The original documents are located in Box 33, folder "Transition Reports (1977) - Commerce Department: Chief Economist (2)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

Key Issues

CHIEF ECONOMIST

- o Capital requirements for the future
- o Promoting productivity growth
- o Policies to alleviate unemployment
- o Current economic outlook and macroeconomic policies
- o Inflation and the incomes policies option

Bureau of the Census

- o Survey of Registration and Voting Statistics
- o Definition of a Farm
- o Impact of reporting reduction program on statistics
- o STATUS - A chart book of Social and Economic Trends

Bureau of Economic Analysis

- o Advisory Committee on GNP statistics
- o Implementation of the International Investment Survey Act of 1976

CAPITAL REQUIREMENTS FOR THE FUTURE

Background: In the past two years, considerable attention has been directed towards the possibility of a capital gap developing in the United States in the 1976-85 decade. The claim is advanced that our growth and productivity have slowed down, particularly in the past decade. Various studies have concluded that in order to advance technology, environmental protection, occupational health and safety, and greater energy independence that a larger investment share of Gross National Product than experienced in the past decade is needed.

The capital formation question is not only important from the viewpoint of promoting recovery and securing ample capacity in the economy at relatively full employment to avoid inflationary cost influences. At stake also is the potential for an advancement of the real wage rate at a faster rate than in the recent past and for added total real income per capita that might help solve a number of our social problems.

Issues:

1. Should we emphasize the alternative means of increasing productivity and output growth rather than accelerating tangible capital formation (i.e., structures, equipment, inventories, and natural resource development)?

2. Are our private and social economic goals, as predicated in the studies, important and urgent enough to warrant sacrificing more current consumption than in the past in order to enjoy higher consumption and social benefits in the future?

3. Is the U. S. tax system biased against saving and investment?

Assuming that the private investment (and saving) share of GNP should be increased in coming years which of various alternative policy measures to stimulate investment are preferable? The alternatives include:

(1) Decreasing corporate income tax rates;

(2) Eliminating the double taxation of dividends

through integration of personal and corporate taxes;

(3) Permitting further acceleration of depreciation allowances for computation of net taxable income;

(4) Permitting revaluation of depreciation allowances to reflect current replacement costs of fixed capital for tax purposes;

(5) Pursuing macroeconomic policies to allow a higher rate of return on investment than in recent years, more comparable to rates in the mid-1960's;

(6) Stimulating research and development outlays (with a tax credit, for example) which would tend to raise the prospective rate of return on new investment by development of new products and cost-reducing processes;

(7) Clarifying and reforming regulations of business in order to remove the uncertainties of long-term planning stemming from government control.

Because stimulation of investment at high employment runs the risk of accelerating inflation, alternatives for increasing saving must also be considered and ranked as to preference. These alternatives include:

(1) Planning Federal Government budget surpluses;

(2) Stimulating personal saving, as by tax credits for saving; and

(3) Stimulating corporate saving by measures which would include some of those proposed for investment.

<u>Analysis of Issues</u>:

<u>Issue 1</u>. Economic growth and productivity increases are dependent on intangible as well as tangible capital. Research has shown that a significant portion of the growth or improvement of productivity is due to intangible capital

and noncapital factors. Although a number of social studies of capital requirements suggest the necessity for greater investment as a share of Gross National Product, there may be a question about how important an increased investment share is in promoting our national economic and social goals relative to other measures.

Issue 2. How much present consumption to sacrifice in return for future increased consumption is a major question of dynamic allocation which must be answered by an economy. The social return on investment in terms of net product approximates 12 percent in the United States economy. The after-tax individual return on saving, however, is between 5 and 6 percent. With the past rate of growth in the economy, the Nation appears to find it difficult to meet its economic and social goals. If more investment could occur many of these goals would be met more fully from the increased future product. The counter argument, however, is that consumption is the end purpose of the economy and raising the investment (and saving) share comes at the expense of the consumer share. Questions concerning the appropriate distribution of income are also raised. The Nation has had significant growth periods in the past with an apparently ample share of investment. There is serious question whether the government should take on a concerted effort to stimulate the "proper" level of investment and saving. To make that claim implies that the government knows the preferences of its constituents better than the private market. The mix of housing versus fixed capital development must also be faced.

Issue 3. The tax system can be charged as being biased from two points of view. From the point of view of saving, it can be claimed that the tax structure does not permit a sufficient reward or net return on saving, which is far below the return on investment. Consequently, the price of consumption is too low at the margin. This is a major reason why the Nation cannot save a greater share of its income. If the government were to tax consumption dollars at the same rate as it taxes saving, the decision regarding the mix of saving and consumption would be put in better perspective.

On the other hand, the tax system can be criticized as being biased in favor of the wealthy of the Nation and in favor of those who can benefit from the deductibility of various costs from the corporate or personal tax base. The capital gains tax privilege and the myriad of tax shelters are evidence that the tax structure is in need of serious reform in order that the Nation can make social and economic progress. Incentives for saving and investment should be viewed in the context of a more comprehensive reform of the tax system.

Schedule: The foregoing arguments are the essential points of discussion in a background paper presently being prepared for the Secretary's Business Advisory Council for its December discussion topic. The paper is scheduled for completion about December 1, 1976.

Promoting Productivity Growth

Background: The rate of growth of productivity in the U.S. private domestic business economy has slowed by about one-third since the mid-1960's, compared with the prior two decades. This is true whether productivity is measured by relating real product only to labor hours worked, as done by the Bureau of Labor Statistics, or to real labor plus nonlabor factor inputs, as is done in the studies by the National Bureau of Economic Research. The retardation of productivity growth has been associated with a slower growth of real average hourly labor compensation and real income per capita; it contributed to accelerating inflation through 1974 by aggravating the rise in unit costs; and it contributed to balance of payments problems and competitive difficulties of American goods in foreign trade.

Issue: It is unlikely that productivity advance will return to its 1947-66 trend in coming years unless special measures are adopted to promote it. This is the conclusion of Edward Denison, Jerome Mark and Clopper Almon in papers presented on November 16 at a symposium sponsored by the National Center for Productivity and Quality of Working Life; and in a paper by John Kendrick, "Productivity Trends and Prospects," printed by the Joint Economic Committee of Congress on October 1, 1976.

Since productivity promotion would involve some increase in the proportion of GNP devoted to investment, tangible and intangible, and to saving, the issue arises as to whether our people, individually and collectively through government, are willing to sacrifice more consumption out of income increments in the near term in order to enjoy higher rates of growth of productivity and real income over the longer run. To some extent, productivity advance can also be realized by altering institutional forms and practices. Here, too, there are costs and resistances which must be weighed against potential benefits.

Assuming the Government opts for stimulating productivity growth, the question becomes what are the policies that would be most effective towards that end.

Analysis of Issue: There is a considerable literature analyzing causes of productivity advance, and possible measures to promote productivity. Brief sketches of major types of causal factors, and the kinds of policy options available, are contained in Appendices A and B, which are memoranda from the Chief Economist to the Secretary of Commerce referring to a productivity policy paper prepared by the Council of Economic Advisers.

The policy issues are very complex, but the chief areas in which options may be selected are as follows: (1) Formulation of a comprehensive national science and technology policy, with the recently reestablished Office of the Science Adviser to the President serving as a focal point. The issues papers of the Assistant Secretary of Commerce for Science and Technology present many options to promote technological progress, which is the chief factor behind long-run productivity advance. Emphasis must be placed on reversing the decline in the ratio of R&D to GNP which has gone on for the past decade. In addition to increasing Federal funding at least in proportion to GNP growth, incentives for privately financed R&D are needed. An incremental tax credit is one promising approach. (2) Incentives to private fixed investment should be considered, since technological advances are embodied in capital goods to a large extent. Our issue paper "Capital Requirements for the Future" contains seven options for stimulating business investment, most directed towards raising the after-tax rate of return on investment. (3) Since increased knowledge and know-how are also embodied in people, measures to increase and improve educational and training activities are important. Subsidies to business for training labor force entrants, particularly those who have trouble finding employment, could be expanded. Income tax deductions for a portion of tuition and other educational expenses are another approach. Real public outlays per person for education should be kept on an upward trend. (4) As to the institutional framework, maintenance of workable competition through vigorous antitrust action is essential. But, exemptions from antitrust for desirable technological cooperation of firms (not involving price fixing) should be considered. Regulatory reform, including provision of incentives for increasing efficiency in utility rate regulation, should go forward. (5) The National Center for Productivity and the Quality of Working Life should be strengthened to provide a focal point for developing Federal Government policies to promote productivity within both the public and private sectors.

Schedule: Since the cyclical recovery in productivity will probably come to an end in 1977, it is important that major legislative initiatives be taken by the new Congress. The promotion of productivity is, of course, a continuing concern, so that a longer-term program should be developed in conjunction with the National Center.

Appendix A

FORM CD-153
(REV. 10-72)
FORMERLY SEC-350

U.S. DEPARTMENT OF COMMERCE

ABSTRACT OF SECRETARIAL CORRESPONDENCE

TO:	X	The Secretary		The Under Secretary

INFORMATION MEMORANDUM

FROM: Chief Economist for the Department of Commerce

SUBJECT: Background on Policies to Promote Productivity

On October 8, the Economic Policy Board will consider a "white paper" on policies to promote productivity, prepared by the Interagency Task Force on Productivity chaired by Burton G. Malkiel of the Council of Economic Advisers. It follows the paper dated September 13 on recent productivity trends and prospects for the future. That paper documented the slowdown in productivity growth that has occurred during the past decade. It concludes that whereas the rate of productivity advance will improve somewhat in coming years, it will not reattain the pre-1965 rate of growth under present policies. The paper of October 8 will discuss the major policy options which are available to accelerate productivity advance.

As a member of the Task Force on Productivity, I supplied the authors of the white paper with a copy of the paper I had written for the Joint Economic Committee of Congress (Attachment A to this memo), as well as contributing some ideas to the CEA staff members who drafted their paper. In an earlier paper for Mr. Rockefeller's Commission on Critical Choices for Americans, I had gone into policy options more deeply, and I also attach a copy of that paper (Attachment B). Finally, I attach a summary of the M.I.T. Conference on productivity which both you and I addressed last April (Attachment C) in case you missed it.

With respect to policy options to promote productivity advance, those advocated by Assistant Secretary Ancker-Johnson to advance science and technology form an important portion of any "menu" of possible policy measures directed toward the productivity problem generally.

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Her options are of two main varieties: those designed to stimulate investments in R&D, such as various types of tax incentives, subsidies, or direct government funding; and those designed to improve the legal and institutional framework of a general nature, such as changes in antitrust and patent laws, or of a specific institutional nature, such as expanding NTIS to provide technical services designed to accelerate the diffusion of innovations.

The field of policies for promoting productivity is considerably broader than those relating to scientific and technological advance, however, as indicated in the attached papers. It covers policies to promote tangible investments in new plants and equipment, and intangible investments in education and training, since new technology and know-how must be embodied in capital goods and workers.

It involves other human investments designed to improve the quality of labor input, such as outlays for health, safety, and mobility. It involves policies to promote economic (allocative) efficiency; to take advantage of potential economies of scale; and to reduce economic instability, particularly of a cyclical variety, which impacts productivity change. It involves possible policies designed to influence values and attitudes of individuals, making them more "productivity-minded" and receptive to the dynamic forces associated with technological progress. Finally, it involves possible changes and innovations in the legal and institutional framework to facilitate not only technological advance, but the other forces noted above.

At a later date, if you would like I could prepare in outline form a summary of policy options relating to all the major factors impinging on productivity advance. I will also plan to prepare comments on the CEA paper as soon as there is a chance to study it.

Attachments

Appendix B

FORM [illegible]
(REV. 2-75)
FORMERLY SEC-350

U.S. DEPARTMENT OF COMMERCE

ABSTRACT OF SECRETARIAL CORRESPONDENCE

TO:	X	The Secretary		The Under Secretary

INFORMATION MEMORANDUM

FROM: Chief Economist for the Department of Commerce

SUBJECT: CEA Paper on "Improving Productivity Growth"

The CEA paper, while somewhat sketchy and partial in its analysis and presentation of policy options, will serve as a basis for discussion at the EPB meeting rescheduled for October 12, 1976. The background analysis of productivity trends contained in the CEA paper leads to the same conclusions that I reached in my paper for the Joint Economic Committee of Congress "Productivity Trends and Prospects " (October 1, 1976), copies of which were furnished to the CEA Task Force on Productivity and to you as Attachment A of my memo dated October 6, 1976. The conclusion was that there has been a marked slowdown in U.S. productivity advance during the past decade; and that whereas it is probable that productivity advance will be higher in the next decade, we will not return to the stronger trend-rate of 1947-1966 without adoption of new policies to promote productivity.

With regard to the recommendations, the strongest section of the paper relates to policies to encourage investment. Here, the various Administration proposals that have not been enacted are listed (p. 13). I agree with the emphasis on the proposed integration of the corporate and personal income taxes to eliminate gradually the present double taxation of dividends. The half of the benefits accruing to dividend recipients will help stimulate personal saving and consumption; while the half accruing to corporations will promote both business saving and investment.

I would like to have seen two additional proposals, however: (1) Recognition of replacement cost accounting in computing depreciation charges for income tax purposes would increase aftertax income, and would help to cushion the effect of a future acceleration

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of inflation on business income. Also, by reducing net income beforetax and aftertax, it would tend to reduce dividend payments and thus increase gross business saving as well as stimulating investment. (2) Further rationalization of the public investment-decision process, possibly through capital budgeting, would help to promote productivity in both the public and private sectors.

The section of the report on promotion of technical progress is weak, consisting chiefly of a discussion of increases in Federal funding of research and development. Important as this is, the many options available to stimulate private R&D and to promote the production and diffusion of innovations are completely passed over. I would strongly urge that you request Assistant Secretary Ancker-Johnson to select half-a-dozen or so of her more than 50 policy options which seem particularly important and timely to be written up for submission to the CEA and EPB for consideration in formulating the policies to promote productivity to be recommended in January. At a later stage, if you consider it appropriate, her entire technology paper might be made available.

In the meanwhile, I would stress (1) tax credits for private R&D, justified on the grounds that social returns exceed private returns on such outlays; and (2) creation of a new office of technical services--probably within the DOC, and possibly through expansion of NTIS--which would promote diffusion of technical knowledge and know-how, involving specific innovations.

With respect to institutional policies to promote efficiency (pp. 14-16), the paper stresses regulatory reform. This is good as far as it goes, but they overlook the possibilities of building incentives to efficiency into the techniques for regulating utilities and other natural monopolies. They also neglect the areas of antitrust laws and enforcement procedures, and foreign trade policies, to promote competition nationally and internationally. While they endorse some of the programs of the National Center for Productivity and the Quality of Working Life, they do not deal with the issue of strengthening (and possibly restructuring) that agency and others (such as the Office of the Science Adviser to the President) so that productivity promotion policies become a continuing concern for effective Federal involvement.

In the final section, the paper reaffirms the CEA's commitment to balanced growth (p. 16). Presumably, the 1977 Annual Report of the Council will spell out the specific measures required to keep the economy on track in the coming year. As far as fiscal policy is concerned, this will involve specifying the extent to which the proposed tax reductions should be offset by reductions in the growth of Federal Government expenditures. This determination will depend on the strength of the expansion of private demand in the final quarter of 1976, and the likely prospects for the coming year. By latter December we will have a clearer notion of whether the anticipated pickup in economic recovery is actually taking place.

Policies to Alleviate Unemployment

Background: The level of unemployment in this recovery has proven very difficult to bring down. The economic surge in the first year after the recession low stemmed mainly from the turnaround in business inventories--the changeover from supplying much of current demand from the stocks of goods on hand to supplying it from current production--and from the tax cuts, rebates, and special payments, mostly in the second quarter of 1975. The economic stimulus from both of these sources had been very largely spent by the second quarter of this year, when retail sales turned sluggish and economic growth slackened markedly. The unemployment rate, which had fallen from the peak average of 8.7 percent in the second quarter of 1975 to an average of 7.4 percent in the same quarter of this year, rose to 7.8 percent in the third quarter and remained about unchanged in October. Despite the high unemployment, however, the rate of price inflation is still very high, and seems now to be declining very slowly at best.

Issue: The problem--essentially a policy dilemma--is how to bring down the rate of unemployment without at the same time causing price inflation to accelerate. A strong application of fiscal and monetary stimulus--tax cuts, tax rebates, increased Federal spending, accelerated growth in the money supply, lower interest rates, etc.--would be appropriate policies for high unemployment, but they could also stimulate the rise in prices, especially as unemployment is reduced.

Analysis of Issue: The remedies for high unemployment fall into two categories: macroeconomic policies--fiscal and monetary measures such as those listed above, which have an impact on the entire economy; and microeconomic policies, tailored to have a specific effect on unemployment with only a minimal influence on other aspects of the economy, particularly on prices.

It is quite possible that a certain amount of macroeconomic stimulation will be in order next year, if only because the Federal budget figures and prospects indicate that we may fall somewhat short of the degree of stimulus originally projected--which would have placed the budget in an essentially neutral position, neither stimulating nor restraining the economy. In addition, the econometric models used for forecasting suggest that a tax rebate of moderate size would have a small beneficial effect on the unemployment rate, with almost no impact on inflation.

The microeconomic policies that have been proposed chiefly involve improving the operation of the labor market by lessening the so-called structural problems--the difficulty of fitting persons now unemployed into the available jobs. This would involve, basically, improving the flow of information about job openings and job applicants, and improving the training and education of jobseekers so that they can fill the openings available. A computerized nationwide job data bank is now technically feasible, and could be tried. Other policy options would include an increase in training programs under the Comprehensive Employment and Training Act; tax credits and technical assistance to induce more firms to provide on-the-job training programs; and wage supplements paid for a limited time to firms hiring youths 16-24 years of age, to make up the gap between the legal minimum wage which they must be paid, and the value of their output to the firm. A two-tier minimum wage would work in the same direction, but would meet greater political opposition. The possibility of paying wage supplements to encourage the hiring of relatively inexperienced older workers could also be considered.

Schedule: The above policy measures could be introduced one at a time, over a period, since the amount of government effort required would depend on how quickly the strengthening expected in the private sector was acting to reduce the level of unemployment. The time required for congressional enactment of these proposals would of course be a basic factor controlling their implementation.

Note: This issue is treated at greater length in the "Economic Outlook and Job Creation Strategies" paper included under the "General" heading.

Current Economic Outlook and Macroeconomic Policies

Background: While the present recovery exceeded slightly the average of the past four recoveries in its first year, it has since fallen somewhat behind. In the first year of recovery, real GNP grew at the annual rate of 7.3 percent. The rate slowed considerably to 4.5 percent in the second quarter of 1976 and to less than 4.0 percent in the third, or an average annual rate of 4.2 percent. In the first half of the second year in previous postwar recoveries, real GNP has increased 5.6 percent (after adjusting for the 1958 steel strike).

Although total employment has increased more than 1.0 million since March, the slower rate of real growth and an unusually large rise in the labor force reversed the downward trend in the unemployment rate. By October, unemployment was again almost 8 percent of the labor force.

Consumer price increases were relatively moderate in September and October. On the other hand, the Wholesale Price Index accelerated noticeably. In the past five months the rise in wholesale prices of industrial commodities was significantly greater than in the preceding five months, in spite of the lack of excessive demand. In a few cases, such as fuels, lumber, transportation equipment and rubber, special factors accounted for the acceleration in commodity prices.

There are some indications that the rate of real economic growth may pick up in the fourth quarter and will carry over into 1977. Among the positive signals are the recent increases in housing starts and building permits; a continued rise in new orders for nondefense capital goods and several optimistic surveys of business intentions for capital spending in 1977; the possibility that some of the shortfall in Federal spending during the first nine months of the year, particularly defense outlays, will be made up in the final three months of the year; and a modest rise in the average workweek in October.

At the same time, such data as employment, unemployment, retail sales, and industrial production for October, new car sales for the first ten days of November, and retail sales for the first two weeks of November suggest that economic activity in the quarter has started off slowly. In part, the slow start reflects the impact of various labor disputes.

While it is evident that the growth rate of the economy slowed during the middle quarters of 1976, it is advisable to wait until results for the fourth quarter are available before deciding what policy actions are appropriate. However, unless business investment outlays accelerate and government purchases rise more rapidly than in earlier quarters, it is doubtful that the strength in residential construction will be sufficient to increase employment and lower unemployment enough to generate the rising incomes necessary to produce an acceleration of consumer spending and economic growth in the last quarter of 1976.

Issue: If the fourth quarter economic data confirm that real economic growth continued to lag and that growth will not pick up even in early 1977, a program of stimulative measures would be called for. In that case the major questions are:

1. What specific stimulative measures do we need and for whom?

2. How much additional stimulus is appropriate?

3. When should such measures be implemented?

Analysis of Issue:

1. What are the options for stimulative measures?

(See attached table.)

2. How much stimulus is appropriate? If a stimulus is desirable the magnitude will depend on an assessment of how weak the economy appears. Most views on the need for a stimulus suggest a tax cut of between $5 and $15 billion. A $5 billion tax package would have very little impact on an economy as large as ours; a $15 billion package would be less than the initial $23 billion tax package enacted in early 1975 but comparable to the net amount extended in the fall of 1976. By comparison, a $15 billion tax cut and last year's $23 billion tax package, as a percent of total receipts, are both smaller than the tax cut enacted in 1964 to stimulate the economy.

3. When should such measures be implemented? If stimulative measures are desirable, they should be implemented immediately after the new Congress convenes in order to reduce the likelihood that the impact will be realized after it is needed.

Options for Stimulative Measures

Action	Pros	Cons
1. Immediate tax rebate	1. Will improve consumer sentiment and thus encourage consumption and provide incentive for investment and inventory expansion.	1. One time rebate doesn't significantly affect private spending patterns.
	2. Doesn't permanently reduce government revenues needed to finance future spending.	2. Doesn't directly encourage investment which is necessary for more rapid growth and increased productive capacity.
	3. Can be implemented quickly since doesn't require a change in withholding rates.	3. Could generate increased inflationary pressures.
2. Broad based, permanent tax cut	1. Will stimulate both consumption and investment directly, providing production, jobs, incomes.	1. Reduces resources available for future government spending.1/
	2. A permanent tax cut is more likely to encourage consumption than a one time rebate.	2. Could generate increased inflationary pressures.
		3. Could take too long to enact, and its impact would come at wrong time.
		4. Would be implemented through reduced withholding rates, thereby blunting the potential impact on consumption because weekly or monthly increase in take-home pay would be modest.
3. Business tax change	1. Will increase cash flow and rate of return and thus encourage investment which in turn will stimulate consumption.	1. Will not directly stimulate consumption; thus, no great incentive to invest, particularly since already have unutilized capacity.

1/ It should be noted that the tax cuts extended in 1976 are scheduled to expire at the end of 1977. If they are allowed to expire, this would compensate in part or in whole for new permanent tax cuts.

Options for Stimulative Measures (continued)

Action	Pros	Cons
	2. Depending on the form of the tax change (e.g., deferral of social security or unemployment insurance taxes) could provide a stimulus to business and at the same time remove some pressure for price increases which would help hold down further inflationary pressures.	2. Points 1-3 in item 2 above.
4. Direct spending programs	1. Have a greater multiplier than a tax cut.	1. Increases level of government spending.
	2. Can pinpoint impact on the unemployed or construction industry.	2. Spending programs are slow to start up, frequently have an effect long after their need.
	3. Increased grants to State and local governments could be coupled with requirement of lower sales taxes, thus helping to hold down prices.	
5. More expansionary monetary policy	1. Generally has a greater impact on investment than fiscal policy.	1. Generally takes longer to have an impact.
	2. Does not require congressional action, thus could be implemented faster if FRB cooperates.	2. Could generate increased inflationary pressures.
	3. Can be reversed.	

Inflation and the Incomes Policy Option

Background: In the post World War II period a variety of approaches has been used to help control or modify price and wage behavior in order to restrain inflation and avoid undermining the achievement of various goals such as full employment, balanced budgets, improved balance of payments and expanded social programs. With rapid double digit inflation of recent years, the inflation issue has assumed an increasingly central role in the development of economic policy. Since the devaluations of 1971 and 1973, price levels in the domestic economy have become more sensitive to sectoral shifts in production and consumption and to conditions in the international markets. The inflationary shock of the embargo imposed by the Organization of Arab Petroleum Exporting Countries (OAPEC) and the oil price hikes of 1973-1974, along with the general commodity inflation of that period related to devaluation, a world-wide boom and some production disruptions, was aggravated and made more visible in the U.S. by the formal wage-price controls in place at the time. The recent experience with inflation acquainted the public and policymakers with the many causes of inflation, the inflation process itself, and the impossibility of control or significant modification of inflation by use of wage-price controls alone. A brief discussion of the recent experience and some observations are provided in Appendix A. Briefly, they suggest that a wage-price policy approach cannot, by itself, be effectively used to counteract policy errors, demand-pull inflation, or structural impediments to achieving reductions in the rate of increase of inflation.

Issue: In the present context of excess capacity and high unemployment, the economy may need some additional fiscal stimulus. However, different forms of stimulus have different implications for inflation, growth, and productivity. Since many analysts assume that stimulative measures will generate increased inflation, some have advocated an incomes policy to help reduce or offset potential additional expansion-induced inflation or inflationary expectational effects.

Analysis of Issue: As used here, the term "incomes policy" refers to wage-price guidelines and public hearings or similar devices which are designed to persuade business and labor to exercise restraint on wages and prices. In the context of the discussion above and in Appendix A, it is assumed that existing efforts in other regulatory, administrative, and policy areas will also continue, be expanded and/or new approaches will be initiated whether or not the "incomes policy" option is actively pursued. The discussion will of necessity be general and not consider such variations to a guidelines approach as the "social compact" or "real wage guarantee" concepts suggested by Arthur Okun, Charles Schultze, William Nordhaus, and others. Most of these concepts will require further elaboration by the authors before much analysis can be done.

The "incomes policy" concept used in this overview consists of two elements:

- Public hearings and similar public fact-finding approaches.

- Wage-price guidelines.

One implication of the first element is that a major effort will be required to analyze past sectoral price and wage behavior, and to monitor current, and project likely future, events. These analyses, in turn, imply action and public policy guidelines in other areas in order to provide a framework for sectoral wage-price discussions and public hearings, so as to establish general public knowledge as to governmental goals. What is considered by the government to be "fair" or "reasonable" wage-price behavior by the private sector will undoubtedly undergo considerable change as hearings and discussions progress.

Regarding the second element, wage-price guidelines, to obtain an historical perspective it may be useful to consider the original guides (the "guidepost" term was to be used later) for noninflationary wage (including fringe benefits) and price behavior, these were provided initially as a basis for public discussion by the Council of Economic Advisors in the Economic Report of the President, 1962, p.189. The original wage and price guides, and four specific modifications or exceptions are included for reference in Appendix B. Since these "guides" were later modified, and lost much of the original flexibility, and then became numerical guideposts and were "politicized," it is perhaps useful to note that the initial proposals were fairly complex. While the wage and price "guides" were relatively simple concepts, the adjustments and possible corrections made their application anything but mechanical. Initially, neither the guides nor the modifications were given specific quantitative limits.

A more thorough discussion of the evolution and use of the wage-price guideposts can be found in John Sheahan, The Wage-Price Guideposts and portions of the 1975 Brookings volume, Exhortation and Controls . . . . A brief bibliography on inflation and wage-price policy is included as Appendix C.

At this stage of the analysis it would be somewhat premature to go into the various analytical, statistical, legal and operational issues which are important elements if an incomes policy is to be pursued. Perhaps more important, initially, is to consider the effects on business planning and expectations before public statements on "incomes policy" are made. The history of inflation policy in the last fifteen years would suggest that business could interpret or misinterpret statements 1/ regarding "incomes policy," even in the limited context of this discussion, as the main focus, rather than a possible part of, forthcoming inflation policy. Given the past experience with guidelines, which gradually increased in their influence over wage-price decisions, price increases could make a controls prophesy a self-fullfilling proposition.

Schedule: At this stage, a timetable for decisions or further analysis would be premature, the major exception, perhaps, being the avoidance of premature statements.

1/ See, for example, New York Times (November 11, 1976, p.1).

Inflation Effects of Government Actions Other Than "Incomes Policy" or Controls

There has been a tendency for policymakers and the public to equate or associate actual or potential governmental action on inflation with the imposition of guidelines or "incomes policy" or formal wage-price controls. While informal and formal controls have, of course, been used in the postwar era, and they do represent one class of wage-price policy options, the association of governmental action on inflation with controls of one form or another may have resulted in overattribution of success or failure in containing inflation to the presence or absence, success or failure, of these measures.

This perception of governmental policy has tended to divert attention away from analysis of the causes of inflation and the inflationary process itself, and the appropriate political and economic policies to deal with causal and process aspects of inflation, and toward discussions of the appropriate technique for wage-price policy (e.g., mandatory or voluntary, full coverage or selective controls, etc.).

The conventional wisdom after the recent 1971-1974 experience is to conclude that peacetime wage-price controls or "incomes policy" approaches do not or cannot work as a part of governmental wage-price policy to contain inflation because of the complex nature of our economic system. This may or may not be true, but a review of even a few of the causes of inflation and policy errors before and during this period suggest that other factors have had a major influence and need to be considered. These include 1/:

- Stop-go monetary policies (1969-1974) which aggravated Federal finance problems and did little to deal with rising prices.
- 1969-1970 "soft landing" approach designed to reduce wage claims by reducing real output and employment

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1/ The subsequent discussion is based on an unpublished paper by A.J. Eckstein (1974) cited in Appendix C and portions of various other evaluations of this period.

which overlooked the nature and impact of the collective bargaining cycle emerging at that time.

- 1971 reversal of monetary policy, with rising unemployment and declining tax revenues, and resulting monetization of the expanding Federal debt, did not produce any clear increase in the demand for money; the increased supply of money, however, did decrease interest rates and increase the capital outflow from the United States.

- With the large money supply expansion of early 1971 there were coincident large dollar outflows of short- and long-term capital, the latter reflecting judgement that the U.S. dollar was overvalued and that nothing was being done about it. The dollar was finally devalued, and the gold window closed, August 15, 1971.

- The expected short-run results of the currency devaluation did not occur as fast as was expected; under conditions where markets are less than competitive, resource transfer is impeded, and where the foreign sector is relatively not so important (as in the U.S.), economic adjustment takes much longer or may not occur at all.

- The 1973 devaluations reflected the impatience of economic policymakers when the 1971 devaluation did not produce the intended results. The action was interpreted as U.S. inability to bring inflation under control. The result was a rapid loss in the exchange value of money since the dollar served as the major reserve currency or numeraire good. This, along with a worldwide boom in industrial countries and some disruptions in worldwide production, led to a heavy flow of money into commodity markets where currency hedging could take place in terms of commodities with some "store of value." A commodity inflation ensued and these conditions also made it easier for commodity-producing countries to adjust prices to alter terms of trade. Oil is the foremost example with the embargo and price increases of late 1973 and early 1974.

- In the pre-devaluation period much of the diagnosis indicated inflation to be a result of the shift in demand from goods to services not accompanied by a proportional shift in production capability. This reinforced the notion that inflation was "cost-push."

- One of the effects of the 1973 set of devaluations was the effective cutting-off of the supply of low-priced imports. This permitted the domestic price level to rise, particularly where the domestic supply capacity was inadequate to meet demand of a fully-employed economy. The behavior of steel prices is a good example of this sort of response to devaluation.

The presence or absence of an adequately coordinated and informed governmental policy related to inflation can, as illustrated by the above overview, be a more important factor offsetting inflation than the more visible "incomes policy" or wage-price mechanism which usually receives the blame or praise. A balanced approach to inflation using appropriate tax, expenditure, trade and administrative or other legislative powers is needed to deal with both the long- and short-run, causal and process, aspects of inflation. The above discussion suggests that several things must be done or initiated in order to get at underlying causes of inflation. First, a means must be found to begin to alter the income distribution between labor and capital, between service sector labor compared to goods-producing labor, and between consumption and investment. Second, if near full-employment of resources is to be achieved and maintained, a wider variation in relative wages between sectors has to be sought or resources will not be reallocated to their most advantageous uses. Third, the structure of consumption and production which developed under fixed exchange rates but with international capital transfer may have lulled policymakers into a more passive attitude regarding questions of sectoral growth and price determination. Income shifts implied by devaluation no longer permit such an easy separation of policy analyses of sectoral growth and price determination. Price levels in the United States are presently much more related to sectoral shifts and conditions in international markets than was the case in 1961 when "incomes policy" was perceived as important in order that expansionary policies could proceed without a deterioration of the balance of payments.

Appendix B

1962 Council of Economic Advisors Statement of Wage-Price Guideposts

The general guide for noninflationary wage behavior is that the rate of increase in wage rates (including fringe benefits) in each industry be equal to the trend rate of *over-all* productivity increase. General acceptance of this guide would maintain stability of labor cost per unit of output for the economy as a whole—though not of course for individual industries.

The general guide for noninflationary price behavior calls for price reduction if the industry's rate of productivity increase exceeds the over-all rate—for this would mean declining unit labor costs; it calls for an appropriate increase in price if the opposite relationship prevails; and it calls for stable prices if the two rates of productivity increase are equal.[5]

Four specific modifications were spelled out in the original statement:

(1) Wage rate increases would exceed the general guide rate in an industry which would otherwise be unable to attract sufficient labor; or in which wage rates are exceptionally low compared with the range of wages earned elsewhere by similar labor, because the bargaining position of workers has been weak in particular local labor markets.

(2) Wage rate increases would fall short of the general guide rate in an industry which could not provide jobs for its entire labor force even in times of generally full employment; or in which wage rates are exceptionally high compared with the range of wages earned elsewhere by similar labor, because the bargaining position of workers has been especially strong.

(3) Prices would rise more rapidly, or fall more slowly, than indicated by the general guide rate in an industry in which the level of profits was insufficient to attract the capital required to finance a needed expansion in capacity; or in which costs other than labor costs had risen.

(4) Prices would rise more slowly, or fall more rapidly, than indicated by the general guide in an industry in which the relation of productive capacity to full employment demand shows the desirability of an outflow of capital from the industry, or in which costs other than labor costs have fallen; or in which excessive market power has resulted in rates of profit substantially higher than those earned elsewhere on investments of comparable risk.

Appendix C

Inflation and Wage-Price Policy

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Other Inflation Policy Options

The following list is suggestive of some proposals and/or policy changes which can directly or indirectly affect the "underlying inflation rate." The latter concept was defined in hearings before the Senate Budget Committee by Charles Schultze (February 1976), as average hourly compensation (wages plus fringe benefits) minus some trend rate of average annual productivity change. (He uses a figure of about 2 percent for the last year or two.) The basic idea of the above inflation rate is that prices will tend to increase in the longer run at about this rate even though they will increase at different rates, above or below this figure, in the short-run.

Using the Schultze calculations, the underlying inflation rate went from about 4 percent in 1971, to 4.5 percent in 1972, to 5.8 percent in 1973. During 1974 it peaked at 7.7 percent and declined to 6.4 percent in 1975. Based on more recent data, it has continued at about the same 6.5 percent rate in the last four quarters (1975 III - 1976 III).

In the context of the above inflation concept, inflation policy options can perhaps be looked at in terms of whether they are likely to yield a reduction in the underlying rate, which has shown little movement in the last two years, or whether they focus on trying to offset or affect short-term price movements.

<u>Incomes Policy Options:</u>

- <u>Reduction of payroll tax rate (social security)</u>.

  <u>Effects</u>: One-time effect on production cost and underlying rate. If applied to workers as well, effect is similar to an income tax rate reduction except cuts are larger for lower to lower-middle income taxpayers. Revenue would have to come from general funds. Net effect on revenue, via effects of action on disposable income and growth, needs to be investigated as well as long-term problems with the benefit formula.

- <u>Tax rate reductions</u> to offset progressivity of tax structure under inflationary conditions.

  <u>Effects</u>: (See also issue paper on fiscal stimulus.) One effect is to remove inflation induced fiscal drag due to revenue increasing about 1.2 times faster than inflation rate. Longer lasting affect on growth and less inflation, but deficit effect lasts longer than a rebate.

- <u>Grants</u> to State and local governments <u>tied to sales tax reductions</u>.

  <u>Effects</u>: One-time downward effect on prices. No guarantee they won't rise again. Difficult, perhaps, to administer.

- "<u>Incomes Policy</u>."

  <u>Effects</u>: Discussed previously, could have an effect on reducing inflationary expectations and therefore the underlying inflation rate. Also could affect some short-run price/wage movements, particularly in sectors with considerable market power.

- <u>Guidelines with a guarantee</u>. Includes various concepts of a "social compact," or "real wage guarantee" nature which trade guideline behavior for tax cuts when prices exceed an agreed number.

  <u>Effects</u>: Gives the Federal Government an incentive to fight inflation to avoid revenue loss. May cut down expectational wage demands. Could have a large impact on deficits, and would require effective fiscal and monetary policy to deal with demand-pull inflation.

- <u>Regulatory Review</u>.

  <u>Effects</u>: Ongoing and expanded efforts directed toward achieving "regulatory reasonableness" can affect the underlying inflation rate both directly, for those cases where prices have downward rigidity, and indirectly in terms of modifications which eliminate some of the cost/price pressures. In some cases these changes will result in more price flexibility with price increases

as well as decreases. This, however, has a side benefit of removing some of the rigidity in the inflationary transmission process which contributes to the problem of sustained inflation. Increased efforts to reduce public and private costs in administering or complying with regulatory requirements also affect inflation by reducing expenditures and reallocating personnel to more productive pursuits. Most of these actions directly or indirectly affect either the underlying inflation rate or its flexibility.

- <u>Stricter enforcement of antitrust laws</u>.

  <u>Effects</u>: Can make product or factor prices more responsive to fiscal and monetary policies. Effect in the short-run is likely to be small, but has important long-run implications regarding inflation and the inflationary process.

- <u>Supply-related policies</u>. These relate to adequate investment in capacity to avoid future bottlenecks, as well as short-term actions such as stockpile sales to either ease supply pressure and/or offset commodity inflation shocks. Agricultural policies can, as evidenced in 1972-1973, have a considerable affect on inflationary pressures.

- <u>Manpower policies</u>. Appropriate policies can have some affect on structural unemployment. One of the key inflation issues is whether they can do so without future distortion of relative wage relationships.

- <u>Improved collective bargaining</u>. In certain industries such as construction, improved collective bargaining procedures, perhaps along the lines advocated by Professor Dunlop, could perhaps help improve wage flexibility or avoid inflationary "leap-frogging."

SURVEY OF REGISTRATION AND VOTING STATISTICS

Background

The 1975 Amendments to the Voting Rights Act of 1965 (P.L. 94-73) require Census to conduct surveys of registration and voting after each November general election through 1980, in political jurisdictions subject to the original and expanded coverage of the Act. The 1976 survey has been funded and is in progress. The 1978 survey would cost approximately $5.6 million over FY 1978-79.

Issue

To comply with FY 1978 budget restraints, Census/Commerce decided not to include the 1978 survey requirements in its FY 1978 request, and to ask the Department of Justice to request Congress to amend the Voting Rights Act to make the surveys quadrennial. Justice or the U.S. Civil Rights Commission, or both, may object, as primary data users, to the proposed curtailment. If supported administratively, Congress may take no action because of strong support for the survey, when enacted, and a reluctance to open up the statute before its expiration in August 1982.

Schedule

Census will submit draft material for legislative initiative to Office of General Counsel by mid-December, for transmittal by General Counsel to Justice. Submission to the Congress should coincide with or shortly follow submission of the FY 1978 budget to Congress. No active consideration of the proposed amendment would require amending the FY 1978 budget request by March or April 1977.

Proponents of more extensive statistics on minority group voter participation and civil rights compliance monitoring can be expected to argue for program expansion rather than any curtailment.

DEFINITION OF A FARM

Background

For statistical purposes, a farm is defined in terms of acreage and total value of products sold, in order to establish the universe in scope of the census of agriculture required by law every 5 years. The definition was revised in 1975 and became the subject of political controversy during the 94th Congress. A definition which includes most "small farms" requires substantial expenditures for the census to produce statistics for farms that contribute little to agriculture production. A definition which excludes some "small farms", for example, those with less than $1,000 in value of products sold, is viewed by some Members of Congress as an action which will lead to ignoring the importance and the needs of rural farming communities in the development and implementation of Federal programs and policies.

Issue

The issues are fully developed in the attached Secretarial abstract. A decision has been made by the Administration to use the original definition proposed for the 1974 Agricultural Census, i.e. $1,000 or more worth of agricultural products produced for sale. This will be used both in final reports of the 1974 census results and in the 1978 census. Commerce and Agriculture will contact Congressional Committees concerned with this issue to attempt to obtain their support.

Attachments

INFORMATION MEMORANDUM TO THE SECRETARY

From: Chief Economist for the Department of Commerce

Subject: Farm Definition Issue

We anticipate that you will shortly hear from James Lynn with regard to the farm definition for the censuses of agriculture, advising you of certain Office of Management and Budget decisions in connection with the farm definition and related publications, and recommending or directing that certain actions be taken by the Department.

A revised statistical definition for farms was jointly developed (Census, Department of Agriculture, OMB) which for 1974 would have included only places with $1,000 or more of agricultural sales. In August 1975, the Department issued a press release announcing the "new" definition. However, congressional opposition became apparent. Legislation passed (Public Law 94-229) including a statutory "freeze" on the "old" definition until June 30, 1976. At subsequent hearings it was evident that the intent was to maintain the definition beyond that date. Legislation was introduced to mandate a farm definition formula. It did not pass but we anticipate similar legislation will be introduced in the 95th Congress.

Because of Public Law 94-229, our preliminary agriculture census publications are based on the "old" definition but also provided limited data on the "new" definition by labeling appropriate columns "All Farms" or "Farms With Sales of $1,000 and Over."

Data and publications computer programming for content and display layout of the final reports also have been developed on the basis of the "old" definition, with additional classifications to provide data for farms in the disputed category.

It is our understanding that OMB intends to recommend or require the use of the "new" farm definition ($1,000+ TVP) as previously announced in 1975. This could include a requirement to refer to "old" definition and "new" definition in all remaining 1974 Agriculture Census publications.

The anticipated OMB action could have the following impacts:

1. Modification of publication tables already planned could delay release of final publications from the 1974 census.

Prepared by R. L. Hagan, Acting Director of the Census Bureau

2. Publication of the 1974 data by the "new" definition will--in our view--carry a significant risk that Congress will attempt to reestablish, by law, the "old" definition, with consequent delays and uncertainties introduced into the planning and processing of the 1978 Census of Agriculture.

The Bureau's position has been that, in view of strong congressional interest, the final publications from the 1974 census--like the preliminary publications--should be presented in terms of the "old" definition.

The attached statement provides background and chronology on the farm definition and related issues.

Census Bureau Statement re Farm Definition

There has been considerable recent controversy within the Administration and the Congress over the definition of a farm as used for statistical purposes in the censuses of agriculture. This paper summarizes the problem and sets forth our present position on this matter.

In the 124-year history of the census of agriculture, the definition of a farm has been changed seven times. The definitions and changes are shown in attachment A. The definition of a farm has always been based on value of production and nearly always on an acreage criterion as well. The change in farm definition in 1959 was based on both criteria - i.e., $50 worth of agricultural products produced for sale for places with 10 or more acres and $250 worth of agricultural products produced for sale for places with less than 10 acres. That definition was also used in the 1964 and 1969 censuses.

The desirability of making a change in the farm definition was raised in the late 1960's since it was felt that changing price levels and other economic changes in the structure of farming were distorting the farm statistics by the inclusion of these minimal operators. However, since the Bureau was instituting a major procedural change (from field enumeration to a mail collection of data) for the 1969 census, consideration of a revised definition was deferred to the 1974 census. Accordingly, discussions were held with the Bureau's agricultural advisory committee at public meetings over a period of several years. The Department of Agriculture, having primary concern in this area, was a major contributor as was the Office of Management and Budget. A revised statistical definition of farms was jointly developed which for 1974 would have included only places with $1,000 or more of agricultural sales. We understood that the Department of Agriculture had discussed this proposed change with the appropriate congressional committees.

In August 1975, the Department of Commerce issued a press release announcing the new farm definition. Of course, data for the 1974 Census of Agriculture were collected on the old basis and plans were to show information in terms of the new and old definitions so that the effect of the change in definition could be measured. The decision to change the definition of a farm for census purposes was made after a lengthy examination of the question and, from a statistical point of view, the Bureau feels that the decision was correct. It has become evident, however, that more than statistical questions are involved.

It quickly became obvious that the defining and reporting of the number of farms are not only important to data users, they are politically sensitive in view of the resulting relationships between counts of farms, estimates of farm income which are developed outside the Census Bureau with additional data sources, and Federal programs related to agriculture. Several congressional hearings directed their attention to the farm definition and its impacts. (It became apparent that the revised definition had not been cleared sufficiently with Congress. During all of our efforts, we were assured that USDA had discussed the proposed new definition with its congressional committees. From subsequent developments, however, it was discovered that USDA failed to inform the Subcommittee on Family Farms and Rural Development, a component of the Committee on Agriculture. Had the Bureau been aware that USDA had not carried on complete discussions, the Bureau would have done so.)

In September 1975, we testified on legislation to adjust the dates for future censuses of agriculture. We encountered substantial congressional reaction to the new farm definition. The legislation became law (Public Law 94-229) early in 1976 and included a statutory "freeze" on the old definition until June 30, 1976.

In subsequent hearings, both Census and USDA defended the new definition, and Members of Congress were reassured that the change would have no adverse impact on the provision of Federal benefits to small farms. One reason given for this assurance was that previous definition changes were handled by "hold harmless" administrative actions. Some Members remained concerned that the use of a new, lower number of farms in conjunction with farm income estimates would show an increase in farm income affected largely by the classification of farms rather than by real events; or, that the large decrease in total farms would adversely affect Government programs which should assist rural residents.

The Bureau strongly supported the new definition until it became evident that there was a serious need for data on small farms. Attachment B presents a chronology of these events. The principal opposition to the new definition came from Congressman Charles Rose, Chairman of the Subcommittee on Family Farms and Rural Development. As indicated above, the seriousness of this opposition is reflected in Public Law 94-229 which requires the use of the old definition through June 30. Through the hearings, several Members of Congress expressed the desire to maintain the old definition beyond that date, and legislation to that effect was proposed. H.R. 14830, which would legislate a farm definition formula, did not pass during the last session of Congress. However, we anticipate that legislation dealing with "farm definition" will be introduced in the next session of Congress.

In view of all the conflicting interests in "farm definition," the Bureau feels that at this time it should not take any direct action that could be interpreted as ignoring the will of Congress.

The most recent meeting on this subject was held at OMB on August 10, 1976. Director Barabba and Dr. Paarlberg had the opportunity to present their views to Dr. Joseph W. Duncan, Deputy Associate Director for Statistical Policy.

Our position is as follows:

I. For the 1974 Census of Agriculture, the Bureau was committed by law to begin publication of the preliminary county reports under the old definition. It has concluded also that the basic tables in the final State reports should be presented in terms of the old definition. Additional tables will present some data separately for farms under $1,000 so that both levels of classification can be measured. Our conclusions are based on a judgment that any other course at the present time could result in legislative action which would freeze the old definition. We feel that such legislation would be particularly unfortunate.

   This matter was discussed at our most recent meeting (June 16, 1976) of the Census Advisory Committee on Agriculture Statistics. It was reiterated that any action or actions by the Bureau that seem to be ignoring the will of Congress could result in permanent mandating of the farm definition.

II. As we move ahead in the planning of the 1978 Census of Agriculture we believe the Bureau (and other sincerely interested individuals and groups) should cooperate and intensify actions in two broad areas:

   A. Better liaison and improved communications with appropriate legislative committees.

   B. Intensify planning efforts to find acceptable ways to provide needed measures of small and economically insignificant agricultural activities via demographic censuses, surveys, and other means, thus relieving the agriculture census from this responsibility and permitting it to concentrate on statistics on agricultural production.

In summary, the Bureau consistently and faithfully supported the new farm definition favored by USDA and other users. The Bureau changed its position on the farm definition when it became increasingly evident, based on clearly articulated congressional concern, that data for small farms below the proposed cutoff were needed for policy purposes. The Bureau felt that it had a responsibility to provide for such needs. Consultations are continuing with OMB and USDA on this matter. The change in farm definition was supported vigorously and in good faith by the Bureau, and the later change in Census position was clearly in the interest of avoiding a mandate from Congress.

Attachments

ATTACHMENT A

Farm Definitions Used in Censuses of Agriculture

	Acreage Limitations		Other Criteria
1850 1860	None		$100 worth of agricultural products produced for home use or sale
1870 1880 1890	3 or more acres	-	any agricultural operations
	less than 3 acres	-	$500 worth of agricultural products sold
1900	None		agricultural operations requiring continuous services of at least one person
1910 1920	3 or more acres	-	any agricultural operations
	less than 3 acres	-	$250 worth of agricultural products produced for home use or sale; or constant services of at least one person
1925 1930 1935 1940	3 or more acres	-	any agricultural operations
	less than 3 acres	-	$250 worth of agricultural products produced for home use or sale
1945	3 or more acres	-	agricultural operations consisting of 3 or more acres of cropland or pastureland; or $150 worth of agricultural products produced for home use or sale
	less than 3 acres	-	$250 worth of agricultural products produced for home use or sale
1950 1954	3 or more acres	-	$150 worth of agricultural products produced for home use or sale
	less than 3 acres	-	$150 worth of agricultural products produced for sale
1959 1964 1969	10 or more acres	-	$50 worth of agricultural products produced for sale
	less than 10 acres	-	$250 worth of agricultural products produced for sale
Definition Originally Proposed for 1974	None		$1000 or more worth of agricultural products produced for sale

ATTACHMENT B

Chronology of Statements Made and/or Positions Taken Relating to Farm Definition

1.	Prior to May 1975	- Deliberations held with USDA, OMB, and the Advisory Committee supported a change to $1,000 by an 8-3 vote.
2.	May 1975	- OMB wrote to Congressman Long, La., advising him that a decision on the farm definition would not be made without congressional input.
3.	August 12, 1975	- New farm definition announced by Census Bureau.
4.	September 26, 1975	- Hearings were held on H.R. 7824. At this time there was considerable concern in Congress over the new farm definition. USDA also was acutely aware of the concern over the farm definition as shown by Don Paarlberg's statement and related questions and answers.
5.	November 7, 1975	- The House Agriculture Committee's Subcommittee on Family Farms and Rural Development held hearings on the farm definition. Miss Shirley Kallek, Associate Director for Economic Fields, presented the Bureau's position.
6.	February 25, 1976	- In response to a question at the Federal Statistics Users' Conference Agriculture Subcommittee meeting, Mr. William Kibler, Administrator, SRS, stated that SRS was building a name and address list and that the list would contain all agricultural producers rather than just those who normally produce $1,000 or more of farm products.
7.	March 15, 1976	- Public Law 94-229 passed containing language which required the Bureau to use the old farm definition through June 30, 1976.
8.	April 26, 1976	- Additional hearings were held on the farm definition. These were joint hearings conducted by the Subcommittee on Family Farms and Rural Development and the Subcommittee on Census and Population. Vincent Barabba, Director, presented the Bureau's position.

9.	May 4, 1976	-	Following the April 26 hearings, the Bureau received correspondence from Congresswoman Schroeder, Chairman, Subcommittee on Census and Population, inferring that legislation might be introduced regarding the farm definition.
10.	June 16, 1976	-	The Census Advisory Committee on Agriculture Statistics discussed the current status of the farm definition.
11.	June 22, 1976	-	Hearings were held on H.R. 12397, H.R. 11048, and similar bills by the Subcommittee on Census and Population. Director Barabba presented the Bureau's statement.
12.	July 1976	-	Communications between Dr. Paarlberg and Mr. Barabba resulted in exchange of views between Secretary Richardson and Secretary Butz.
13.	August 1976	-	Meeting was held at OMB at which the views of Dr. Paarlberg and Mr. Barabba were discussed with Dr. Duncan.

STATUS: A CHARTBOOK OF SOCIAL AND ECONOMIC TRENDS

Background

In July 1976 the Department of Commerce, through its Bureau of the Census, began publication of STATUS, a compilation of charts and narratives to bring together in easily readable form the major current trends in the economy and society. STATUS has been produced for several months on an experimental basis, and has been highly acclaimed by recipients. Because of strong support for this endeavor by the President, the Vice-President, and the Secretary, initial funding was accomplished by the use of reserve funds and some costs absorption.

Issue

An FY 1977 budget request for this program was denied by the Congress, and approval of requested reprogramming has not yet been obtained. A formal FY 1978 request and FY 1977 supplemental is planned for inclusion with the President's budget in January. The annualized cost is approximately $740,000 for a monthly publication.

The schedule for issue resolution and other background information are provided in the attachments.

Attachments

INFORMATION MEMORANDUM TO THE SECRETARY

FROM: Assistant Secretary for Administration

SUBJECT: STATUS, Census Chartbook

Attached to this memo is a fact sheet with the additional information you wanted relative to the House Appropriations Committee action on STATUS.

You indicated that you wanted to stress the following points to Congressmen Cederberg and Slack:

1) Census is ready to publish the November issue of STATUS; all preparatory work has been done. Since the actual printing cost itself is minimal, we are requesting their permission to finish publication and distribution of this issue only. No further issues are planned.

2) The Department would like to go forward with a supplemental in 1977 and with a budget request in 1978 authorizing STATUS. We are presently considering the value of monthly vs quarterly issuance. At any regard, in addition to the other benefits of the publication, STATUS is very important because of its intended use as a vehicle for your quality of life proposals.

3) More than just Administration support is involved here. Status has been endorsed by the Federal Statistics Users' Conference, General Motors, the Dean of Yale University, the President of the Rockefeller Foundation, Senators Hatfield, Humphrey, and Johnson, Congressmen Matsunaga, Pepper, Pickle, and Quie, and many others.

The strongest endorsement is, of course, the response of the public to it thus far, over 3,000 subscription inquiries about an experimental publication that has had no publicity.

Prepared by D. S. Nathan, OBPA

As I see it, Chairman Slack has two problems with the chartbook. First is the question of whether or not STATUS provides an essential service, inasmuch as all of the information contained in it is available elsewhere. I think the point to make here is the amount of endorsements and subscription inquiries received thus far. The second problem, and the most significant in my judgment, is that the Chairman feels that he cannot unilaterally or with Congressman Cederberg overturn a Committee decision in the 1977 budget process. As such, I do not believe that the door is permanently closed on STATUS.

Chairman Slack and Congressmen Cederberg are both campaigning at present in their respective districts. However, they can be reached through their Washington offices, and I have alerted their staffs to your call.

ADDITIONAL FACTS

STATUS, the Monthly Chartbook of Social and Economic Trends

- FY 1977 request: 18 positions and $730,000.
  (Disallowed by House, approved by Senate, foregone in conference.)

- Amount spent:

FY 1976 --	$350,000	
TQ --	175,000	
1977 --	63,000	(through October 1976)

(Funds were derived primarily from the Secretary's Reserve, with the balance in 1976 and the TQ realized from personnel lapses.)

- Original 1977 plan:

	Secretary's Reserve	Supplemental
STATUS (October thru April).......	$421,000	...
STATUS (May thru September).......	...	$309,000
Quality of Life (BEA & Census)....	...	624,000

- Number of issues printed: 8,000 per month
  Subscription inquiries to date: 3,000
  (Because of unusual interest shown in this publication, GPO has planned to print an additional 11,000 copies in November to handle the anticipated demand. This is unprecedented for a new publication.)

Honorable John M. Slack
Chairman, Subcommittee on State,
Justice, and Commerce, the
Judiciary, and Related Agencies
Committee on Appropriations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I am writing this letter to seek your concurrence in a reprogramming action.

The Department's budget request for 1977 proposed the development of a monthly chartbook on domestic developments. It was to be a unique publication, developed for general use, which displayed the most important national statistics in a graphic format. Funds for the publication were recommended by the Senate but not the House, and they were ultimately dropped in conference.

The action taken by the Congress was understandable; our plans at the time were not yet firm, and I am afraid that we may not have adequately justified the need as completely as possible. I realize that there were more pressing issues at the time than one more Government publication.

The Department of Commerce is now in a position to request your approval for continuance of this project. Work was started on the chartbook in FY 1976 on an experimental basis with funds made available from the Secretarial Reserve. The Department had not yet published the first issue by the time of the budget hearings and could not demonstrate the concept in a tangible form. There is now a publication available for review and evaluation.

The first copy of the new publication, titled STATUS, appeared in July. In the short period of time since then, the interest in it has been intense. Nearly 2,000 paid subscriptions have been received. Our initial impression, that the general public needs a consolidated, easy to understand statistical publication, seems to be well founded. STATUS has demonstrated its own need.

The President has reviewed this publication and believes, as I do, that it contributes to his objective of communicating with the public to the fullest extent possible. The chartbook is an important step towards achieving increased candor and openness that both the President and the Congress have been seeking.

Enclosed is a copy of the September issue, which features a special section of information on the elderly, one of our many national concerns. Each issue, besides regularly providing all critical statistics, will concentrate on a particular topic and present relevant data on it. I hope you agree with us that STATUS is too important a development to discard.

It is important to me for another reason also. Eventually, STATUS will be the vehicle for an essential project which is being developed in the Department of Commerce. The need for this project was made evident to me some time ago, primarily during my years as Secretary of HEW and as Attorney General. It is concerned with the determination and analysis of the quality of life. I believe its introduction will be of benefit to the Executive Branch, to the Congress, and to the country as a whole.

As you know so well, our Nation is confronted simultaneously with many conflicting priorities and with only limited resources to meet them. We tend to give the greatest attention to economic criteria, because these are more easily measured and verified. However, many important national concerns, such as environment, health, energy sufficiency and the status of minorities, are too often omitted from systematic analyses because of lack of quantification. In order that resources may be applied in a manner that is more representative of national priorities, it is necessary for us to develop a system which permits us to comprehend where the Nation stands and to examine the incremental change that may be brought about by any Government action. The Department of Commerce has an excellent opportunity to move forward with a quality of life effort and to shape statistical data to reflect more appropriately all important national issues.

We are presently holding discussions within the Administration on the extent to which we will carry forth this effort in 1977 and 1978. I wanted to let you know of it now, because it lends a double impact to the importance of financing STATUS on a continuing basis.

The total cost of preparing and publishing STATUS for one year is $737,000. Because of the commitment to this publication that both the President and I share, I have set aside $421,000 from the Secretarial Reserve to be applied against the total needed. Detailed information on the reprogramming is enclosed for your staff to review. This amount will allow us to carry out publication through April 1977. The remaining five months of the fiscal year would need to be funded through a supplemental appropriation if possible. This is under consideration at the OMB.

I believe that STATUS is an important vehicle for communicating with the American people, and I hope I can count on your support to continue it.

Sincerely,

Elliot L. Richardson

IMPACT OF REPORTING REDUCTION PROGRAM ON STATISTICS

Background

President Ford's Reporting Reduction Program, as implemented by OMB, imposes ceilings and other requirements on recurring and single-time report forms, and their respective burdens on respondents. As applied to the Bureau of the Census, the ceilings and guidelines present serious problems to be resolved. Without relief, some of the Department's essential statistical programs, as carried out by Census, will be fundamentally disrupted or impaired within the next 6 months.

Issue

The issues are documented in the attached memorandum.

Schedule

In response to the issues, the Assistant Secretary for Administration has prescribed a scheduled Action Plan, copy appended to the issues memorandum. Census Bureau has initiated implementation on Part I of the plan---preparation of a Secretarial request to OMB for a policy decision and for a waiver of the reduction requirements with respect to the statutory censuses.

MEMORANDUM FOR Joseph E. Kasputys
Assistant Secretary
for Administration

Through: John W. Kendrick JWK
Chief Economist
for the Department of Commerce

From: Robert L. Hagan
Acting Director (Signed) Robert L. Hagan
Bureau of the Census

Subject: Problems of Ceilings and Base Under the Guidelines for Reducing Public Reporting

The Census Bureau fully recognizes the need to comply with OMB and departmental guidelines for reducing public reporting burden. However, the current guidelines and their interpretation present both the Department and the Bureau with serious problems for our recurring reports, and will make it impossible to conduct, as planned, the 1977 Economic Censuses, the 1977 Census of Governments, the 1978 Census of Agriculture, and the preparatory work for the 1980 Census of Population and Housing.

We believe there are alternative approaches which would be consistent with the basic objectives of the reporting program. I should, therefore, like an opportunity to discuss these matters with you and John Kendrick to determine what actions and adjustments may be mutually agreeable. If agreement can be reached on certain specific resolutions to the ceiling and base problems, we believe we can proceed to effect savings while reducing the expressions of concern that will come from important data users in the event that discretionary programs are eliminated or curtailed.

The balance of this memorandum presents background material to describe the problems and the steps being considered to deal with them.

SINGLE-TIME REPORTS, INCLUDING PERIODIC CENSUSES

There seems to be no alternative to requesting an exception to the report and man-hour ceilings for single-time reports in order to permit the Bureau to conduct the 1977 Census of Governments, the 1977 Economic Censuses, the 1978

Census of Agriculture, and the planning and preparatory work for the 1980 Census of Population and Housing, all of which are specifically required by law. The ceilings imposed on Commerce in this regard apparently made little or no allowance for these mandated program expansions, and the requirements were set when periodic programs were at a low point in the cycle. The Bureau of the Census is required to conduct a census of governments and a group of economic censuses at 5-year intervals in the years ending in "2" and "7". The economic censuses include the census of manufactures (initiated in the year 1810), mineral industries (1840), retail and wholesale trade and construction industries (1929), selected service industries (1933), public warehouses (1934), and transportation (1963).

In order to increase the level of accuracy, minimize the cost of the censuses, and relieve the business community of reporting burden, we make extensive use, under strict confidential restrictions, of selected information from administrative records.

Although most of the report forms associated with the above economic area censuses will not be mailed until the latter part of December 1977, ceiling relief is needed now in order to provide the necessary lead time for forms designs, printing, and form assembly operations preparatory to actual mailing. Submission of these forms to OMB for approval will begin within the next few months. We currently estimate the total single-time response burden for the economic censuses to be 3,874,700 man-hours and 254,000 man-hours for the census of governments. These burdens will appear in the inventory before September 1977, and will exceed the single-time burden ceiling by 800 percent.

Public Law 94-229 recently amended section 142 of title 13 to require that the next census of agriculture be conducted for the year 1978. Testing of various alternative approaches will begin early in 1977. Our plans include the use of statistical sampling in order to keep the response burden to a minimum. The current best estimate for response burden in this census is approximately 2,870,000 man-hours, a potential reduction of some 400,000 man-hours from the 1974 burden of 3,300,000.

The 1980 Census of Population and Housing will also impact on the single-time burden before September 1978. The development of the 1980 census program requires the conduct of a series of tests in 1977, leading to a dress rehearsal of the final procedures in 1978. These activities will involve some necessary expansion in the reporting burden before September 1978, perhaps on the order of 100,000 to 300,000 man-hours.

It is possible that some pretest forms will become inactive as other forms become necessary for the census programs. We cannot, however, count on strategic timing to cope with established ceilings. The forms ceiling is already a problem, and the man-hour ceiling will be exceeded substantially in 1977, beginning within several months.

We recommend that an exception request be forwarded to OMB which asks that the Bureau's single-time programs required by title 13 or other law either be excluded entirely from the Commerce forms and burden ceilings or included in new and higher ceilings. The principal alternative would be to recommend to the Congress that one or more of the mandated periodic censuses be deleted from title 13; we assume that this alternative would be viewed by the Department and OMB as totally unacceptable, as it is to us.

RECURRING REPORTS

Economic Statistics Programs

In the Bureau's economic area, more than 60 percent of the recurring man-hour response burden is accounted for by surveys that are specifically required by law. Thus, the 5-percent reduction could require a 12.5-percent reduction in all other economic surveys of the Bureau, and the further 15-percent reduction could require a reduction of a third in the nonmandated economic surveys, unless discretionary and mandated surveys are given comparable consideration.

To proceed within the guidelines and ceilings for recurring reports and recurring man-hour burden, we would have to take the kinds of actions suggested below; choices among these possible actions have not been finalized, and all are obviously subject to serious repercussions:

1. Raise the cutoff from $250 to $500 for the compilation of exports shippers declarations

2. Convert all monthly and quarterly current industrial reports series to an annual basis

3. Propose the elimination or curtailment of those current economic surveys which represent a disproportionately large fraction of total man-hours, such as the Annual Survey of Manufacturers

4. Adjust current survey sizes or methodology in surveys, such as monthly retail sales and housing starts in order to achieve burden reduction, which would result in larger sampling errors and impact adversely on the quality of the data

The ramifications of these types of actions should be discussed initially with you and the Chief Economist, and would also require consultations with the Economic Statistics Subcommittee of the Economic Policy Board, OMB, and other Federal data users.

We are already planning for the conversion to an annual basis of the Quarterly Survey of Residential Alterations and Repairs. In order to meet the reduction objectives, however, we would be forced to terminate or weaken significantly the Bureau's important Current Industrial Reports series, the Annual Survey of Manufactures, the Annual Survey of Expenditures for Oil and Gas, the Monthly and Annual Retail Sales Survey, the Monthly Survey of Housing Starts, and the Monthly Sales, Inventories and Orders Survey. The latter surveys are part of the economic indicator series. We would also not be able to start several new surveys in the critical inventory measurement area.

Demographic Statistics Programs

Although none of the demographic area recurring surveys is specifically required by law, the data are used for programs required by law. A prime example of this is the expansion of the Current Population Survey (CPS) sample to meet the requirements of the Comprehensive Employment and Training Act of 1973 (CETA) to provide local area unemployment data. By inference, the CPS itself, which produces the official monthly national estimates of employment and unemployment, becomes required by law. Even if this inference is not supportable, it is quite clear that the CPS cannot be considered as a candidate for termination. It should also be noted that the expanded CPS is a critical and essential element in the compilation of improved statistics for minority groups as called for by P.L. 94-311 (H.R. Res. 92).

In addition, many of the CPS supplements produce data that are used in the administration of important Government programs. For example, the March CPS supplement is the major source of annual data on the number and characteristics of the poverty population, and personal and family income distribution by source and by characteristics of recipients.

In the demographic area, approxmately 20 percent of the recurring respondent burden is accounted for by programs financed primarily by the Census Bureau. Most of this burden is associated with the CPS and its associated supplements. The remaining 80 percent is associated with the reimbursable surveys conducted for other agencies. Thus, the 5-percent burden reduction, if applied to this area, would require a 25-percent reduction in the Bureau-sponsored portion of the program, and the further 15-percent reduction would require eliminating these programs altogether. Any alternative would require program and policy decisions by other Federal departments and agencies.

The reimbursable reports constitute an important part of the information base for programs administered by other agencies. For example, the Law Enforcement Assistance Administration (LEAA) sponsors national victimization surveys as well as surveys that collect data on State and Federal prisons. The data collected in these surveys are the primary source of LEAA statistics. The

Annual Housing Survey conducted for HUD and the whole spectrum of surveys conducted for the component parts of HEW are examples of major programs for which data are collected by the Census Bureau. If these surveys are not conducted by the Bureau, they are not likely to be eliminated. Rather, they will be conducted under other auspices, contrary to well-established practice that data collection in large-scale recurrent surveys of the Federal Government is assigned to the Census Bureau. The responsibility for conducting several of the demographic and economic surveys was assigned to the Bureau from other agencies precisely for the reason that they would be better done by the Bureau and more assuredly result in the publication of statistics available to the public for general use. Thus, from a Government-wide point of view, the reporting burden would merely be shifted from one agency to another and the utility of the results would be less certain.

ALTERNATIVES FOR THE DEPARTMENT

The inclusion of the reimbursable program report forms in our base puts Commerce and Census in the untenable position of attempting to assign priorities to both appropriated and reimbursable work, when the two areas are not comparable in terms of sponsorship and accountability. It is possible that, given time, we could negotiate reductions in respondent burden at the 5-percent target level with program sponsors. It should be noted, however, that changes in methodology for these surveys are normally extremely time consuming, and may involve substantial costs not covered by ongoing budget levels.

The reimbursable work, whether demographic or economic, should not be included in the Department's or the Bureau's ceilings, and we recommend that the Office of Management and Budget be asked to reverse its September 1, 1976, directive on this matter. During workshops that followed phase one of the reporting-reduction program, we also asked that reimbursable programs be included in the inventories of sponsoring agencies.

OTHER CONSIDERATIONS

We continue to be concerned about the application of certain phase one guidelines for report forms; specifically, those which generally prohibit the collection of subnational statistics and the conduct of surveys not wholly federally financed. These guidelines should be modified to incorporate the rationale in support of the current industrial surveys as provided by companies and trade associations during the September OMB hearing, and to reflect the extent to which subnational data serve specific Federal program purposes.

We also believe that OMB should be asked to consider modifying its criteria for reporting reductions to reflect well-established statistical standards for quality, frequency, and timeliness of data production. While the present criteria provide limited guidance with regard to response rates, there are several other considerations which should be incorporated; for example, the questions of whether data reliability in a monthly survey is commensurate with month-to-month changes in real values, and whether published data are available in a reasonable time after the reference period.

Finally, the Department's instructions for achieving reporting reductions call for ranking every report form as to relative importance on a scale of one to ten. This is not a manageable requirement in the short term for 230 report forms. Nor is it a desirable action, in that such judgments can only be made correctly for those limited forms whose main purpose is to serve the direct needs of the Department. For the vast bulk of the Bureau's work, which serves a wide range of needs outside of the Department it would seem most inappropriate for the Bureau to attempt such an evaluation.

We view secretarial-level consideration of the issues outlined above as fully in accord with the President's program. As a case in point, Secretary Richardson recently assisted us in a meeting with Secretary of the Treasury, William Simon, to request the inclusion of two small and simple questions on business tax forms. Mr. Simon agreed to our proposal, which will obviate reporting in the 1977 Economic Censuses by more than 3-1/2 million business firms and provide savings to the Government of several millions of dollars, as well as cost avoidance for business firms, many of which are small businesses.

Secretary Richardson's personal intervention was necessary to accomplish this specific goal of minimizing reporting burden. Secretary Simon's personal attention to the matter was required in view of a policy of the Internal Revenue Service not to place information requests on tax forms for nontax purposes. The Secretary of the Treasury agreed to our proposal because of the overall benefits to the Government, and thus made an exception to an internal policy aimed at minimizing reporting burden imposed by the Treasury Department.

The implications of the reporting-reduction program for the Department's statistical programs would appear to deserve comparable consideration, and, where appropriate, the recommendation of alternatives to OMB Director Lynn.

The Bureau is sympathetic to the objective of reducing respondent burden. Over the past four decades the Bureau of the Census had made very sizeable gains in the reduction of public reporting burden as a pioneer in the extensive use of probability samples and administrative records. On the other hand, the existing reporting-reduction program should not go unchallenged, since some alternative approaches could also serve the basic objectives. The agreement reached by Secretary Richardson and Secretary Simon illustrates, in our view, the importance of having some flexibility built into the reporting-reduction program, as well as the level at which tradeoff decisions should sometimes be made. The Bureau intends to move vigorously toward the objectives of the reduction program. At the same time, however, we want to be sure that the Department is fully apprised of the problems involved, and the implications of proposed actions.

The Congress, the executive branch, and the public have continuing data needs which are served directly by the Bureau's data-collection activities--activities which are widely recognized as being based on the efficiencies of long experience with the design of report forms, the use of administrative records, and accommodations to the problems and burdens of respondents. The OMB guidelines and the Department's implementing instructions assume in some instances and require in others that the relative importance of statistical report forms can or should be scaled. Whether this is true or not, the judgments involved cannot be made quickly and may not be resolvable on objective criteria. With regard to the Bureau's statistical programs, prior experience with proposed program curtailments has demonstrated conclusively that the Bureau should not make such judgments by itself. These decisions in the past have been confronted with the contrary views of Federal policymakers, the Congress, or other important users of statistics, with the result that program curtailment proposals have seldom been sustained.

We offer this point not to suggest a "hands off" attitude, but to caution against hasty decisions which could, in consequence, embarrass the Department. Moreover, the arbitrary dismantlement of parts of a data-delivery system which took many years to develop could have consequences far more detrimental and costly than would be balanced by the savings in reporting.

In view of the reporting milestones for this program as established by your office, and the urgent need for discussion and guidance, we should like to meet with you at your earliest convenience.

ACTION PLAN

I - Immediate (by end November)

Census must prepare an abstract with draft letter for Secretary Richardson's signature to OMB Director Lynn, which:

a. Requests a waiver of PMI#3 requirements with respect to all statutory censuses, including a Department commitment that the public reporting burden for each such upcoming census, will be the same or less than the burden for the last such census, e.g., the burden for the 1977 Economic Census shall not exceed that of the 1972 Economic Census; and

b. Request an early OMB policy decision and pronouncement that any public-use report which involves two Federal agencies---a sponsoring agency and a collection agency---shall be the sole responsibility under OMB Circular A-40 of the sponsoring agency.

II - Short Range (by mid-December)

Census must proceed with the categorization-evaluation of its public-use reports (per 9/9/76 AS/Administration memorandum) in order to achieve the DOC burden reduction goals, plus one percent (*) for all reports excepting those categorized within Ia., and b., above.

III - Intermediate Range (by end January 1977)

Census legal staff in conjunction with program officials should prepare for consideration by AS/Administration and AGC/Legislation a draft legislative proposal to amend the statutes in order to except from the pertinent provisions of the U.S. Code (and subsequently from OMB Circular A-40, future reduction efforts, etc.) any public-use report which:

-- is explicitly required by law (e.g., EDA's current Local Public Works program forms);

-- is implicitly mandated by law (e.g., forms necessary to conduct the legislated censuses); or

-- is expressly requested in writing by representatives of a substantial segment of any industry (or any other significant and discrete segment of society) and is either to be fully funded by the requestors or is deemed to be clearly beneficial to the general public.

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* The additional one percent would be a contingent reduction to be called on by the Department, as necessary, to offset any new mandatory reporting needs which might materialize within new DOC mission areas, e.g., NFPCA.

Implementation of the International Investment Survey Act of 1976 (P.L. 94-472)

Background: In 1973, the legal authority of BEA to conduct a comprehensive mandatory benchmark survey of U.S. direct investment abroad, was called into question, and plans to conduct the survey were subsequently cancelled.

BEA is the Government's primary source of data on the operations of foreign affiliates of U.S. multinational companies. While balance of payments data concerning financial flows between U.S. parents and their foreign affiliates are available on a quarterly basis, detailed financial and operating data are collected only in periodic benchmark surveys, the last of which covered the year 1966. (A limited voluntary survey was conducted for the year 1970.)

After it was determined that new legal authority would be required for BEA to conduct the benchmark survey as proposed, action was initiated to secure this authority. This resulted in the signing into law on October 11, 1976 of the International Investment Survey Act of 1976.

Issue: There are three actions to be implemented:

1. The responsibilities to be delegated to each agency by a Presidential Executive Order;

2. The extent of each agency's authority; and

3. The specific timing of the first new benchmark survey of U.S. direct investment abroad.

Analysis of Issues:

1. The first issue concerns how the responsibilities will be delegated to the various agencies by an Executive Order. The alternatives are: (1) to delegate all responsibilities to OMB, which would redelegate them to the agencies, or (2) to delegate responsibilities to the specific agencies in the Executive Order. The

Commerce Department supports the latter approach and expects to be assigned responsibilities for the surveys and studies of direct investment.

2. The second issue is the degree to which BEA and other Commerce units would have both the responsibility and the authority to carry out their duties. It has been proposed that an interagency group, most likely the Council on International Economic Policy, oversee the activities of all agencies under the Act. The question is whether this group is to act in an advisory and coordinating capacity, or if it is to be involved in detailed issues, with authority to make substantive or operational decisions. (The Act requires that outside expert advice be secured in carrying out the surveys and the studies, and it permits the establishment of a private sector advisory committee. This is not an issue, other than the possible time delay it may entail.)

3. The final issue is the question of the timing of the first new benchmark survey. Given that the present data base is 10 years old, and that there is a great need for updated information, we wish to proceed immediately in order that a survey may be conducted to cover 1976.

   Interagency meetings, under OMB chairmanship, are presently being held in an attempt to resolve these issues and implement the Act.

Schedule: The Executive Order should be issued as soon as possible, and the regulations necessary to bring BEA's international investment work under the scope of the Act should be issued in the first 2 months of 1977. The benchmark survey of outward direct investment would cover 1976, with a mailout of the survey forms to be made no later than the second calendar quarter of 1977. Publication of the final data would be about $2\frac{1}{2}$ years later.

Advisory Committee on GNP Statistics

Background:	Most of the primary data used by BEA to construct the GNP estimates are collected by other agencies. To meet a long-standing need to improve these underlying data for the GNP estimates, OMB established the Advisory Committee on GNP Statistics (Advisory Committee) to delineate a comprehensive five-year plan of priorities for improving the GNP data base. The Advisory Committee is scheduled to submit its report in the spring of 1977. The recommendations are expected to call for many data collection and data synthesis improvements throughout the Federal statistical system. These are likely to have a significant budgetary impact. A recommendation for BEA to prepare an additional revised quarterly GNP estimate 75 days after the close of the quarter is also anticipated.
Issue:	The basic issues include provision for the budgetary implications of the Committee's recommendations, and for a continuing follow-up of these recommendations by BEA, the OMB Statistical Policy Division (which oversees the Federal statistical system), and by the other Federal agencies which provide the underlying data.
Analysis of Issue:	BEA will give a high priority to implementing the Committee's recommendations. In this regard, BEA staff will work closely with the Statistical Policy Division, as well as provide technical advice and other assistance to the Federal agencies involved in the collection of the primary data.
Schedule:	The report will have its first Government-wide use in planning the FY 1979 budget request. Implementation of the Committee's recommendations will be spread over a multi-year period.

Congressional Oversight

Congressional Oversight

The Office of the Chief Economist was established by order of the Secretary of Commerce and therefore is not reviewed by congressional oversight.

Congressional Oversight

House

House Post Office and Civil Service Committee

Subcommittee on Census and Population

Senate

Senate Post Office and Civil Service Committee

Subcommittee on Census and Statistics

BUREAU OF ECONOMIC ANALYSIS

CONGRESSIONAL OVERSIGHT

The Senate Commerce Committee, the House International and Foreign Commerce Committee, and the Joint Economic Committee are the Congressional Committees which have responsibilities relevant to the Bureau of Economic Analysis (BEA) programs, in addition to the Congressional budget review committees which affect all Commerce operating units.

Outside Contacts

Other Major Outside Contacts

The Chief Economist for the Department of Commerce serves as Chairman of the Economic Advisory Board, consisting of 16 of the Nation's leading business economists representing industry, labor, academia, and consumers' groups. The Board meets approximately four times each year to advise the Secretary of Commerce on matters of economic policy.

The Chief Economist serves as the Department's principal liaison with the Council of Economic Advisers and represents the Department on various other top-level policy committees. He is a Fellow of the American Statistical Association, Chairman of the National Economists Club, former Chairman of the Conference on Research in Income and Wealth, former Vice President of the Southern Economic Association, and member of the American Economic Association and the National Association of Business Economists.

The author of 8 books and over 100 articles in various professional journals and magazines, the Chief Economist has developed a wide acquaintance among the Nation's prominent economists by virtue of his prior association with the Conference Board and the National Bureau of Economic Research. He has delivered 34 speeches and technical papers before private business, academic, and professional groups, and has served on governmental task forces dealing with economic policy matters, most recently with the National Center for Productivity and Quality of Working Life and an Economic Policy Board Advisory Panel on Potential GNP.

Advisory Committees to the Bureau of the Census

The Bureau has ten advisory committees which have been established to give advice and make recommendations to the Director.

	No. of Members
CAC of the American Economic Association	15
CAC of the American Marketing Association	15
CAC of the American Statistical Association	15
CAC on Agriculture Statistics	21
CAC on the Asian & Pacific Americans Population for the 1980 Census	21
CAC on the Black Population for the 1980 Census	21
CAC on Housing for the 1980 Census	18
CAC on Population Statistics	15
CAC on the Spanish Origin Population for the 1980 Census	21
CAC on State and Local Area Statistics	15

BEA ADVISORY COMMITTEES

Advisory Committee on GNP Statistics

A review of the data base underlying the GNP estimates was started in the spring of 1973 under the joint sponsorship of the Statistical Policy Division of the Office of Management and Budget and the Bureau of Economic Analysis. An Advisory Committee to the study is composed of nongovernmental experts on various aspects of the national income and product accounts.

The purpose of this "GNP Data Improvement Project" is to improve the reliability of the GNP estimates. BEA has pointed to the need to strengthen various data series produced by the Bureau of the Census, Bureau of Labor Statistics, Internal Revenue Service, Federal Trade Commission, Department of Agriculture and other Federal agencies which it processes into the GNP estimates. These data on retail sales, inventories, government outlays, payrolls, profits, prices, etc. typically are collected for programs other than GNP measurement and thus often have inadequacies for GNP estimation. They are used by BEA as the best available sources and least costly method of obtaining the necessary underlying information.

The report of the Advisory Committee is scheduled for completion in the spring of 1977. It will present recommendations for improving over a five-year period selected data series produced by the Federal Government which underlie the current quarterly, annual revisions, and quinquennial benchmark estimates of GNP.

The recommendations for strengthening these data will be ranked in order of importance. Recommendations also will be addressed to the timing schedule for releasing early and revised estimates of the GNP.

Advisory Committee on Balance of Payments Statistics Presentation

In view of the shift from fixed to floating exchange rates, and the emergence of extraordinary petroleum-related international trade and capital flows, a review of the balance of payments presentation was conducted by the Interagency Committee on Balance of Payments Statistics under the direction of the Office of Management and Budget (OMB). A private Advisory Committee on Balance of Payments Statistics Presentation was selected by OMB to participate in the review and to present a report on its findings and recommendations. The report of the private Advisory Committee, together with the Interagency Committee and OMB actions on the report, were published in the June 1976 Survey. The balance of payments presentation was revised to closely conform to the Advisory Committee's recommendations in the same issue of the Survey.