone survey of fourteen domestic shoe producers. All company representatives were optimistic, reporting reactivation of plants, rehiring of furloughed workers, regular overtime work and general increases in production over last year at this time. They identified the second half of 1975 as the time at which the decline in their operations reversed itself.

2. U.S. industry has virtually been holding its own against imports in the last few years

The import share of the U.S. market has been relatively stable in the last few years after sharply increasing previously. The data might indicate that imports and the domestic industry have carved out relatively stable market shares in recent years with imports taking about 40% of total sales (by quantity).

Year	Ratio of Imports to Consumption (pairs)
1968	22
1969	26
1970	30
1971	33
1972	36
1973	39
1974	37
1975	40

3. <u>A segment of the industry has been in long-term decline, but another segment, accounting for 50 percent of production, is doing well</u>

(a) Profits correlate with the size of firms: the largest 21 producers (who account for one-half of domestic output) have averaged operating profits as a percentage net sales of 7.1% from 1970-74, while the smallest firms (those producing under 200,000 pairs annually) have averaged below 2.6% for the same measure.

(b) While there has been an overall decline in the number of shoe firms, the number of large firms (companies producing over four million pairs) increased by 31 percent between 1967-74.

(c) Total footwear employment has fallen 30% since 1968. The fall has been concentrated in the smaller firms as the large firms have expanded facilities and number of employees and increased their share of the market.

AN ADJUSTMENT ASSISTANCE PROGRAM FOR THE SHOE INDUSTRY

An adjustment assistance program tailored to the problems of the shoe industry would contain three elements:

(1) Compensation, training and relocation for affected workers. The Departments of Labor and Commerce, in cooperation with the appropriate authorities in the affected states, would develop and implement special manpower programs for shoe workers. As the initial step, all unemployed shoe workers would be contacted and informed of their eligibility for assistance under the Trade Act. They would be provided with compensation and special training programs designed to teach those skills for which employment opportunities have been identified. Special consideration would be given to those shoe workers who, because of advanced age or status as the secondary income source in a family, are relatively immobile. For those shoe workers who wish to move to areas of more promising employment, relocation assistance would be provided.

(2) Financial and technical assistance for eligible firms. Under the direction of the Department of Commerce, direct loans or loan guarantees would be made for the modernization or conversion of productive facilities and to provide working capital. Shoe firms would also receive technical assistance in those areas relevant to their operations. To whatever extent it is possible under the law, financial assistance to a firm should be accompanied by technical assistance and these comprehensive packages should be concentrated among producers displaying potential for adjustment to foreign competition. Funding would be provided largely through Business Development Assistance, which has a budgetary request of $52 million for FY 1977, of which $20 million is specifically earmarked for trade adjustment assistance for firms. (These and other public funds can be stretched up to five-fold because only 20% coverage is required on loan guarantees.) Additional funding could possibly be provided under Title IX of the Public Works and Economic Development Act (PWEDA).

(3) Broad-based efforts to revive and diversify the economies of affected communities. Such community assistance would start with the identification of depressed areas suffering substantial unemployment of shoe workers. Such areas would be designated as primary candidates for economic development projects to be designed in cooperation with the affected communities. These projects would involve concentrated infrastructure development for both industrial and community needs to be coordinated with financial and technical assistance for firms outside the shoe industry which might wish to start or expand operations in these targeted areas. Funds and technical expertise could be provided through Trade Adjustment Assistance for Communities ($15 million requested for FY 1977), Title IX of PWEDA ($35.4 million requested for FY 1977 plus a possible $100 million in interest rate subsidies), the Farmers Home Administration ($575 million requested for FY 1977 in the Rural Development Insurance Fund), and the Small Business Administration ($39.6 million requested for FY 1977).

The effectiveness of such a broadbased adjustment assistance program depends on: (a) the thorough and imaginative design of each of its elements; (b) the ample appropriation of eligible funds for development projects and supplemental budgetary requests for Trade Adjustment Assistance for firms; and (c) active and imaginative administration.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

April 7, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Decision on the Shoe Escape Clause Case

I recommend that in this case relief to the industry be given through domestic adjustment assistance measures.

I have come to this conclusion for the following reason:

The economic case is almost a prototype of one for which adjustment assistance programs were designed. The industry has a number of efficient firms that are highly competitive and that have been able to show a favorable longer-run profit picture. The remainder of the industry consists of smaller, less efficient firms which suffer from both foreign and domestic competition. Under these circumstances, imposition of tariff quotas or other import restrictions would only serve to increase the profitability of the already efficient firms and probably help the lagging part of the industry little. The cost of such measures would be borne by the U.S. consumer.

The economic recovery has taken considerable pressure off the domestic industry as a whole. Production and employment are rising strongly and earnings are rebounding. There are indications that in certain areas capacity constraints are appearing. Therefore, the assistance sought by the industry appears to be partly in reaction to the past recession and partly in reaction to structural problems of the smaller firms. This is the classical case calling for adjustment assistance rather than for import restraints.

The domestic effects of import restrictions would be to add to inflationary pressures on consumers. Consumers at the lower income range would be particularly affected. Such inflationary pressures would come at a time when wage negotiations crucial to the maintenance of a stable recovery path are being concluded.

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

C

These adverse domestic effects would be compounded by adverse international effects. Foreign suppliers, mainly in Spain, Italy and some Asian countries would find their economies profoundly affected. And because of the importance of the shoe industry in these economies, possible political destablizing events would follow. In addition, a decision imposing restrictions would be a notable departure from the leadership you took in obtaining commitments from your counterparts at Rambouillet to avoid mutually destructive protectionist measures. Finally, restrictive measures would entitle other countries to take retaliatory measures which would be harmful to competitive sectors of our economy.

The total likely effect of import restraints would amount to a considerable net cost to our economy, without any real assurance of substantial benefits to the weak part of the shoe industry. It is for this reason that I recommend the adjustment assistance option.

Alan Greenspan

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

April 8, 1976

The President
The White House

Dear Mr. President:

Your decision on the footwear escape clause case affecting $1.1 billion of shoe imports is of critical importance to the U.S. agricultural sector. Ambassador Dent is sending you recommendations which contain two basic options, adjustment assistance or a tariff rate quota system.

Secretary Simon and Secretary Kissinger are writing you to urge that you choose the adjustment assistance option. I want to join them in this recommendation because adjustment assistance makes better sense economically and the alternative would have serious and perhaps permanent adverse effects on U.S. agricultural exports. If we raise the barriers on footwear imports, we lay ourselves open to retaliation or demands for compensation. Our agricultural exports are the most vulnerable to this, and it will be agriculture which pays the bill for relief for the shoe industry.

D

Our agricultural exports will earn close to $22 billion in foreign exchange this year, $13 billion more than just five years ago. This enormous growth is the result of our free trade and full production policies. Any increase in barriers to our exports will reduce our foreign exchange earnings and adversely affect our balance of payments. It will also serve as a disincentive to farmers which will cause production cutbacks and higher prices to our consumers.

The average number of workers employed in the production on non-rubber footwear in the first nine months of 1975 was 139,000. At the same time 1.2 million people were working full time in farm export related jobs. If all of the footwear workers are adversely affected by $1.1 billion in footwear imports and would be helped by import restraints, then it is fair to say that 60,000 workers in the agricultural sector could be adversely affected by retaliation on that $1.1 billion.

If restrictions are placed on footwear, we stand to lose some of our most valuable trade concessions. In the case of the European Community and Spain alone, this would adversely affect up to $2 billion in soybean and corn exports. This is only the tip of the iceberg because there is an almost perfect fit between shoe exporting countries and our major agricultural markets overseas. Although relief for the shoe industry would only be temporary, much of our potential loss of agricultural markets would be permanent.

Secretary Simon and Secretary Kissinger point out that adjustment assistance is a viable option both in terms of relief and available funding and that conditions in the shoe industry have changed radically since the Section 201 petition was filed. The 21 major firms in the industry which account for over half of U.S. production are earning profits on net sales of 7.1 percent which amounts to about a 21 percent return on capital investment. Domestic production, factory shipments and employment in these firms have increased substantially over the past year and retail sales of domestically produced shoes were 31 percent higher this March than in March 1975. The smaller firms in the industry are in trouble but adjustment assistance can provide the relief needed.

There is much to be said on the other side of this case and this is discussed at length in Ambassador Dent's recommendations. This is a very difficult decision, but once again, I strongly urge you to give serious consideration to the adjustment assistance option.

Sincerely,

Earl L. Butz

Earl L. Butz
Secretary

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

2061

April 12, 1976

MEMORANDUM FOR: THE PRESIDENT

FROM: BRENT SCOWCROFT B

SUBJECT: Footwear Import Relief Case

From a foreign policy point of view, the footwear import relief case involves issues both of perception and of substance.

Perception

A very large number of cases have been submitted to the ITC and the Treasury under the Trade Act of 1974. The footwear case, involving roughly $1.1 billion of imports, is the second most significant in trade value. There are eight other escape clause cases, totaling roughly $700 million. There are also 30 anti-dumping actions pending, including autos (import value $7.5 billion in 1974) and roughly 20 countervailing duty cases.

Your earlier decision on import restrictions for specialty steel and the possibility of new restrictions in a number of the above cases have led many of our trading partners to be gravely concerned that the United States may be turning protectionist. The main argument we have used in refuting this charge is that, while many American industries have made claims for protection, the Administration has resisted protectionist pressures. A decision to grant import relief in this case, following closely the specialty steel decision and coming before possible dumping decisions on autos and other items of significant trade importance, would be used by Europeans, Brazilians and others as evidence that the Administration too had "gone protectionist."

E

The perception of a US move towards protectionism is likely to have two results: retaliation (perhaps against US agricultural exports) and emulation. The economic situation in a number of European nations -- facing high and in some cases growing unemployment and large trade deficits--is substantially worse than it is in the US. Several months ago we put heavy pressure on Britain not to succumb to severe protectionist pressure from labor. The British government resisted such pressures. If the UK now perceives an American move toward protectionism, it may be unable to resist strong pressures to impose restrictions. In Italy the case is similar. Italian labor would point to American protectionism as an excuse for Italy to erect protectionist measures to reduce its unemployment. The Italian problem is further complicated by the fact that Italy is the largest exporter of shoes to the US ($320 million last year), and the Communists would seize on any US import action against shoes--however liberal--to argue that the US was harming Italy during a time of economic crisis. Economic pressures for protectionism exist in France and Spain as well.

The risk, therefore, is that a decision to impose import restrictions on shoes could trigger a rush to new import barriers by other countries. This in turn would harm US exports, provoke political acrimony, jeopardize the multilateral trade negotiations, and set back the collective recovery efforts of the industrialized world. In Brazil, Korea, and Taiwan we can expect a similarly negative reaction. I therefore strongly favor Option I--adjustment assistance with no import relief.

Substantive Issues

If you decide to impose import restrictions in addition to adjustment assistance, a very liberal tariff quota is clearly the most desirable. The quota scheme should avoid penalizing such traditional suppliers as Italy and Spain by not cutting their import levels below 1973. It should enable other suppliers such as Brazil, Korea and Taiwan to expand exports at close to traditional rates of increase.

In this respect, Fred Dent's Option II, while preferable to Options III and IV, is too restrictive and would be unduly harmful to foreign export interests. I believe it should be improved to establish the base year as 1973--the last year of economic growth in the US--with adjustments for countries whose exports were abnormally low in that year. The industry wants 1974 as the base year, but 1974 was a recession period and shoe imports were abnormally low (266 million pairs). To use it as a base for import restrictions for 1976, 1977 and 1978, during which substantial US GNP growth is anticipated, would unfairly limit imports, to the detriment of US consumers and foreign exporters alike. Using 1975 as a base (288 million pairs) would lead to similar but lesser distortions. Taking 1973, with some adjustments, as a base (308 million pairs) would provide less relief to the US industry, but would be justifiable as the last year roughly comparable to 1976 and 1977. It would also be more consistent with foreign and consumer interests. I would also suggest a higher than 3% growth factor in the quotas.

I therefore recommend that if you choose a tariff quota scheme it be more liberal than Option II.

APR 9 REC'D

THE WHITE HOUSE

WASHINGTON

April 8, 1976

MEMORANDUM FOR: L. WILLIAM SEIDMAN LWS

FROM: MAX FRIEDERSDORF M.F.

SUBJECT: Footwear Import Relief Case

I recommend Option II. The President has received Congressional correspondence from the following recommending import relief for the footwear industry:

HOUSE

Addabbo
Anderson, Glenn
Badillo
Beard, Robin
Bedell
Boland
Breckinridge
Burke
Clay
Cleveland
Cohen
Conte
D'Amours
Daniel, Dan
Delaney
Dent
Eilberg
Emery
Eshleman
Evins
Flood
Hammerschmidt
Hanley
Harrington
Heckler, Ken
Heckler, Margaret
Hefner
Helstoski
Henderson
Hungate
Ichord
Jones, Ed
Jones, James
Koch
Lehman
McHugh
McKinney
Macdonald
Mann
Matsunaga
Miller, Clarence
Mitchell, Parrin
Moakley
Murphy, John
Pepper
Preyer
Price
Randall
Rodino
Roe
Roybal
St. Germain
Santini
Sarasin
Schneebeli
Shipley
Shuster
Staggers
Stephens
Stuckey
Studds
Sullivan
Taylor, Gene
Taylor, Roy
Tsongas
Wolff
Yatron
Zeferetti

SENATE

Ribicoff
Allen
Baker
Bayh
Beall
Brock
Brooke
Bumpers
Eagleton
Eastland
Hathaway
Helms
Hollings

(continued)

F

Jackson
Kennedy
McClellan
McIntyre
Mathias
Morgan
Muskie
Nelson
Pastore
Pell
Randolph
Ribicoff
Schweiker
Scott, H.
Sparkman
Stevens
Stone
Symington
Runney
Weicker

cc: Jack Marsh

NAME	IMPOSE TARIFF RATE QUOTAS	APPROPRIATE & EFFECTIVE REMEDY	NO TARIFF RATE QUOTA
EVINS, J. L	X		
PASTORE, J.O.	X		
HECHLER, KEN	X		
HAMMERSCHMIDT, JOHN PAUL	X		
ST GERMAIN, FERNAND J.	X		
ROYBAL, EDWARD R		X	
SANTINI, JAMES D	X		
BURKE, JAMES A	X		
CONTE, SILVIO O	X		
ALLEN, JAMES B		X	
MACDONALD, TORBERT H	X		
JONES, ED	X		
SHUSTER, BUD		X	
MILLER, CLARENCE E	X		
SPARKMAN, JOHN	X		
PREYER, RICHARDSON	X		
DANIEL, DAN		X	
MATSUNAGA, SPARK		X	
PEPPER, CLAUDE		X	
MITCHELL, PARREN J		X	
DELANEY, JAMES J		X	
BURKE, JAMES A		X	
ADDABBO, JOSEPH P		X	
STUDDS, GERRY E		X	
BADILLO, HERMAN		X	
ROE, ROBERT A		X	
D'AMOURS, NORMAN E		X	
TSONGAS, PAUL E		X	
RODINO, PETER W, JR		X	
DENT, JOHN H		X	
BEDELL, BERKLEY		X	
PRICE, MELVIN		X	
CLAY, WILLIAM (BILL)		X	
ZEFERERRI, LEO C		X	
EILBERG, JOSHUA		X	
KOCH, EDWARD I		X	
JONES, JAMES R		X	
BOLAND, EDWARD P		X	
HANLEY, JAMES M		X	
MOAKLEY, J JOSEPH		X	
SARASIN, RONALD A		X	
COHEN, WILLIAM S		X	
EMERY, DAVID		X	
YATRON, GUS		X	
MCKINNEY, STEWART		X	
MCHUGH, MATTHEW		X	
HECKLER, MARGARET M.		X	
CLEVELAND, JAMES C		X	
SHIPLEY, GEORGE, E		X	
HEFNER, W G (BILL)		X	
SCHNEEBELI, HERMAN T		X	

NAME	IMPOSE TARIFF RATE QUOTAS	APPROPRIATE & EFFECTIVE REMEDY	NO TARIFF RATE QUOTA
TAYLOR, GENE		X	
WOLFF, LESTER L		X	
SULLIVAN, LEONOR K		X	
ANDERSON, GLENN M		X	
LEHMAN, WILLIAM		X	
MANN, JAMES R		X	
TAYLOR, ROY A		X	
HELSTOSKI, HENRY		X	
FLOOD, DANIEL J		X	
MURPHY, JOHN M		X	
STUCKEY, W S (BILL)		X	
STAGGERS, HARLEY		X	
ICHORD, RICHARD H		X	
HARRINGTON, MICHAEL J		X	
TAYLOR, GENE		X	
MUSKIE, EDMUND S		X	
SCOTT, HUGH		X	
BROCK, BILL		X	
KENNEDY, EDWARD M.		X	
MCINTYRE, THOMAS J		X	
SCHWEIKER, RICHARD S		X	
DURKIN, JOHN A		X	
EAGLETON, THOMAS F		X	
SYMINGTON, STUART		X	
MCC MATHIAS, CHARLES JR		X	
PELL, CLAIBORNE		X	
BAKER, HOWARD		X	
BEALL, J GLENN		X	
BROOKE, EDWARD W		X	
WEICKER, LOWELL JR		X	
BAYH, BIRCH		X	
HATHAWAY, WILLIAM D		X	
JACKSON, HENRY M		X	
BUMPERS, DALE		X	
MCCLELLAN, JOHN L		X	
NELSON, GAYLORD		X	
MORGAN, ROBERT		X	
STEVENS, TED		X	
HELMS, JESSE		X	
HOLLINGS, ERNRST F		X	
STONE, DICK		X	
EASTLAND, JAMES O		X	
RANDOLPH, JENNINGS		X	
	13	81	00

D

THE WHITE HOUSE

WASHINGTON

April 12, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS
JAMES T. LYNN L

SUBJECT: Administration Response to Congressional Budget Resolution

The Senate and House Budget Committees have recently reported their proposed Budget resolutions. The new Budget procedures have established May 15 as the deadline for passage of a concurrent Budget Resolution by the House and the Senate. The Budget procedures do not include any formal action by the President, but you will most certainly be asked for your view of the Budget resolution and for a statement of your position on the level of Federal spending in FY 1977 and on your tax proposals in light of the congressional Budget Resolution.

This memorandum reviews the sequence of Budget proposals and actions to date, describes the current economic and budget environment, outlines the economic implications of congressional budget policy and a successful veto of the tax cut extension, and presents five alternative Administration responses for your consideration.

Background

On October 6, 1975 you proposed a $28 billion tax cut from 1974 levels and a $395 billion spending ceiling for FY 1977. The proposed spending limitation represented a $28 billion reduction from our estimate of the projected level of Federal spending in FY 1977 under then current congressional policies.

On December 16, 1975 the Congress passed a full year extension of the 1975 tax cut without regard to a spending ceiling. The following day you successfully vetoed that bill.

On December 23, 1975 the Congress passed and you subsequently signed a new tax bill which extended the tax cut for six months and contained language loosely confirming the notion that any additional tax cut below 1974 levels should be matched by a spending cut. The precise language in the Revenue Adjustment Act of 1975, and Chairman Ullman's explanation on the floor, are attached at Tab A.

Your Budget, submitted to the Congress on January 21, 1976, reaffirmed the policies outlined in your October 6 speech. In briefing the press on the Budget, you were asked whether you would adhere to the rigid spending ceiling. You responded that "there has to be some flexibility...We will have to wait and see how economic conditions develop in the coming months, but the concept of dollar for dollar was set forth in the message last night." A text of the complete question and answer is attached at Tab B.

The Senate and House Budget Committees have now reported their proposed Budget Resolutions. Both recommend a continuation of the 1975 personal and corporate income tax cut. The Senate Budget Committee recommends outlays of $412.6 billion while the House Budget Committee recommends outlays $413.7 billion.* The "dollar for dollar" concept has apparently disappeared from their consciousness.

Since the "dollar for dollar" concept was to provide tax cuts from 1974 levels in return for spending cuts below $423 billion, the Budget Committees' recommended outlay level of approximately $413 billion implies that taxes could be cut about $10 billion from 1974 levels. Since current tax law already provides a $17 billion tax cut from 1974 levels on a full year basis, the "dollar for dollar" concept, combined with an outlay ceiling of $413 billion, would require a tax increase of about $7 billion per year from current levels.

Alternately, if we ask what outlay ceiling is implied by their tax recommendations, the Budget Committees' proposed continuation of the $17 billion tax cut from 1974 levels means that their outlay ceiling should be $17 billion below $423 billion or about $406 billion.

Both of the above calculations ignore other tax proposals made by the Administration since October 6. These include $5.4 billion in payroll tax increases, estate tax reduction, and various investment incentives. It seems appropriate to ignore these proposals since none were adopted by the Committees.**

---

*The Senate and House consider the $1.2 billion refundable portion of the earned income credit a tax reduction while we consider it an outlay. Therefore, under our accounting methods $1.2 billion should be added to their outlay figures.

**There is one small exception to this statement. The House Committee did adopt a $1/2 billion increase in the unemployment insurance tax; i.e., $1 1/2 billion less than we recommended. None of the payroll tax increase was adopted by the Senate.

Economic and Budget Environment

The Budget forecast real growth rates of 6.2 and 5.7 percent for 1976 and 1977; unemployment rates of 7.7 and 6.9 percent; and increases in the GNP deflator of 5.9 and 6.2 percent. Since the Budget was presented, most of the economic news has been good. Unemployment and inflation have both been on a lower track than expected in the Budget, and if anything, it now appears that real growth in 1976 is likely to be slightly higher than 6.2 percent.

In stating the "dollar for dollar" concept in the Revenue Adjustment Act of 1975, the Congress included the provision "that nothing shall preclude the right of the Congress to pass a budget resolution containing a higher or lower expenditure figure if the Congress concludes that this is warranted by economic conditions or unforeseen circumstances." Since the economic outlook is clearly better than it was when Congress passed that Act, they will be forced to argue one of the following: (1) Even though economic conditions are better than expected, unemployment is still too high and more spending is necessary, i.e., they never meant to abide by the Act's statement of policy; (2) Inflation is lower than expected and therefore, it is safe to attack unemployment with more "vigor;" or (3) There are other "unforeseen circumstances."

There have been Administration policy changes which make the "dollar for dollar" concept somewhat ambiguous. At the time of the October 6 speech, it was not contemplated that we would request either a $5.4 billion social security and unemployment insurance tax increase or certain other tax incentives for investment. However, the Budget did not allow this tax increase to alter the spending ceiling, and the estimated deficit fell within the range of $40 to $44 billion deemed appropriate in October. Since the Budget, we have also proposed an estate tax reduction. In addition, we have recently sent the Congress a budget update which raises spending totals to $396.4 billion because of Congressional action, and therefore, raises the deficit estimate to almost $45 billion. Moreover, if inflation continues to abate and is significantly below expectations, we may have to significantly lower our receipts estimates in the July update of the Budget that is required by law.

The Economic Implications of Congressional Budget Policy and a Successful Veto of the Tax Cut Extension

As shown in a table attached at Tab C, the House Budget Committee estimates their recommended deficit at $50.6 billion while the Senate Budget Committee estimates their deficit at $50.2 billion. Because of differences in estimating techniques and economic assumptions, our own estimates suggest that both the House and Senate deficits should be raised to a range of $54-56 billion.

Our latest official estimate of our deficit is $44.6 billion or between $10 and $12 billion less than our estimate of the House and Senate recommended deficits. Admittedly, a $10 or $12 billion change in the deficit does not have a major macro-economic impact when GNP is expected to total almost $1.8 trillion in fiscal 1977. Although any increase in the deficit adds somewhat to the risk of inflation in the future, the more important characteristic of Congressional budget policy is that it puts us on a higher spending and tax track in the future thus implying a significantly larger future role for Government in the economy than under your Budget strategy.

If, in response to the Congressional Budget Resolution, you successfully vetoed a tax cut extension and if Congress took no further action, tax receipts would be $23.4 billion higher than recommended in the Budget. The derivation of the $23.4 billion is shown in a table attached at Tab D. Outlays, including the $1.2 billion earned income credit, would be $18 to $19 billion higher than the latest budget estimate. Consequently, the net reduction in the deficit would be in the range of $4.5 to $5.5 billion. In a $1.8 trillion economy, this is a relatively small shock, but an increase in withholding and the uncertainty for business generated while the veto battle raged might have a negative psychological impact that raises the risk of a slower recovery. More important, the Congress would be very unlikely to remain inactive. They would most probably respond with a smaller tax cut from 1974 levels approximating your original "dollar for dollar" concept. Thus, from a fiscal policy standpoint, the resulting budget and the nature of the recovery would be unlikely to differ significantly from our latest estimates.

Options

Five options regarding the Administration's public stance following passage of the First Budget Resolution are outlined for your consideration. In assessing the options, it should be noted that legislation extending the tax cut will probably be passed in late May or in June. The majority of appropriations bills will be considered after a tax cut decision is made.

Option 1: Complete Flexibility

State that spending levels in the Congressional Budget Resolutions are excessive, but do not promise specific vetoes. Simply state that your goal will be to hold down the size of Government as much as possible and that as tax and spending legislation is passed, each bill will be considered on its merits in light of the economic conditions then prevailing. State that you will judiciously use the power of the veto to curb spending and that your goal is still to provide an eventual additional tax cut if spending can be curbed sufficiently.

Advantages

- Our estimates of outlays, receipts, and deficits are constantly changing. In particular, if inflation continues to abate, this good news has the unfortunate effect of reducing tax receipts and the deficit estimates implied by your Budget may grow through time. This option provides complete flexibility for dealing with changing conditions.

Disadvantages

- It may appear that we have retreated from our commitment to fiscal prudence and may encourage Congress to seek higher levels of spending in appropriations bills than if a stronger stand is taken.

- By dropping the "dollar for dollar" concept, you may be accused of inconsistency and a lack of leadership.

- Dilutes support for a further tax cut and places less emphasis on the notion that the public can be rewarded by a tax cut if Congress cuts spending.

- This stance is a temporary expedient--good only until a tax cut extension passes. This will probably occur in four to six weeks.

Option 2: Flexibility on Tax Cut--Inflexibility on Spending

State that you stand by your Budget policies, but do not promise to veto an extension of the tax cut. It will be considered on its merits when passed. Promise to veto spending legislation not in accord with your Budget. If a sufficient number of vetoes are sustained, we will continue to press for a "dollar for dollar" tax cut.

Advantages

- Retains the "dollar for dollar" concept.

- Demonstrates leadership in resisting big Government.

- Does not paint us into a corner on the issue of an extension of the tax cut.

Disadvantages

- Perhaps too inflexible on the spending side. Many Budget reductions require structural reform. For example, health block grants are required for Medicaid saving. If Congress does not buy the block grant concept, it is unrealistic to expect them to remain within Budget totals given the current structure of many programs.

Option 3: Compromise with the Congress

After the Budget resolution passes announce that you will definitely sign an extension of the tax cut. However, state that you find the congressional spending target far too high and ask Congress to reconsider their Budget resolution. In order to provide a further incentive to cut spending, offer a deeper tax cut for every dollar that the Congress lowers spending below their original target.

Advantages

- By approving extension of the tax cut, uncertainty is reduced for consumers and businessmen.

- Shows willingness to compromise and to make an extra effort to curb the growth of the Federal Government.

Disadvantages

- Will be seen as yet another change in position and you will be accused of inconsistency.

- Implicitly acquiesces in another very large deficit which could exceed $60 billion if inflation continues to abate.

- Congress will probably experience great difficulty in passing the first Budget Resolution. If we ask them to reopen the issue, we may be accused of trying to destroy the new Budget process.

Option 4: Acquiesce in a tax cut extension, but state that according to the "dollar for dollar" concept this implies a spending ceiling of approximately $406 billion. State that you will vigorously use your veto power to achieve this goal.

Advantages

- o Demonstrates flexibility on the tax cut issue while maintaining a commitment to the "dollar for dollar" concept.

Disadvantages

- o Sets a target for outlays that will subsequently be used to judge our performance when it may not be realistic to achieve such a target.

Option 5: Promise to veto a tax cut extension unless the spending ceiling is revised downward to adhere to the "dollar for dollar" concept.

Advantages

- o Shows strong determination to adhere to the goal of fiscal prudence.

Disadvantages

- o It is unrealistic to expect that a veto that would effectively raise taxes immediately before the election would be sustained.

- o The prospect of a veto battle over the tax extension would generate uncertainty for consumers and businessmen.

Attachment A

"Revenue Adjustment Act of 1975"

Section 1A. DECLARATION OF POLICY

(a) Congress is determined to continue the tax reduction for the first 6 months of 1976 in order to assure continued economic recovery.

(b) Congress is also determined to continue to control spending levels in order to reduce the national deficit.

(c) Congress reaffirms its commitments to the procedures established by the Congressional Budget and Impoundment Control Act of 1974 under which it has already established a binding spending ceiling for the fiscal year 1976.

(d) If the Congress adopts a continuation of the tax reduction provided by this Act beyond June 30, 1976, and if economic conditions warrant doing so, Congress shall provide, through the procedures in the Budget Act, for reductions in the level of spending in the fiscal year 1977 below what would otherwise occur, equal to any additional reduction in taxes (from the 1974 tax rate levels) provided for the fiscal year 1977: PROVIDED, HOWEVER, That nothing shall preclude the right of the Congress to pass a budget resolution containing a higher or lower expenditure figure if the Congress concludes that this is warranted by economic conditions or unforeseen circumstances.

CALL OF THE HOUSE

Mr. NEDZI. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER pro tempore. Evidently a quorum is not present.

Without objection, a call of the House is ordered.

There was no objection.

The call was taken by electronic device, and the following Members failed to respond:

[Roll No. 826]

Addabbo	Hastings	Reuss
Badillo	Hébert	Rhodes
Beard, Tenn.	Heckler, Mass.	Risenhoover
Bell	Hinshaw	Roe
Bingham	Holland	Rosenthal
Bonker	Horton	Rostenkowski
Brown, Calif.	Jarman	Runnels
Burton, John	Johnson, Calif.	St Germain
Carney	Jones, Okla.	Scheuer
Chappell	Karth	Schroeder
Clay	Kindness	Shuster
Conyers	Landrum	Sikes
Daniels, N.J.	Leggett	Skubitz
Davis	McCloskey	Stark
Diggs	Macdonald	Steelman
Dingell	Melcher	Steiger, Ariz.
Drinan	Mikva	Stephens
Edwards, Calif.	Mineta	Stuckey
Erlenborn	Montgomery	Sullivan
Esch	Mosher	Symington
Eshleman	Moss	Talcott
Evins, Tenn.	Mottl	Teague
Foley	Murphy, N.Y.	Thompson
Ford, Mich.	Myers, Ind.	Udall
Fraser	Nichols	Vander Veen
Fuqua	Ottinger	Waxman
Gaydos	Patman, Tex.	Wilson, C. H.
Gibbons	Pepper	Wilson, Tex.
Gilman	Poage	Winn
Hanley	Preyer	Yates
Harrington	Pritchard	Yatron
Harsha	Randall	Young, Alaska

The SPEAKER. On this rollcall 338 Members have recorded their presence by electronic device, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

FURTHER MESSAGE FROM THE SENATE

A further message from the Senate by Mr. Sparrow, one of its clerks.

The message also announced that the Senate agrees to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the House to the bill (S. 2718) entitled "An act to improve the quality of rail services in the United States through regulatory reform, coordination of rail services and facilities, and rehabilitation and improvement financing, and for other purposes."

The message also announced that the Senate had passed with an amendment in which the concurrence of the House is requested, a bill of the House of the following title:

H.R. 9968. An act to amend section 103 of the Internal Revenue Code of 1954 with respect to certain obligations used to provide irrigation facilities.

The message also announced that the Senate had passed bills of the following titles, in which the concurrence of the House is requested:

S. 726. An act to direct the Secretary of the Interior to convey, for fair market value, certain lands to Valley County, Idaho;

S. 1187. An act to authorize the documentation of the vessel, *Bruja Mar*, as a vessel of the United States with coastwise privileges;

S. 1689. An act to amend the Pennsylvania Avenue Development Corporation Act of 1972 (Public Law 92-578), as amended; and

S. 1941. An act to increase the protection afforded animals in transit and to assure the humane treatment of animals, and for other purposes.

PERSONAL STATEMENT

Mr. PATMAN. Mr. Speaker, I desire to have my presence recorded on the last two quorum calls. I was here and recorded my presence, but I am recorded on only one of them.

SENATE AMENDMENTS ON H.R. 9968, AMENDING SECTION 103 OF INTERNAL REVENUE CODE

Mr. ULLMAN. Mr. Speaker, I move to suspend the rules and take from the Speaker's desk the bill (H.R. 9968) to amend section 103 of the Internal Revenue Code of 1954 with respect to certain obligations used to provide irrigation facilities, with the Senate amendments thereto, and concur in the Senate amendments with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert: Page 1, strike out all after line 4, over to and including line 10 on page 2 of the Senate engrossed amendments, and insert:

SEC. 1A. DECLARATION OF POLICY.

(a) Congress is determined to continue the tax reduction for the first 6 months of 1976 in order to assure continued economic recovery.

(b) Congress is also determined to continue to control spending levels in order to reduce the national deficit.

(c) Congress reaffirms its commitments to the procedures established by the Congressional Budget and Impoundment Control Act of 1974 under which it has already established a binding spending ceiling for the fiscal year 1976.

(d) If the Congress adopts a continuation of the tax reduction provided by this Act beyond June 30, 1976, and if economic conditions warrant doing so, Congress shall provide, through the procedures in the Budget Act, for reductions in the level of spending in the fiscal year 1977 below what would otherwise occur, equal to any additional reduction in taxes (from the 1974 tax rate levels) provided for the fiscal year 1977: *Provided, however*, That nothing shall preclude the right of the Congress to pass a budget resolution containing a higher or lower expenditure figure if the Congress concludes that this is warranted by economic conditions or unforeseen circumstances.

Resolved, That the House agree to the amendment of the Senate to the title of the bill.

The Clerk read the title of the bill.

The SPEAKER. Is a second demanded?

Mr. STEIGER of Wisconsin. Mr. Speaker, I demand a second.

The SPEAKER. Without objection, a second will be considered as ordered.

There was no objection.

The SPEAKER. The gentleman from Oregon is recognized for 40 minutes.

Mr. ULLMAN. Mr. Speaker, let me explain briefly what the situation is. As the Members know, we passed the tax reduction, and it was vetoed, and we failed to override the veto.

The Senate took exactly the same bill we passed, with no changes whatsoever insofar as the tax features are concerned, and added a very short amendment that gives some assurance that we would attempt to offset future tax reductions with expenditure reductions.

We have carefully examined that amendment. We have found that it would not meet, as it was written, with the approval of the members of the committee on this side in the House. We did however agree to the basic substance, and so we have redrafted the Senate amendment after consultation with the leadership, extensive consultation, I might say, and after extensive consultation with the majority members of both the Ways and Means Committee and Budget Committee and with the Speaker being in touch with the President by telephone. We were also in touch with Senator LONG and the people on the Senate side.

We have come up with substitute language which, according to our best tax people, makes no substantive changes in what the Senate has passed and sent over here and which the President had agreed to.

At the present moment I must say that the President has been given this full information. He has the text. He is studying it. I cannot conceive that he would not approve of it because substantively it does the same thing as the amendment he had previously agreed to.

But let me read it to the Members, and I know the Members all have copies. It begins:

Congress is determined to continue the tax reduction for the first 6 months of 1976 in order to assure continued economic recovery.

I do not think anybody here can contest that. That is the most important reason we are passing the bill, and it is just a statement of the purpose as to why we are passing the bill. I cannot see anything that would cause anybody to be concerned about that language.

The second paragraph says:

Congress is also determined to continue to control spending levels in order to reduce the national deficit.

I do not think anybody here would object to that language. I think everybody here would want to be associated with that language.

Then the third paragraph says:

Congress reaffirms its commitments to the procedures established by the Congressional Budget and Impoundment Control Act of 1974 under which it has already established a binding spending ceiling for the fiscal year 1976.

I do not think anybody here could object to that in any manner, shape, or form. That is exactly what we have done. We have established our spending ceiling under the act.

The next paragraph goes on, and this is the one that contains the same basic procedural formula that was adopted by the Senate and agreed to by the President. Substantively, we think we made no changes in it; but there have been slight adjustments in phraseology. It reads:

If the Congress adopts a continuation of the tax reduction provided by this Act beyond June 30, 1976, and if economic conditions warrant doing so, Congress shall provide, through the procedures in the Budget Act, for reductions in the level of spending in the fiscal year 1977 below what would otherwise occur, equal to any additional reduction in taxes (from the 1974 tax rate levels) provided for the fiscal year 1977.

Then the final proviso:

Provided, however, That nothing shall preclude the right of the Congress to pass a budget resolution containing a higher or lower expenditure figure if the Congress concludes that this is warranted by economic conditions or unforeseen circumstances.

That proviso was lifted almost entirely, with one minor change, from the language in the Senate bill that was approved by the President.

Now, Mr. Speaker, we have had this matter before us for a long, long time. I had been prepared to go home, having done all that we could possibly do, and tell the people that Congress simply had exhausted its remedies and there was no way to keep in place the tax reductions in January. I think most of the Members on this side were resigned to that same attitude and ready to go home and take that position.

Mr. Speaker, last night there was a movement over on the Senate side following a meeting, a leadership meeting. The Speaker and Senator MANSFIELD and the Senate leaders came over. They started a movement to try and work out some kind of compromise language that the President would accept. That resulted then this morning that the Senate confirmed that action and passed the bill with the amendment and sent it over here.

So I say that this language that we have worked out does not violate in any way the basic principles and purposes and procedures that were set forth in the Senate language that was approved by the President.

Mr. Speaker, I strongly urge that all of us vote overwhelmingly, both Democrats and Republicans, and accept this language, send the bill down. I cannot conceive that the President would not sign it.

Before I conclude, I want to say that I understand that both the Senate and the President have had trouble with some of the changes that we have made in the Senate language in our policy statement. I want to say that the changes are not intended to be substantive, and I do not believe they are. Let me go through some of them with you.

For example, I understand that some object to adding the language "and if economic conditions warrant doing so" at the beginning of the third paragraph. I would like to point out that this phrase is almost the same as that provided in the proviso at the end of the third paragraph. There, it is indicated that nothing would preclude the right of Congress to change the expenditure figure if this is warranted by economic conditions. As far as I am concerned—and I speak as chairman of the committee—this means nothing more by adding that material at the beginning of the paragraph. Therefore, it really is simply a redundant statement. However, some of the House Members felt that it was important to have this phrase appear up above to be sure that no one misunderstood that there was a condition that if economic conditions change, the commitment specified might have to be modified.

I know, also, that there are some that think that the omission of this word "changing" in front of economic conditions at the end of the third paragraph had some significance. I do not believe that there is any substantive effect occurring from this omission. I believe that it is clear that the economic conditions existing today do not warrant departing from the commitments specified, and I believe that it is only if economic conditions were to change that this would be true.

Also, I know of no other circumstances at this time which would require a change from this commitment. Of course other circumstances which are unforeseen at the present time may ultimately require such change.

I understand, also, that some question has arisen where we made reference to "additional reduction in taxes." It was the intention of all of us to refer to any reduction in taxes which occurs after June 30, 1976, even though it is the same amount of reduction which is already provided for in the period up to June 30, 1976. In other words, an extension of the existing tax reduction beyond June 30, 1976, would give rise to the requirement of an equal reduction in spending to offset a tax reduction.

The determination to control spending is, in my opinion, a determination which the Congress shares with the President. I know of his interest in reducing the national deficit, and I can assure him that Congress shares this determination with him, and that the statements we are making in this tax bill reinforce that determination.

Mr. Speaker, I yield to my distinguished colleague in this effort, the chairman of the Budget Committee, the gentleman from Washington (Mr. ADAMS).

Mr. ADAMS. Mr. Speaker, I thank the gentleman for yielding.

Mr. Speaker, I want to state that I support the remarks of the chairman of the Committee on Ways and Means and to indicate that during the course of this day the President has indicated that he wanted to compromise his differences that he had stated in the past and the Senate had done so. We are trying to reach such an accommodation. I think in doing this, we have done so.

Mr. Speaker, the Senate amendment has been redrafted to meet the procedures of the Budget Control Act. The House under the Budget Control Act will be examining any stimulus by tax reduction, the terms of the stimulus, with the economic programs that require spending. We have done this in the past, but we have affirmed it in this particular language, so the President and the Nation know we will be doing it in the future.

Please notice that the Senate had sent over and had requested that there be no flat money ceiling figure there. I agree with that, because we have established a ceiling already for the fiscal year 1976 and we will establish a ceiling for fiscal year 1977, as provided under the Budget Act and as affirmed in this resolution.

So that I hope the Members, both Republicans and Democrats, will vote for the amendment as introduced by the chairman of the Ways and Means Committee so that we may send this to the President, and I am very hopeful that we will have this matter behind us.

Mr. ULLMAN. Mr. Speaker, I reserve the balance of my time.

Mr. STEIGER of Wisconsin. Mr. Speaker, I yield such time as she may consume to the gentlewoman from Nebraska (Mrs. SMITH).

(Mrs. SMITH of Nebraska asked and was given permission to revise and extend her remarks.)

Mrs. SMITH of Nebraska. Mr. Speaker, I would like to add my voice in strong support of the tax reduction-spending limitation compromise reached this afternoon.

The agreement reached is highly responsible, taking, as it does, the best of both sides of this lengthy dispute. Taxes will continue to be collected at reduced levels as a stimulant to bring us out of an unpleasant recession, yet the spending limitation being put into effect will prevent the reduction in revenue from fueling another round of cruel inflation. This is sound policy, and is a policy that will benefit both individuals and the Nation as a whole.

Mr. STEIGER of Wisconsin. Mr. Speaker, I yield such time as he may consume to the gentleman from Florida (Mr. FREY).

(Mr. FREY asked and was given permission to revise and extend his remarks.)

Mr. FREY. Mr. Speaker, today is an important day in the history of our Nation. For the first time in years we have recognized the principle that you cannot have it all; that if we are to cut taxes, we must reduce spending on a dollar-for-dollar basis. For the first time there is hope that our Nation will not go the way of New York City. There is also hope because a small but effective group of Congressmen, both Republican and Democratic, put what is right in front of what is politically wise.

Hopefully, people will no longer be bought with their own money. Hopefully, we can move towards a balanced budget and fiscal sanity. Hopefully, the country will return to a philosophy of "We the people" recognizing both rights and responsibilities. It is long overdue.

Mr. STEIGER of Wisconsin. Mr. Speaker, I yield 5 minutes to the distinguished gentleman from Pennsylvania (Mr. SCHNEEBELI).

(Mr. SCHNEEBELI asked and was given permission to revise and extend his remarks.)

Mr. SCHNEEBELI. Mr. Speaker, the Members on this side much prefer the Senate version of this approach to the problem. It is a lot more specific and has fewer conditions. We like some of

Attachment B

Question and Answer From
Presidential Budget Briefing
January 20, 1976

* * * *

QUESTION: Mr. President, only a month or two ago you were quite insistent that Congress commit itself to a specific spending ceiling as a precondition of any tax cut, yet last night when you proposed your additional $10 billion tax cut you made no mention of a requirement for such a spending ceiling. Could you explain?

THE PRESIDENT: I think if you will re-read the message you will find that I do say, or did say, rather in that message that if we restrain Federal spending we can have a tax reduction on a dollar-for-dollar basis. I cannot remember the page, but it is in the message that I read to the Congress last night.

QUESTION: Well, yes, sir, but I take it you are no longer insisting on the specific ceiling approved by Congress as a precondition to that extra $10 billion.

THE PRESIDENT: Well, we say that the ceiling is $394.2. Now, there are uncertainties that take place as we move along and we have 5-1/2 months before July 1, 1976. So there has to be some flexibility. I have picked the ceiling. I have said that we can, with that ceiling, as of today, have a $10 billion additional tax reduction over that which Congress has approved. We will have to wait and see how economic conditions develop in the coming months, but the concept of dollar for dollar was set forth in the message last night.

* * *

ATTACHMENT C

Reconciliation of receipts estimates in Presidents Budget with those in Budget Committee Resolutions and implied deficits

	House	Senate
Receipts estimate in President's Budget	$ 351.3	$ 351.3
Add:		
Rejection of President's deeper corporate and income tax cuts	11.0	11.0
Rejection of other tax incentives 1/	0.8	0.8
Budget Committee tax reform proposals	2.0	2.0
Subtotal	$ 365.1	$ 365.1
Deduct:		
Rejection of social security and u.i. tax proposals	4.8 2/	5.4
Sub-total	$ 360.3	$ 359.7
Alternative accounting for earned income credit	-1.2	-1.2
Estimating differences and different economic assumptions	3.9	3.9
Budget Committee receipt estimates	$ 363.0	$ 362.4
Budget Committee outlay estimates	413.7	412.6
Budget Committee deficit	$ 50.7	$ 50.2

1/ Broadened stock ownership plan, mortgage investment tax credit, and accelerated depreciation for high unemployment areas.

2/ The House adopted about a one-half billion increase in unemployment insurance taxes, i.e., about one and one-half billion less than we recommended.

ATTACHMENT D

Reconciliation of receipts estimates in President's Budget with those implied by 1974 tax law*

Receipts estimate in President's Budget	$351.3
Add:	
Increase in personal and corporate taxes from current levels	17.1
Rejection of President's deeper personal and corporate tax cuts	11.0
Rejection of President's tax incentives and other miscellaneous changes	0.9
Sub-total	$380.2
Deduct:	
Rejection of social security and unemployment payroll tax increases	5.4
Receipts estimate, 1974 law	$374.7

* Individual items do not add to totals because of rounding.

E

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

April 5, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Review of Government Statistics on Employment and Unemployment

Decision of December 9, 1975

On December 9 you decided to establish a presidentially appointed commission to conduct a review of the Federal government's employment and unemployment statistics. The Commission would be composed of 6 to 8 people. A private research organization would conduct the basic analysis for the Commission.

Background

The last formal review of the Federal Government's employment and unemployment statistics program by nongovernment experts was conducted by the President's Committee to Appraise Employment and Unemployment Statistics (The "Gordon Committee"), appointed by President Kennedy in 1961. The Committee's recommendations were subsequently incorporated into the procedures used by the Bureau of Labor Statistics and the Bureau of the Census. The last recommendation of the Gordon Committee was that a similar formal review of employment and unemployment statistics be conducted in approximately ten years.

In the intervening years since the Gordon Committee, experience with the various statistical series has revealed certain strengths and weaknesses. At the same time there have been important developments in the economy which have affected the Federal Government's data requirements. The labor force has undergone substantial structural change associated with the large increase in the proportion of women and teenagers. The expansion of social programs that substantially reduce the loss of income from unemployment may also have affected the nature and duration of unemployment. Because these developments

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 have a bearing on the interpretation of statistics on unemployment they warrant a new look at definitions and methodology. Moreover, unemployment statistics are increasingly used in determining the allocation of Federal aid to State and local governments.

The new employment statistics review committee would be charged with addressing several broad issues: First, the committee would examine the concept and definition of employment and unemployment in terms of their adequacy to meet current needs. Secondly, the committee would review the need for new statistical measures that may be desirable in view of structural changes in the economy as well as changes in government social programs. For example, it would be useful to know more about job search behavior and duration of unemployment and how they are affected by the availability of social benefit programs. Thirdly, the committee would review a number of technical and methodological issues including seasonal adjustment, survey technique (e.g., telephone verses personal interviews) collection of the data, analytical procedures used in processing the statistics, and issues relating to the presentation and release of the data.

Recent Developments

During the past month I have met with respresentatives of a number of labor unions and of various business management organizations and with staff members of the Joint Economic Committee. I have explained the need for such a study, reviewed an earlier draft of the terms of reference for the commission and sought advice and suggestions on particular people to be committee members. There is widespread agreement that a Presidential Commission on Employment and Unemployment Statistics is needed and I believe the Commission would be supported by the different interested parties. While it was not possible to accommodate all the names suggested by the different groups for inclusion on the Commission, it should be possible to establish a diversified group of experts who would represent a number of different perspectives and yet work together harmoniously. Included as Tab A is a list of possible members of the Commission. Under Tab B is a revised "Terms of Reference" for the proposed Commission. Under Tab C is a Presidential announcement of the Employment Review Commission.

Next Steps

The most important step now is to appoint a Commission Chairman. I strongly recommend the appointment of Albert Rees as Chairman. Rees has vast experience both as a labor economist and as a government official. He has excellent judgement and has long appreciated the need to improve our basic data. His appointment would be applauded both by labor and management. The rest of the Committee members could be chosen in consultation with the Chairman.

Burton Malkiel
Burton G. Malkiel

TAB A

POSSIBLE MEMBERS FOR PRESIDENTIAL COMMISSION ON LABOR STATISTICS

Possible Chairman

Al Rees

Members with Econometric Skills

Zvi Griliches
Arnold Zellner

Women

Caroline Shaw Bell
Phyllis Wallace
Margaret Martin

Possible Labor - Management Members

Stanley Ruttenberg
Edgar Fiedler

Members for continuity

Aaron Gordon

Active Labor Economists

Robert Hall
Orley Ashenfelter
Herbert Parnes

TAB B

OUTLINE

New Committee to Review the Bureau's Series on Employment and Unemployment

I. BACKGROUND

II. TERMS OF REFERENCE

A. CURRENT STATISTICAL SERIES

1. The Current Population Survey (CPS)

   a. Concept
   b. Definition
   c. Methodology
   d. Need for additional data or refinements of present series

2. Industry Payroll Series

   a. Concept
   b. Definition
   c. Methodology
   d. Need for additional data or refinements of present series

3. Occupational Employment Statistics

4. Labor Turnover

5. ES-203, Characteristics of the Insured Unemployed

6. ES-202 Program

B. MAJOR METHODOLOGICAL ISSUES

1. Seasonal Adjustment

2. Effect of Census Undercount

3. Standard Tests of Significance

4 Timeliness and Frequency

C. OTHER ISSUES

1. Employment/Population Ratio

2. Differing Trend Behavior in the "790" and CPS Employment Series

3. International Comparisons

D. REPORTING PROCEDURES

New Committee to Review the Bureau's Series on Employment and Unemployment

I. BACKGROUND

It has been almost 15 years since the Bureau's employment and unemployment series have been reviewed by an impartial, outside group of experts. The President's Committee to Appraise Employment and Unemployment Statistics--the latest such group, which was headed by Robert Aaron Gordon--issued its report, Measuring Employment and Unemployment, in September 1962. In the intervening years, public attention to these economic series has intensified as they have become tightly intertwined with economic and social policy decisions and the allocation of revenue sharing funds. Hence--despite the implementation of most of the recommendations of the "Gordon Committee" in the intervening years--the Bureau today still faces many problems with the labor force data which are highlighted in the terms of reference for another committee to follow up on the work of the Gordon Committee.

II. TERMS OF REFERENCE

A new Employment Statistics Review Committee should address broad issues relating to

* concepts and definitions underlying current series and their adequacy to meet current needs;
* the need for new measures;
* methodology including survey design as well as the collection and processing of the data;
* analytical techniques and presentation; and
* release of output.

Each of these major concerns covers many subordinate issues. Some detailed aspects that need review are outlined below, first, by the statistical series and then by issues not related to a specific series.

A. CURRENT STATISTICAL SERIES

1. The Current Population Survey (CPS)

a. Concept

The issues associated with this series are myriad because the data are used for many purposes, and the current uses are many and varied. Hence, a major question to be addressed is what are the appropriate uses of the unemployment measure: Should it be designed as an economic measure of the excess supply of labor? Or, should it be a social welfare measure of economic need? Can a single measure be expected to meet all analytical needs? Are supplementary measures needed? How much and what kind of statistically reliable disaggregation of the data are necessary to meet policy needs?

b. Definition

Subordinate to the major conceptual issue are related definitional problems including the following:

* Should discouraged workers, low wage earners, and part-time workers be included in the count of the unemployed? If so, how should each group be defined?
* Is the term "discouraged worker" appropriate and meaningful terminology? Currently, "discouraged workers" is the term used to cover those workers who think they cannot get a job.

The current definition of unemployment excludes all three groups--discouraged workers are classified as not in the labor force; the other two groups are considered employed--but all three may be facing employment-related economic hardship.

* Should secondary workers looking for part-time jobs, have the same weight in the measure of unemployment as primary earners who are seeking full-time jobs?
* Should the Armed Forces be considered in the employed section of the labor force? This issue has become relevant now that the Armed Forces are composed of volunteers instead of draftees.
* What is the appropriate delineation between full-time and part-time work? 35 hours as at present, or less?
* Should the age cut-off for the official labor force figures be raised from 16 years to 18 years?

c. <u>Methodology</u>

The methodological issues for the Current Population Survey are primarily the responsibility of the Bureau of the Census. These problems should be considered by the Committee. They would include:

* The undercount
* The discrepancy between the published data and the re-interview rate.

d. <u>Need for additional data to supplement present series</u>

Consideration should be given to the need for new or expanded data, such as

* a measure of the extent of economic hardship among the unemployed: efforts might be made to determine what other sources of support are available to the unemployed.
* intensity of job search: an effort might be made to identify among the unemployed those who look seriously for jobs as distinguished from those who look only casually.
* discouraged workers: it would be useful to explore the need for alternative approaches to the measurement of discouraged workers, and the need to obtain additional information about the group, such as job-seeking experiences and current job and wage expectations. A closely related subject is the need for more regular information on the employment status of persons who have exhausted all their unemployment insurance benefits, and whether household surveys or administrative statistics are the more appropriate vehicle for such data.

(<u>Note</u>: The Committee's investigations into the intensity of job search, and the profile of discouraged workers will be adied substantially by two special surveys being conducted this year by BLS through the Current Population Survey.)

* Economic impact of unemployment on family units: how much is the loss of earnings and how important to the welfare of the family? Is there merit in a supplementary measure which would weight the unemployed by their average earnings before they lost or left their last job or by an estimate of their potential earnings (as reflected in the earnings of equivalent demographic groups among the employed)? The resulting index would provide an indication of what might be called the "economic" impact of unemployment.
* sub-employment index: considerable pressure has been exerted upon the Bureau to construct an official index of sub-employment that would aggregate the unemployed, workers on involuntary part time, discouraged workers, and full-time workers whose earnings fall below a minimum (or poverty) level.

Need for additional funding

* The adequacy of funding levels for data collection by the BLS is a question that should be considered by the Committee. For example, the Committee might wish to consider the cost-benefit implications of a separate panel of households that would not be used for the regular labor force data series, but would be large enough (e.g., 25-30,000) to produce reliable substantive data in any given month. (This panel would presumably be for exclusive BLS use, as distinguished from the much smaller methods test panel needed by the Census Bureau.) Such a panel might provide a much more flexible instrument for quickly-needed data on sensitive policy issues, because of its separation from the ongoing data series.

  A corollory issue is whether the BLS has sufficient resources for the analysis of its labor force and related data. Both the supply of information and the demand for special studies and analyses are continuing to increase. At the same time, advances in computer technology permit the application of new analytical techniques.

2. Industry Payroll Series

a. Concept

The "790" series, which yields employment, hours and earnings data, is a count of jobs and related hours and earnings: it differs in concept from the CPS series which is a count of persons, including some who may hold two jobs. The major question to be addressed for this series is: What is an effective method of reconciling the employment data to account for differences in concept, scope, and survey design between the "790" and the CPS?

b. Definition

c. Methodology

The "790" might benefit from a searching review of methodological aspects that have recently given the Bureau some concern such as:

* how to improve preliminary estimates.
* how to account adequately for new firms,
* how to measure response error more adequately,
* how to speed up collection and processing, and
* how to explain the significance of error estimates to the public.

d. Need for additional data or refinements of present series

Expansion of the "790" series might include—

* a series on hours and earnings of part-time workers,
* a series covering hours and earnings of nonproduction or supervisory workers,

* a series on all employee earnings benchmarked, perhaps, to total wages from the State unemployment insurance data,

* hours and earnings data for the public sector and

* expansion of detail by State, area, and city.

3. Occupational Employment Statistics

The Bureau's partially-developed program to measure employment by occupation in each State needs to be evaluated to determine (1) whether it meets current need for these data and (2) how best to develop national data.

4. Labor Turnover

Consideration might be given to expanding this series to cover (1) nonmanufacturing industries, (2) occupations and (3) the reasons for quits.

5. ES-203, Characteristics of the Insured Unemployed

A wealth of data is available from the administrative records of the State UI systems. Consideration should be given to the merit of special surveys of these data to determine the characteristics of the insured unemployed and to compare the results with data from the CPS. Questions are--what characteristics are needed? Should the survey relate to beneficiaries or claimants?

6. ES-202 Program

The UI universe has the capability of producing employment and wage data by detailed industry and county for each quarter of the year. Similar information is now being tabulated for the first quarter of each year based on social security records. Consideration should be given to the merit of surveying the universe of employers, periodically, to develop a "total hours" benchmark.

7. Job vacancies

The Committee might wish to give renewed consideration to the need for regular statistics on job vacancies, and the extent to which such data could and should be made available by occupation and by area. It might be noted that earlier efforts to develop such a program encountered severe financial, conceptual and operating difficulties.

8. State and local area unemployment and employment data

The Committee will want to consider carefully whether it wishes to delve into this subject, and, if so, how extensively. The subject is so complex, so politically sensitive, and so fraught with technical difficulties, that its investigation could be very time consuming. Nevertheless, it is so important that it can hardly be ignored. The existence of this program has far-reaching implications for the basic labor force concepts, the sampling structure, BLS reporting procedures, and so on. The interrelationships between the national household survey statistics, the LAUS program, and the UI statistics is an area the Committee may need to explore.

B. MAJOR METHODOLOGICAL ISSUES

1. Seasonal Adjustment

Adjusting for seasonal change has become routine in Bureau series, but many different techniques are available. None is perfect and each yields slightly different results. The Bureau's methods should be evaluated against other alternatives.

2. <u>Effect of Census Undercount</u>

What can be done to correct the effects of the Census undercount on the CPS?

3. <u>Standard Tests of Significance</u>

The issue here is whether the standard tests of significance are appropriate for interpreting month-to-month changes in economic time series, such as employment and unemployment. The Committee might consider whether months for cyclical dominance (MCD) and related measures are more useful in this context? The issue is relevant because if various unemployment series are disaggregated into seasonally adjusted, irregular, cyclical, and seasonal series, a frequency distribution of month-to-month changes of the irregular series is similar to that of the seasonally adjusted series. This similarity suggests that some month-to-month changes in the seasonally adjusted series that are presently identified as "statistically significant" may be only irregular movements not ordinarily of a significant nature.

The analysis of month-to-month changes in employment and unemployment often requires a judgment as to whether they are "statistically significant." Up to now, the only tool used to make such a decision is the relationship between the magnitude of the change and the magnitude of the standard error (or a multiple of the standard error) for the month-to-month change. As sometimes happens, changes that are viewed as not significant in terms of the month-to-month analysis may, over a period of several months, accumulate to a substantial trend movement. Question is would other methods for determining the significance of month-to-month changes be more useful?

4. Timeliness and Frequency

Attention should be given to the adequacy of both the timeliness and the frequency of the collection of data. Supplementary data on many special groups in the population are collected and/or published infrequently. Question is—should these data be collected on different cycles?

C. OTHER ISSUES

1. Employment/Population Ratio

Some economists--such as Milton Friedman (in 1970) and more recently Geoffrey Moore--have called for the Bureau to base more of its analysis on the behavior of the employment-population ratio, that is, the percentage of the working age population that is employed. This rate is to be distinguished from the employment rate, which is the employed as a percentage of the labor force. The difference has become important because of changes in the participation rate (labor force as a percentage of the population). Friedman and Moore claim that the rise in this ratio in recent years explains why we have had high rates of inflation at a time when the unemployment rate pointed to a slack in the demand for labor.

2. Differing Trend Behavior in the "790" and CPS Employment Series

Since the Bureau has two series of nonagricultural employment--the CPS and "790"--analytical efforts might be made to determine what accounts for the differences in the trends of the two series.

3. International Comparisons

The principal issue here is whether these international comparisons of unemployment rates are valid in view of the differences in the way the labor market functions among countries.

D. REPORTING PROCEDURES

Several issues merit review, including:

* Are the Commissioner's appearances before the Joint Economic Committee a better procedure than the press conference held earlier, or should press briefings be renewed? Is there a still better way to help keep Congress and the public informed?

* Are the Bureau's press releases clear and appropriate to the needs of the media? Of the research community? Can the needs of both be met by a single presentation?

Political pressure

* Is the Bureau sufficiently insulated from political pressures from policymaking officials within the government and from special interest groups outside the government? The Committee might want to address the appropriateness of the Bureau's location in the Department of Labor, although this organizational arrangement presents no problem at the present time.

TAB C

Presidential Announcement of
Employment Review Commission

In recognition of the great importance of reliable and relevant statistical information on employment and unemployment for economic policy, I plan to appoint a special commission to review the concepts, methodology and survey techniques that are presently used to produce these data. Although we believe our present data on employment and unemployment to be based on sound concepts and statistical methods, periodic review is necessary to insure that they continue to provide appropriate ingredients for analysis and policy formulation in our modern, complex economy. This commission will consist of a diversified group of distinguished economists, statisticians, and other scholars from outside the government, who have expertise in this area. The commission will provide the first complete independent, and impartial review of U. S. employment and unemployment statistics since the Gordon Committee submitted its report to President Kennedy in 1962. I have asked the Economic Policy Board to work out the necessary detailed plans for implementing the establishment of this new Presidential Commission. The Commission will be requested to submit its findings and recommendations by June 1977.

Adjustment Assistance Estimates
($ in millions)

	Funds Available			1977 Costs	
		1977			
	1976	Request	Mark-up	Labor & Commerce Estimates	OMB Estimate
Workers (Labor)					
Trade Readjustment Assistance 1/	60	120	120	98.2	53
Firms & Communities (Commerce) 2/					
Adjustment Assistance for Firms	20	14	20	100	N.A.
Adjustment Assistance for Communities	15	10	15		
Total Business Development Assist. 3/	58	40	52		

Footnotes

1. Any additional funds needed can be provided either from other line items within the account which contains TRA, or from a separate "Advances" account which can channel funds to accounts which support UI and TRA benefits.

2. Funds can be leveraged through guarantees to provide financial support approximately 5 times amount shown.

3. All funds for business development assistance could be used for adjustment assistance, depending on trade-offs within the account.