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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

1/ The subsequent discussion is based on an unpublished paper by A.J. Eckstein (1974) cited in Appendix C and portions of various other evaluations of this period.

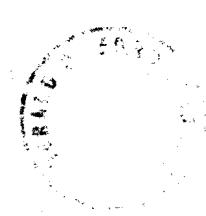
which overlooked the nature and impact of the collective bargaining cycle emerging at that time.

- 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.



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.

Incomes Policy Options:

- Reduction of payroll tax rate (social security).

Effects: 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.

- Tax rate reductions to offset progressivity of tax structure under inflationary conditions.

Effects: (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.

- Grants to State and local governments tied to sales tax reductions.

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

- "Incomes Policy."

Effects: 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.

- Guidelines with a guarantee. 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.

Effects: 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.

- Regulatory Review.

Effects: 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.

- Stricter enforcement of antitrust laws.

Effects: 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.

- Supply-related policies. 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.
- Manpower policies. 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.
- Improved collective bargaining. 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

| | <u>Acreege Limitations</u> | <u>Other Criteria</u> |
|--|--|---|
| 1850 } 1860 } | None | \$100 worth of agricultural products produced for home use or sale |
| 1870 } 1880 } 1890 } | 3 or more acres - less than 3 acres - | any agricultural operations \$500 worth of agricultural products sold |
| 1900 | None | agricultural operations requiring continuous services of at least one person |
| 1910 } 1920 } | 3 or more acres - less than 3 acres - | any agricultural operations \$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 - less than 3 acres - | any agricultural operations \$250 worth of agricultural products produced for home use or sale |
| 1945 | 3 or more acres - less than 3 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 \$250 worth of agricultural products produced for home use or sale |
| 1950 } 1954 } | 3 or more acres - less than 3 acres - | \$150 worth of agricultural products produced for home use or sale \$150 worth of agricultural products produced for sale |
| 1959 } 1964 } 1969 } | 10 or more acres - less than 10 acres - | \$50 worth of agricultural products produced for sale \$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.

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, approximately 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.

* 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.

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

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

- o 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.)

- o Original 1977 plan:

| | <u>Secretary's Reserve</u> | <u>Supplemental</u> |
|------------------------------------|----------------------------|---------------------|
| STATUS (October thru April)..... | \$421,000 | ... |
| STATUS (May thru September)..... | ... | \$309,000 |
| Quality of Life (BEA & Census).... | ... | 624,000 |

- o 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

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.

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.

MINORITY BUSINESS ENTERPRISE

- o Use of Contracts versus Grants
- o Status of Women in the Minority Business Program
- o Venture Capital Needs for Minority Business
- o Minority Entrepreneurship vis-a-vis Minority Economic Development
- o Extent of Administration's Commitment to Minority Business Development
- o Possible Obsolescence of Current Strategies for Minority Business Development



TITLE: Use of Contracts vs Grants

BACKGROUND: The great majority of organizations in OMBE's delivery network are now funded by contract. Federal procurement regulations, which govern the contract process, provide the OMBE staff with some degree of insulation from contractor pressures, although they contain many built-in time delays and their emphasis on competition creates some inequities to organizations which perform well. Grants, on the other hand, provide a more timely, more flexible and less cumbersome funding instrument, but they open the agency to more direct pressures from current and would-be grantees.

OMBE currently has no inherent grant authority, but uses for its grants that authority delegated by EDA under Title III of the Public Works and Economic Development Act of 1965. This delegation is limited in amount; once OMBE reaches the ceiling (\$36.5 in FY 1977), it cannot issue any more grants.

Although the matter is somewhat clouded by conflicting legal interpretations of exactly what must be done by grant vis-a-vis contract, it appears that there is no fundamental barrier to the use of grants if OMBE receives appropriate statutory sanction. Until 1972, both EDA and SBA funded through grants 33 of what are now OMBE's organizations, for performing virtually the same services they currently provide.

ISSUE: Should OMBE continue its present emphasis on contracts, or move to a greater use of grants?

ANALYSIS: There is a clear trade-off here between the insulating benefits of reliance on the Federal procurement system, and the administrative delays and red tape inherent in that system. Although many of the latter problems have been reduced through the joint efforts of DOC and OMBE,



those which remain are still formidable. The basic reasons for this is that OMBE is using the contract mechanism to accommodate the kind of requirement normally handled by grant. A switch to grants will significantly speed up the funding process, reduce frustrations and friction between OMBE and its organizations, and enable OMBE to exercise more direct control over its funded elements.

However, such a conversion would also entail a major increase in paperwork that would have to be handled by the OMBE staff, it would need new legislation (because of the EDA limitations), and it clearly would open the OMBE staff to pressures which now are deflected to Procurement.

SCHEDULE: Specific recommendations will be forthcoming in 4Q/76.

TITLE: Status of Women in the Minority Business Program

BACKGROUND: A U. S. Commission on Civil Rights report in May 1975 recommended that the President establish "a national policy declaring women as a group to be socially and economically disadvantaged and, therefore, eligible for existing business development assistance programs. ..."

With the single exception of the Treasury Department, which has declared that women-owned banks qualify under the minority bank deposit program, no federal agency now considers women, per se, as a minority group. OMB has never taken a position on the U. S. Civil Rights Commission recommendation, although it solicited comments on this last year from the agencies. At that time, both OMBE and SBA argued that women, per se, should not automatically be classified as a minority.

ISSUE: Should women, per se, be considered as "socially and economically disadvantaged" and, hence, as an integral part of OMBE's target universe?

ANALYSIS: OMBE agrees that women are subject to discrimination in business, particularly in the area of credit. (Apparently, recent legislation mandating equal credit treatment has eased, but by no means solved, this problem.) The extent and impact of the discrimination are indicated by the OMBE-funded Special Census of Women-Owned Business: in 1972, these firms represented only 4.6% of all U. S. firms, and three-tenths of one percent of all U. S. business receipts.

Nevertheless, OMBE's position now remains the same as it was last year:

-- Its Executive Order authority clearly is focused on the "traditional" minorities, e.g., Blacks, Hispanics, Asian Americans, American Indians, etc. Specific Administration and/or Congressional action would be needed to expand this authority so that it encompasses non-minority women.

-- If such an expansion were authorized, it would have to be accompanied by a major (perhaps twofold) increase in the OMBE budget. Otherwise, current resource constraints would drastically curtail the assistance services OMBE now offers to its "traditional" constituencies. Also, without

such an increase, these constituencies would regard inclusion of non-minority women as meaning a sharp diminution of federal efforts in their behalf.

-- Additionally, procedures would have to be worked out in advance to prevent major abuses, e.g., men transferring businesses to their wives and thus making them automatically eligible for preferential federal programs, such as set-aside contracts and low-interest low-collateral loans and guaranties.

The status of women received considerable attention during the recent campaign, and womens' rights groups continue to press hard for acknowledgement that women, in today's society, are inherently disadvantaged and therefore warrant preferential federal treatment.

Much pressure can be expected on the new Administration to make an early decision on this issue.

SCHEDULE: An option paper, with contingency plans and budgets, will be completed in January 1977.

TITLE: Venture Capital Needs for Minority Business

BACKGROUND: It is recognized by the Treasury Department, Congress, industry and the media that there is a current and growing capital shortage in the United States. This shortage is the result of many factors, including tax policy, alternate investment opportunities, economic conditions, inflation, etc. Within the past few years, the decreasing availability of capital has hit minority business particularly hard. Funds for expansion are tighter, and for start-ups even worse. Minority firms generally perceived as offering a greater risk factor, find it virtually impossible to obtain long-term capital funds; without a government guaranty, they often find it very difficult to obtain working capital funds as well.

Congressional testimony would indicate there are between 200 and 600 individual sources (family, corporate, private and public) of venture capital in the United States today, with total assets estimated at approximately \$2 billion. Various sources have defined the minority venture capital gap (to parity) from \$100 billion to \$200 billion, using current value dollars.

Minority business development is badly hindered when minority entrepreneurs cannot obtain funds for buildings and equipment, for acquisitions, for franchises, and for expansion of their businesses. Today, almost the only source of long term funds for such companies are the 83 MESBICs now operating in the U. S., with total private assets of \$46 million, and an SBA leverage capacity of roughly \$180 million. MESBICs are privately-owned, privately managed venture capital companies which make equity investments subordinated long-term loans, or guarantee such loans to businesses owned by disadvantaged persons.

However, the MESBIC program is hampered by tax considerations (which preclude or limit foundation and donation-type investments), organizational considerations (which preclude Subchapter S corporations and limited partnerships), and funding considerations (cost of money, time requirements).

ISSUES: A. To improve the overall effectiveness of the MESBIC program, possible changes include:

1. In the area of taxation:
 - a. Allow foundation investments
 - b. Provide for Subchapter S organization of MESBICs

c. Authorize investment for credit or early write-off of MESBIC investments

2. Expedite SBA processing of MESBIC applications and encourage further investment by private sources

3. Recognizing that, at the moment, MESBICs are the only venture capital game in town, place greater emphasis on this program at all levels, particularly at OMB and SBA.

4. Encourage legislation similar to S 2613 (to clearly define the cost to a MESBIC of federal monies)

B. More timely action by SBA on processing loan guaranty applications.

C. A significant expansion in the number of Farmers Home Administration loans and loan guarantees to minority firms.

D. Development of large pool of venture capital, oriented toward the acquisition by minority firms of companies of larger scale.

E. A program of economic incentives provided by additional guarantee programs and by revisions of the Internal Revenue Code.

SCHEDULE: Detailed OMBE position paper, 10/77.



TITLE: Minority Entrepreneurship vis-a-vis Minority Economic Development

BACKGROUND: OMBE's delivery of MESA services and, even more, the SPA and relevant USDA programs are oriented primarily toward individual entrepreneurs. DCL programs and some HNW efforts address job development through training and education, and HUD focuses on housing. IDA, although supportive of local economic development programs, concentrates its direct funding on "showcase" projects (e.g., industrial parks, shopping centers, other ventures with large job potentials) which often have little or no impact upon minority business, even though they may be located in areas with heavy minority population.

Thus, because of the differing mandates and missions of the agencies involved, there is no clear Federal focus on minority economic development. OMBE, alone and jointly with EDA, has conducted a few pilot R&D projects which bear out the potential of a broader program attack. It seems clear, from the interactive nature of economic development, that such a comprehensive approach is far more cost/effective in terms of its impact on the minority economy per dollar of Federal investment. As in other areas, the problem here is less one of additional dollars than it is of diffused, overlapping and, sometimes, inconsistent use of those Federal dollars already available.

ISSUE: To what extent can the minority enterprise program succeed in addressing the problems of minority entrepreneurship without concurrently addressing the broader problems of minority economic development? How can there mutually supportive efforts be tied together more effectively?

ANALYSIS: This area is under review by OMBE. Some of the attendant problems may be difficult to solve without consolidation of appropriate activities within a single organizational



structure. However, many of the problems can be addressed through less radical measures, such as tighter and mandatory coordination, use of the "lead agency" concept, etc.

SCHEDULE: OMB's analysis, together with recommendations, will be completed early in 1Q/77.





TITLE: Extent of Administration's Commitment to Minority Business Development

BACKGROUND: The Minority Enterprise Program was formally initiated in March 1969 through Executive Order. In October 1971, a second Executive Order reaffirmed the program priority and authorized program funding for OMBE. The President requested, and Congress appropriated, \$100 million for OMBE covering the second half of FY 1972 and all of FY 1973. Since then, the OMBE budget --- which is the only separately identifiable line item for minority business development in the Federal Budget --- has remained essentially static. Also, during the past four years, although there has been increasing Congressional, community and business interest in minority enterprise, virtually no public attention has been focused on this area at the White House level.

Leaders of the minority community have interpreted the decreasing availability of Federal dollars (because of inflationary impact upon level funding) as a sign that the national priority for minority enterprise is more apparent than real. Leaders of corporate industry and top Federal officials share this interpretation, which makes it difficult to generate their enthusiastic support; such support is of critical importance to the effective mobilization of their resources.

ISSUE: Does the new Administration plan to accord priority attention to the development of minority business? If so, what steps can be taken (with and without additional funding) to emphasize its commitment?

ANALYSIS: As noted, the problem is not only one of dollars. Depth of commitment is also measured publicly by the willingness of top Federal officials (President, Vice President, Secretary of Commerce, Administrator of SBA) to "jawbone" industry and financial leaders, Cabinet members, governors and mayors. Another indicator is the introduction and aggressive support of pertinent legislation.



SCHEDULE: Well before the end of 1Q/77, OMBE will prepare specific recommendations as to how the new Administration can demonstrate its commitment to the goals of the Minority Enterprise Program. These recommendations will encompass both funded and non-funded initiatives.





TITLE: Possible Obsolescence of Current Strategies for
Minority Business Development

BACKGROUND: OMBE has pursued essentially the same overall strategy for minority business development since the start of its funded program in January 1972. Basic elements of this strategy include:

-- Reliance upon funded intermediate organizations to "retail" management and technical assistance (M&TA) services to minority entrepreneurs.

--Reliance upon community-oriented, non-profit organizations as the chief vehicle to deliver these services.

--Provision of services to all serious applicants for assistance.

--An attempt to achieve equity in the racial orientation of funded organizations, resulting in many which (on a de facto basis) address mainly Black, Hispanic, Indian, Asian, etc., constituencies.

--An attempt to achieve equity in geographic location (in terms of minority population concentrations), resulting in the establishment of many, relatively small business development organizations around the country.

--A program "mix" oriented chiefly to the provision of loan packaging and general business counseling services to small minority firms.

Very substantial progress (see Appendix) has been achieved during the past four years by pursuing this strategy. However, OMBE believes that some of the above programmatic emphases have lost their relevance and these are now being realigned. OMBE also is seriously considering a programmatic shift that will affect some of the others. The forthcoming change in



Administration provides an opportunity to review the validity of those program shifts already under way, as well as those now being contemplated. All of the following issues have very strong programmatic and/or political implications.

ISSUE: (1) Reliance upon funded intermediate organizations to deliver services, rather than upon in-house staff.

ANALYSIS: OMBE believes it is considerably more cost-effective to buy its delivery services rather than seek to create a huge new bureaucracy to do the job. Also, it is doubtful whether the needed quality of business counselors can be obtained through the Civil Service recruitment system.

ISSUE: (2) Reliance upon community-oriented, non-profit organizations as the chief delivery vehicle, rather than upon for-profit firms or non-profits which are not community oriented.

ANALYSIS: It is difficult to staff a community-oriented non-profit with people skilled in such areas as marketing, business financing, acquisitions and mergers, etc. Without these skills, the organizations cannot address the needs of larger ventures or of smaller firms reaching for "second stage" development. This aspect must be weighed against the greater ability of a community-oriented organization to make initial contacts, screen clients, and deliver assistance to small businesses. OMBE is now reviewing this issue, assisted by a formal evaluation by a contractor of the M&TA capabilities of its business development organization staffs. Schedule for Resolution: 1Q/77

ISSUE: (3) Should OMBE try to serve all applicants for assistance or concentrate on those with a greater likelihood of business success and growth? Should OMBE's main goal be to increase the number of minority businesses or to increase the size and profitability of minority businesses?

ANALYSIS: The Federal Government has sought to make its business development services available to the widest spectrum



possible. SBA, for example, has adopted a liberal attitude in its Economic Opportunity loan and loan guaranty program; similarly, OMBE has expanded its MUBA capabilities to reach as wide a base of existing and potential entrepreneurs as possible. The result has been a sharp increase in the number of Federally-assisted new minority businesses.

However, continuing and high-quality assistance is vital if these new ventures are to survive, let alone prosper. Within current resources, neither OMBE nor SBA can effectively continue to generate the same number of viable new ventures and at the same time assist existing firms to expand. The conflict is one between long-range program impact and short-term program equity, i.e., between quality and numbers. To some extent, OMBE's recent decision to use gross receipts as the primary measure of minority business progress automatically means a de-emphasis on numbers and a new stress on growth. Clearly, though, OMBE cannot abandon service to firms simply because they are small. Schedule for Resolution: OMBE will propose criteria in 1Q/77 for joint SBA/OMBE use, governing intake of new clients. This will require highest levels of Commerce/SBA review and, probably, advance explanation to the Congress.

ISSUE: (4) Single racial orientation of many OMBE-funded organizations.

ANALYSIS: The 1975 House Appropriations Committee Investigative Report accused OMBE of encouraging racial polarization because it funded organizations which considered themselves essentially as "black" or "brown" or "red" etc. In fact, OMBE did initially fund some organizations because they had a track record of dealing effectively with a particular minority group. At the time this happened (1972 and 1973), there quite literally was no other feasible way of reaching these constituencies. However, the growing sophistication of minority business has eliminated the need to rely on such organizations. Except where geographic constraints create a de facto single minority group (e.g., parts of the South and Southwest), this problem no longer exists.

ISSUE: (5) Proliferation of funded organizations to meet geographic/minority population needs has resulted (because of budgetary constraints) in the funding of some contractors at a marginally effective level. Also, in some cities, OMBE funds a number of different



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organizations directed with delivering the same basic service. Consolidation of these smaller activities into a single, large and well-staffed "one-stop center" seems to provide a more efficient and effective use of federal resources. However, this process generates heated opposition from the activities affected, and is a very sensitive matter on the Hill. OMBE's FY 1977 Funding Plans call for an acceleration of these consolidations. Should these plans be continued, modified, or halted?

ANALYSIS: Because of the long administrative and procurement lead time involved in competitive contracting, OMBE must decide whether or not to consolidate a particular set of requirements not less than four months in advance. (Ex: A contract with a start date of June 1 must have a Request for Proposal completed by February 1.)
Schedule for Resolution: Detailed back-up paper presenting an analysis of options will be completed in 4Q/76.

ISSUE: (6) OMBE's current program "mix" emphasizes the kind of front-end assistance (business feasibility, loan packaging) which primarily is of benefit to new starts and modest expansions. A relatively small but growing number of firms request sophisticated assistance from OMBE and SBA, which both agencies often are unable to provide. SBA, once having guaranteed or made a loan, is virtually incapable of further rendering appreciable technical assistance in any depth; OMBE's organization (excepting its consultant program) similarly are not equipped for continued assistance in depth. Thus, if a concerted effort is to be made to significantly expand the size, profitability and industrial diversity of minority businesses, some basic realignment of the program "mix" will be required.

ANALYSIS: OMBE is now reviewing this issue, assisted by a number of formal program evaluations currently under contract (e.g., consultant service program, MTA capabilities of business development organizations, one-stop centers, etc.). Schedule for Resolution: 1Q/77.



PROGRAM ACCOMPLISHMENTS

| <u>OMBE Funded Organization Performance</u> | <u>FY 1972</u> | <u>FY 1973</u> | <u>FY 1974</u> | <u>FY 1975</u> | <u>FY 1976</u> |
|--|----------------|----------------|----------------|----------------|----------------|
| Number of Clients Served | 15,637 | 20,600 | 24,683 | 33,137 | 43,820 |
| Number of Clients Receiving Mgmt & Technical Assistance | Unk | 12,362 | 14,010 | 30,746 | 42,301 |
| Number of Contracts Awarded | Unk | 1,400 | 4,824 | 5,708 | 7,121 |
| Dollar Value of Contracts | Unk | \$126.6M | \$252.6M | \$433.6M | \$486.2M |
| Number of Financed Packages Approved | 1,540 | 3,225 | 4,597 | 5,008 | 5,689 |
| Dollar Value of Financed Packages Approved | \$83M | \$158.3M | \$200.8M | \$244.8M | \$329M |
| Gross Business Receipts** | Unk | Unk | Unk | \$3.76B | \$4.96B* |

* = Estimate

** = Not tabulated until FY 75

| | <u>1969</u> | <u>1972</u> | <u>1973</u> | <u>1975</u> | <u>1977 (Estimates)</u> |
|---|-------------|-------------|-------------|-------------|-------------------------|
| Corporate Purchases | Unk | \$86M | \$237M | \$514M | \$1B |
| Total Minority Business Gross Receipts | \$10.6B | \$16.6B | Unk | Unk | \$32.8B |



REGIONAL ECONOMIC COORDINATION

- o Need for Appointment of Federal Cochairmen
- o Designation of New Commissions
- o Funding Levels
- o Program Tools; and
- o Excess Property Phase-out

Need for Appointment of Federal Cochairmen

Background: The Federal member of a Regional Commission is the Federal Cochairman, appointed by the President with the advice and consent of the United States Senate (42 U.S.C. 3182(b)). The positions have been established at Executive Level IV.

As of November 1, 1976, there was one vacancy--the Federal Cochairman for the Southwest Border Economic Development Region which was designated on October 23, 1976.

Issue: The appointment of a Federal Cochairman is essential to the functioning of a regional commission. Under the statute "Decisions by a regional commission shall require the affirmative vote of the Federal Cochairman and of a majority. . . of the State Members" (42 U.S.C. 3182(c)). Thus, a regional commission cannot act unless there is a Federal Cochairman.

Analysis: The statute does provide for an Alternate to the Federal Cochairman (42 U.S.C. 3182(d)) who may vote "in the absence, death, disability, removal, or resignation" of the Federal Cochairman. However, the Federal Cochairman's Alternate, a GS-18, is also appointed by the President by and with the advice and consent of the Senate. The procedures for naming an Alternate or "Acting Federal Cochairman" are the same as naming the Federal Cochairman himself. No Alternates to the Federal Cochairmen, however, have been appointed.

Schedule: Appointment of Federal Cochairmen should be made as early as possible. Commissions meet at least four times a year and a quarterly meeting of each will be held in the first quarter of the calendar year or soon thereafter.

Designation of New Commissions

Background: The Secretary of Commerce is authorized to designate multistate "economic development regions" upon a finding that certain conditions have been met. Seven such regions have been designated and regional commissions organized and an eighth, Southwest Border, was designated on October 23, 1976. A commission has not yet been organized for the Border region, but preliminary planning work is going forward.

Other requests from State Governors for designation are pending in the Department or appear to be in the immediate offing. A request to designate California is under review.* An earlier request from Puerto Rico and the Virgin Islands is awaiting additional information from the two Governors.

The Governors of Iowa, Illinois, Indiana, and Ohio have written to the Secretary announcing their intent to submit an application for designation. The Governors of Pennsylvania, New York, New Jersey, Maryland and Delaware are actively considering applying for designation. Alaska may also ask for designation.

If all of the requests are actually made and acted upon favorably, regional commission coverage of the Nation will be almost complete. This, in turn, will present the Secretary of Commerce and the Administration with an excellent opportunity to focus regional planning and program coordination to improve the effectiveness of Federal and State programs; to insure that national policies and programs have the desired effect in the various regions of the Nation; and to develop Federal-State mechanisms to serve as major contributors to national development policies.

The Title V regional commissions are unique among Federal-State regional organizations and configurations in that they are organized at the initiative of the Governors of the States concerned and they represent groupings of States which perceive the need to work together to solve common regional problems.

*While the statute requires economic development regions to be composed of all or part of two or more contiguous states, the requirement does not apply to Alaska, Hawaii, California, and Texas.

Issue: The Federal-State and Federal interagency relationships of the regional commission program in its possible "wall-to-wall" form pose questions regarding the administrative and organizational placement of the program. The matter of organizational locus and administrative responsibility and authority are issues that must be addressed. The same is also true in respect to managing Federal/State relationships.

Analysis: From its inception, coordination of the program's Federal activities has been the responsibility of the Secretary of Commerce. Whether this is the best possible placement has not been seriously questioned, although a 1970 study of the program by A.D. Little recommended transferring the program to the Executive Office of the President, primarily because of the interagency coordinating role of the Commissions. The Senate Public Works Committee has recently stated that it ". . . believes that the regional and intergovernmental role of the Commissions argues against their placement under one particular department."

Candor and an honest sense of "turf" perquisites suggest that little headway is possible in interagency coordination under the current "lead agency" concept. When to this is added a less than modest funding level, the aggregate leverage effect on other agencies in behalf of regional objectives has been small. With the Nation fully regionalized, however, it may be that enlarged authority and/or different organizational placement of the regional program may be warranted.

Schedule: There is no immediate legislative mandate for action on this front; the basic Title V authority has recently been extended through September 30, 1979. However, there is evidence that the States in the Title V program are actively interested in substantive program improvements; the Senate and House Public Works Committees will probably undertake a major review of the economic development program in the coming Congress; and the legislation extending the basic authority (Public Law 94-487) authorizes and requests the President to ". . . call a White House Conference on Balanced National Growth and Economic Development within one year of the date of enactment of this Act (October 12, 1976) in order to develop recommendations for further action toward balanced national growth and economic development. . . ." If this provision is to be implemented, planning should be initiated in the first quarter of the calendar year.

Funding Levels

Background: For the past several years the budget request submitted to the Congress for the regional commission program has been approximately \$40,000,000, regardless of changes in the size or number of commissions, changes in the basic statutory authority, or the amount actually appropriated by the Congress for the previous or current year.

The fiscal year 1977 appropriation is \$63,500,000, an increase of 50 percent over the Administration's request of \$42,200,000. The appropriation is just under 25 percent of the \$255,000,000 authorized by the Congress for the fiscal year (\$5,000,000 for new commissions and \$250,000,000 for the mature commissions). (See following Table).

State members and Congressional supporters of the regional commissions have urged higher levels of funding to provide more effective commission programs. For example, the Senate Public Works Committee in its Report No. 94-278 stated on July 14, 1975, that:

"The Title V Commissions should receive substantially larger Federal appropriations to carry out the responsibilities, both old and new, which the Congress has given them."

Issue: Should the President's Title V Regional Commission budget requests be held to the approximately \$42 million of the last few years or should the Secretary of Commerce and the Administration support funding levels at the 1977 appropriation level, or higher?

Analysis: Title V regional commission funding is approximately \$1.00 per capita. This compares to a per capita appropriation of \$1.54 in fiscal year 1971. Although there has been an absolute increase in total appropriations for the program over this period, the increase in number of commissions, size of regions, and population growth have resulted in the per capita decline. Inflation has also eroded the funding value.

Establishment of new regions and commissions will require additional funding. However, under the statute new commissions during the first two full fiscal years of their existence must share an aggregate authorization of \$5,000,000; thereafter they can compete for their share of the \$250,000,000 authorized for

the mature commissions. With \$1,000,000 appropriated for new commissions in fiscal year 1977, the maximum increase for new commissions for fiscal years 1978 and 1979 is \$4,000,000, regardless of how many new commissions are actually organized.

Schedule: The President's Budget for fiscal year 1978 will be submitted to the Congress before the end of January 1977. A revised budget will probably be submitted by mid-February.

TITLE V
 Authorizations, Appropriations, Requests, Obligations
 FY 1966 - FY 1977 (000's)

| <u>Fiscal Year</u> | <u>Authorization</u> | <u>Budget Request</u> | <u>Appropriation</u> | <u>Obligations</u> |
|--------------------|------------------------|-----------------------|----------------------|----------------------|
| 1966 | \$ 15,000 | \$ 8,400 | \$ 5,450 | \$ 953 |
| 1967 | 15,000 | 6,630 | 4,000 | 3,702 |
| 1968 | 40,000 | 6,950 | 7,334 | 7,036 |
| 1969 | 65,000 | 29,100 | 19,297 | 18,936 |
| 1970 | [255,000 ^{1/} | 23,290 | 23,305 | 23,298 |
| 1971 | [| 45,000 | 39,000 | 36,505 |
| 1972 | [325,500 ^{1/} | 39,054 | 39,054 | 37,320 |
| 1973 | [| 39,072 ^{4/} | 41,672 | 42,528 |
| 1974 | 95,000 | 0 ^{4/} | 42,000 | 40,935 |
| 1975 | 150,000 ^{2/} | 35,008 ^{5/} | 38,517 | 39,954 |
| 1976 | 205,000 ^{3/} | 42,081 | 64,068 | 60,824 |
| Transition Quarter | 51,250 ^{3/} | 10,520 | 15,760 | 18,465 ^{6/} |
| 1977 | 255,000 ^{2/} | 42,200 | 63,500 | 68,704 ^{6/} |

1/ A total of \$255,000,000 was authorized for fiscal years 1970 and 1971 and \$325,000,000 for fiscal years 1972 and 1973.

2/ Includes \$5,000,000 for new commissions.

3/ Includes \$1,250,000 for new commissions.

4/ Amended request submitted for a total of \$22,000,000.

5/ Amended request submitted for a total of \$42,013,000.

6/ Estimate.

Program Tools

Background: Two basic program tools are available to Title V Regional Commissions: technical assistance and supplemental grants.

Technical assistance is a broad term covering such activities as planning, investigations, research demonstration projects and training programs. These activities, authorized by section 505(a)(2) of the Act (42 U.S.C. 3185(a)(2)), are carried out by the commissions themselves through their own staffs, grants to States and other public entities, and contracts with private organizations.

Technical assistance also includes the new demonstration project authorities added to the Act by Public Law 94-188 in the areas of energy impact, transportation, health and nutrition, and education. The latter two authorities are to be carried out through the Secretary of Health, Education, and Welfare.

Commission supplemental grants enable States and local entities to participate in Federal grant-in-aid programs for which the State or local entity lacks financial resources to provide its full matching share. If the commission approves a supplemental grant, the Federal Cochairman transfers the funds to the basic grant agency to be handled as a part of the basic grant to the applicant. In addition, if the basic Federal agency certifies that the project would be carried out except for the fact that the Federal agency lacks funds, the commission may provide all or part of the basic agency funding. However, in all supplemental grants, the applicant must provide at least 20 percent of the project cost. Supplemental grants have been for public works "brick and mortar" types of projects.

Issues: Issues are the relative emphasis to be placed on supplemental grants versus technical assistance and the use of the new demonstration grant authorities provided by Public Law 94-188. Supplemental grants are frequently regarded in Washington as "local" in impact or "non-regional," while technical assistance is generally seen as more "regional" in impact. However, once a comprehensive plan is approved by the Secretary, the Commission itself determines, in terms of its perception of its needs, the relative share of its resources to be devoted to technical assistance and to supplemental grants. A key question: Should the Department attempt a larger role in influencing such decisions or should full discretion remain with the Governors and the Federal Cochairman?

Another question relates to the use of the new authority and the extent to which a commission may use its preexisting authority for energy impact, transportation, health and education projects rather than the new Public Law 94-188 authority. For example, in health and education the Secretary of Health, Education, and Welfare now has authority to approve or disapprove on the basis of conformity with HEW laws projects developed by the regional commissions. Question: Is regional development furthered by vesting such approval authority in the Department of Health, Education, and Welfare?

Analysis: Technical assistance authority is available to a regional commission from the outset; supplemental grant assistance is available only after the commission's comprehensive long-range economic development plan has been established (approved by the Secretary).

The two newer commissions, Old West and Pacific Northwest, do not yet have their plans approved by the Secretary. As a result they do not provide supplemental grants. The five older commissions, Coastal Plains, Four Corners, New England, Ozarks, and Upper Great Lakes, have plans approved although they are in the process of revising and updating their plans. Such a revised Ozarks plan was approved by the Secretary on June 21, 1976. New England has chosen as a matter of policy to do only technical assistance projects rather than supplemental grants.

During the period of fiscal year 1971 through 1975, the Title V regional commissions participated in 1115 supplemental grants for a total of \$92,025,333. In terms of number of projects, 28 percent were with the Department of Agriculture, 25 percent with the Department of Health, Education, and Welfare, and 20 percent with the Economic Development Administration. During fiscal year 1976, including the transition quarter, \$22,957,000 were devoted to supplemental grants, 30 percent of the funds obligated during the period.

Excess Property Program Phase-Out

Background: In late 1974 the Congress authorized the Federal Cochairmen to acquire excess Federal personal property (but not real property) from the General Services Administration for economic development purposes and to dispose of it by loan or transfer of title to a number of recipients identified in the statute. The program got underway in February 1975 and is being terminated by Public Law 94-519, approved October 17, 1976.

Issues: Can the phase-out of the program be accomplished during the coming year while continuing to acquire and dispose of excess property beyond the administratively established cut-off date of January 31, 1977?

Analysis: The regional excess property program proved to be very popular and during fiscal year 1976 more than \$150,000,000 of excess property (original acquisition value) was acquired by the Federal Cochairmen and disposed of to State or local applicants.

Since the original enactment of the Federal Property and Administrative Services Act of 1949, various amendments led to the proliferation of agencies disposing of various types of Federal personal property. Public Law 94-519 enacted at the end of the last Congress, revised these programs and generally consolidated responsibility for disposal programs in GSA. Among other things, Public Law 94-519 repealed the regional excess property program effective October 1977.

During the summer of 1976 the Office of Regional Economic Coordination had a management review made of the program. This review confirmed that the program had grown to significant proportions and that, when Public Law 94-519 was enacted, closing out the program would be a major task. After discussing close-out problems with the Federal Cochairmen, it was decided that January 31, 1977, should be established as the final date for the submission of transfer orders to GSA for excess property and that no such property would be "frozen" after that date. This schedule is intended to permit each Federal Cochairman to terminate his excess property program in an orderly manner before October 1977 when the legal authority for the program ends.

There have been some pressures for continuing the program beyond January 31. They can be expected to mount during the first half of 1977.

Schedule: The Federal Cochairmen will be responsible for closing out their respective programs during the year ahead. The following schedule has been set for the process. Because of the number and volume of transactions, this effort will be a major user of resources.

PHASING OUT SCHEDULE

EXCESS PROPERTY

- a. That there be no submission of transfer orders (SF-122's) to GSA for approval subsequent to January 31, 1977;
- b. That the freezing of excess property be terminated on January 31, 1977;
- c. That recipients pick up or receive excess property and provide receipts to the Commission prior to April 30, 1977;
- d. That prior to July 1, 1977, each Federal Cochairman shall compile accurate records accounting for all excess property received by each recipient together with signed receipts therefor;
- e. That prior to June 30, 1977, each Federal Cochairman shall provide a report which shall show how he has provided for the inventorying and accounting for all excess property which he has transferred or lent to recipients.
- f. That prior to September 1, 1977, each Federal Cochairman shall execute transfers of title for excess property currently on loan or return such property to GSA; and
- g. That a final report shall be submitted to the Secretary by the Federal Cochairman on or before November 1, 1977.

