The original documents are located in Box 10, folder "Economy - General (3)" of the Philip Buchen Files at the Gerald R. Ford Presidential Library.

7
Seidman

THE WHITE HOUSE

WASHINGTON

December 2, 1975

MEMORANDUM FOR: JIM CONNOR

THROUGH: PHIL BUCHEN P.

FROM: DUDLEY CHAPMAN DC

SUBJECT: L. William Seidman's memo of 11/26/75 re Review of Government Statistics on Employment and Unemployment

A Presidentially appointed committee such as proposed in Options 1A, 2A, and 2B would probably be subject to the Federal Advisory Committee Act (86 Stat. 770, 5 U.S.C. App. I), since it would include nongovernment members and have as its purpose the giving of advice and recommendations to the President. This would mean that meetings of the Committee would have to be announced 30 days in advance through publication in the Federal Register, and be open to the public. A number of other formalities would also be required.

These requirements could be avoided if the Presidential Committee were composed entirely of government employees. Members of the Committee could consult with outside experts, and employ them, without triggering the Advisory Committee Act, so long as such contacts are on an individual rather than on a group basis.

THE WHITE HOUSE

WASHINGTON

December 2, 1975

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THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: November 28, 1975 Time:

FOR ACTION: Phil Buchen
Max Friedersdorf
Jack Marsh
Bob Hartmann

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Tuesday, December 2 Time: 3 P.M.

SUBJECT:

L. William Seidman's memo of 11/26/75
re Review of Government Statistics on
Employment and Unemployment

ACTION REQUESTED:

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

___ Draft Remarks

REMARKS:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James E. Connor
For the President

THE WHITE HOUSE

WASHINGTON

November 26, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Review of Government Statistics on Employment and Unemployment

The last formal review of the Federal Government's employment and unemployment statistics program by nongovernment experts was conducted by the President's Committee to Appraise Employment and Unemployment Statistics (The "Gordon Committee"), appointed by President Kennedy in 1961. The Committee's report, Measuring Employment and Unemployment, (September 1962) made several recommendations which were subsequently incorporated into the procedures used by the Bureau of Labor Statistics and the Bureau of the Census. The last recommendation of the Gordon Committee was that a similar formal review of employment and unemployment statistics be conducted inapproximately ten years.

In the intervening years since the Gordon Committee, experience with the various statistical series has revealed certain strengths and weaknesses. At the same time there have been important developments in the economy which have affected the Federal Government's data requirements. The labor force has undergone substantial structural change associated with the large increase in the proportion of women and teenagers. The expansion of social programs that substantially reduce the loss of income from unemployment may also have affected the nature and duration of unemployment. Because these developments have a bearing on the interpretation of statistics on unemployment they warrant a new look at definitions and methodology. Moreover, unemployment statistics are increasingly used in determining the allocation of Federal aid to State and local governments.

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

Proposal

These considerations prompted the Economic Policy Board's Subcommittee on Economic Statistics to recommend the establishment early in 1976 of a committee of nongovernmental experts to evaluate the Federal Government's definitions, procedures, and methodologies concerning data related to employment and unemployment. The proposed committee would report its findings and recommendations during the first quarter of 1977. The committee would be composed of from six to ten individuals. A private research organization would conduct the basis analysis for the committee. The estimated cost of the review is approximately $250,000.

Issue 1: Should a committee to review employment and unemployment statistics be established?

Option A: Establish a committee to conduct a review of the Federal Government's unemployment and employment statistics.

Advantages:

- It has been nearly 15 years since the last full scale review of employment statistics. In the intervening years the economy has undergone many structural changes. Unemployment influences and is influenced by an expanded range of Government expenditure programs.

- Appropriate changes in definition and methodology may be easier to implement if they come from a nongovernment committee than if they originate from the Department of Labor.

- The current Commissioner of the Bureau of Labor Statistics in his confirmation hearings made a commitment, in response to a Senate Labor and Public Welfare Committee request, that such a review be undertaken.

Option B: Do <u>not</u> establish a committee to review the Federal Government's unemployment and employment statistics.

<u>Advantages</u>:

- o The establishment of such a committee at this time may appear as a self-serving political act to "explain away" the unemployment of the past year.

- o The same expert advice can be obtained on an ad hoc basis without establishment of a committee.

<u>Recommendation</u>

The EPB Executive Committee recommends that you establish a committee to conduct a review of the Federal Government's unemployment and employment statistics.

Approve ________ Disapprove ________

If you approve the establishment of a committee to review unemployment and employment statistics consideration of the appointment and visibility of such a committee requires your decision.

<u>Issue 2</u>: <u>Should any review of employment and unemployment statistics be conducted by a Presidentially appointed committee or contracted out to a private research organization to conduct the review and to appoint a committee of nongovernmental experts to evaluate their research findings and recommendations?</u>

In either case a private research organization would conduct background studies for review.

Option A: Establish a Presidentially appointed committee to conduct the review.

<u>Advantages</u>:

- o A Presidentially appointed committee would have greater stature and adoption of its recommendations would likely encounter less resistance from opponents of such changes.

- o A Presidentially appointed committee shows the President's direct interest in employment and unemployment conditions by taking steps to improve our data.

Option B: Contract with a private research organization to conduct the review and to appoint a committee of non-governmental experts to evaluate their research findings and recommendations.

Advantages:

- o Review by a private research organization would be less likely to arouse adverse political reaction as self-serving than if the review were conducted by a Presidential committee.
- o Since the report of a Presidential committee will be issued after January 1977, it may be less well received if there is a change of administration.

Recommendation

The EPB Executive Committee recommends that you establish a Presidentially appointed committee to conduct the review.

Approve __________ Disapprove __________

If you decide to establish a Presidential committee, Secretary Dunlop and Burton Malkiel, Chairman of the EPB Subcommittee on Economic Statistics, will prepare a list of suggested committee members including a Chairman and a draft Presidential statement announcing formation of the Committee.

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: February 12, 1976 Time:

FOR ACTION: cc (for information):

Phil Buchen
Jim Cannon
Max Friedersdorf
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Friday, February 13, 1976 Time: 3 P.M.

SUBJECT:

Seidman/Scowcroft memo 2/11/76 re
U.S. Participation in the Third International
Coffee Agreement

ACTION REQUESTED:

___ For Necessary Action

___ Prepare Agenda and Brief

_X_ For Your Comments

_X_ For Your Recommendations

___ Draft Reply

___ Draft Remarks

REMARKS:

No objection -- Ken Lazarus 2/12/76

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

[redacted]
James E. Connor
For the President

THE WHITE HOUSE

WASHINGTON

February 11, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS
BRENT SCOWCROFT BS

SUBJECT: U.S. Participation in the Third International Coffee Agreement

Last November negotiations were concluded on a Third International Coffee Agreement (ICA). The Economic Policy Board and the NSC have reviewed the new agreement. This memorandum outlines the principal provisions of the new Agreement, provides an analysis of the economic impact of the Agreement, reviews briefly certain foreign policy considerations, discusses the potential domestic political impact, and seeks your decision on an EPB/NSC recommendation that the U.S. sign the new Agreement.

The United States signed the first ICA in 1962. In 1968 we joined the second agreement, which expires on September 30 of this year.

In negotiating a third agreement, you instructed the U.S. negotiators to obtain new consumer safeguards to assure that a new agreement would encourage new production, would not hold up current high prices, and would provide incentives for producers to make coffee available to the market. A copy of the negotiating instructions is attached at Tab A.

Principal Provisions of the New Coffee Agreement

The Third International Coffee Agreement contains the following principal provisions:

- The Agreement is for six years, but each member must signify its intention of remaining in the agreement after three years.
- The Agreement contains no general or specific price objectives.

- o The Agreement utilizes export quotas as the major market stabilization device. When quotas are triggered, a global coffee quota and price range are set annually by the Coffee Council. The U.S. has sufficient voting strength that we need the support of only one other country to block the setting of any quota or price range adverse to the interests of consumers.

- o The global quota is divided among producer countries based on export performance prior to the first imposition of quotas, and on the relative share of world stocks held by each country. This is a more flexible system than that used in the old agreements.

- o The Agreement will start with quotas suspended. Quotas will be imposed if for 20 consecutive market days the price drops 15 percent below the previous year's average price or below 63 cents a pound (the average price for 1975). When quotas are in effect, they will be suspended if the price rises 15 percent over the previous year's average or 15 percent above the ceiling of the price range in effect at the time.

- o When quotas are in effect, countries which cannot ship their quotas are obliged to notify the Council at least six months before the end of the coffee year, so that the shares of other countries can be increased to cover the deficit.

Analysis of Economic Impact

Because of a severe Brazilian frost in 1975 and, to a lesser degree, political disruptions in major African producing countries, prices will be so high over the next three years that our analysis indicates quotas will not be triggered. Loss of 10 percent of the Columbian crop and the recent Guatemala earthquake have reinforced this prospect. In the longer run, even when real prices begin to decline, the effect of inflation is likely to keep prices in current dollars from dropping in such a way as to trigger quotas at unreasonable price levels. In short, it does not appear that the new ICA will work in such a way as to sustain prices above long-term market levels. During the first 3 years of the Agreement, it is estimated that the Agreement will result in no added costs to United States consumers. Although the analysis shows no price effect other than stabilization around market trend beyond that period, the U.S. will have ample opportunity to review its position before extending its participation.

Foreign Policy Considerations

Forty-three developing countries are members of the ICA (see Tab B). Coffee is the most important agricultural export of the developing countries. U.S. refusal to join the new ICA, which incorporates many of our own suggestions for consumer safeguards, would meet with harsh reaction from many moderate developing countries which are members of the ICA, such as Brazil, Columbia, the Ivory Coast, and several Central American countries. The U.S. initiatives begun at the Seventh Special Session of the United Nations, and now underway in the producer-consumer dialogue, would be undercut if we withdrew from the one commodity agreement with which we have had a long association.

Domestic Political Impact

A decision to join the new ICA at a time when coffee prices are at historic highs may meet with criticism from some consumer groups and possibly in the Congress. The House Agriculture Committee has scheduled hearings on current high coffee prices for March 16-18, with primary focus on domestic coffee industry margins.

The EPB and the NSC recommend that if the U.S. joins the Agreement, we take the following steps:

- An announcement of our intention to join should be made quickly, so that any adverse domestic political impact has time to dissipate.

- The announcement should stress the following points:

  - We believe this Agreement fairly serves the interests of producers and consumers.

  - The Agreement contains no specific price objectives, and will not operate in such a way as to sustain coffee prices above long-term market trends.

  - We will seek implementing legislation for only 3 years, and the U.S. will thus have an opportunity to review the long-term impact of the Agreement on coffee prices before committing itself for the additional three years.

  - The Agreement will begin with quotas suspended assuring that during the current shortage period the Agreement will not work to maintain high prices.

-- Once quotas do come into effect, they will automatically be suspended in the event of future periods of shortage and high prices.

-- The Agreement will encourage producers to replant damaged trees and move available coffee to the market, thereby increasing supply.

-- It should be made clear that current high coffee prices are the result of a major frost in Brazil last July that destroyed 70 percent of this year's crop. While many coffee trees will recover, at least half a billion trees will have to be replaced for Brazil to resume normal production.

o Further congressional consultations should be held. These would be completed before February 20, when Secretary Kissinger, who will then be in Brazil, would like to announce your decision that the U.S. will sign the Agreement.

o Senate ratification should be sought for the life of the Agreement, but implementing legislation should only be requested through 1979. This procedure will make clear to Congress our intent to return for legislation before renewing our membership in 1979. At that time we will have a clearer idea of how the market is recovering from the 1975 Brazilian frost, and of future price trends.

Recommendation

The EPB/NSC recommends that the U.S. sign the new International Coffee Agreement.

Approve __________ Disapprove __________

The EPB/NSC recommends that the announcement be made promptly and contain the points outlined above.

Approve __________ Disapprove __________

Tab A

NEGOTIATING INSTRUCTIONS FOR:

A NEW INTERNATIONAL COFFEE AGREEMENT

You are authorized to negotiate within the conceptual framework of the existing agreement; that is to say, a system which includes as its main instrument export quotas, subject to the following principles.

You are instructed to seek improvements in the traditional agreement which will provide more substantial protection of consumer interests, among others the upside risk. One important mechanism for improving the agreement in this manner is the introduction of incentives to put any accumulated stocks on the market when the market is firm, through such devices as penalties or quota reductions for undershipments.

You should not take sides in the struggle between the African and Latin American producers over allocation of quotas. In pursuing these objectives, you should play an active role in the negotiations, advancing such proposals as would accomplish them. However, you should make clear that any draft agreement is "ad referendum" only, and must be considered at Cabinet level in Washington before the U.S. adheres. You should inform us before agreeing to draft formulations which do not go in the direction of the objectives stated above.

If you believe that the draft agreement does not meet the above instructions, you are authorized not to initial it.

~~CONFIDENTIAL~~

Tab B

ICO MEMBERS

Producers

Angola
Bolivia
Brazil
Burundi
Cameroon
Central African Republic
Colombia
Congo
Costa Rica
Dahomey
Dominican Republic
Ecuador
El Salvador
Ethiopia
Gabon
Ghana
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Ivory Coast
Jamaica
Kenya
Liberia
Madagascar
Mexico
Nicaragua
Nigeria
Panama
Papua New Guinea
Paraguay
Peru
Rwanda
Sierra Leone
Tanzania
Timor
Togo
Trinidad and Tobago
Uganda
Venezuela
Zaire

Consumers

Australia
Belgium*
Canada
Cyprus
Czechoslovakia
Denmark
Federal Republic of Germany
Finland
France
Ireland
Japan
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
United Kingdom
United States of America
Yugoslavia

*Including Luxembourg

Economy

THE WHITE HOUSE

WASHINGTON

March 19, 1976

MEMORANDUM FOR: WILLIAM SEIDMAN

FROM: PHILIP BUCHEN P.

SUBJECT: Further Options for Estate and Gift Tax Revisions

In response to your proposed memorandum to the President on this subject, I would recommend the following:

Issue 1 - Option 3.
Issue 2 - Option 2.

THE WHITE HOUSE

WASHINGTON

March 18, 1976

MEMORANDUM FOR PHILIP BUCHEN
JOHN O. MARSH

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Further Options for Estate and Gift Tax Revisions

A draft memorandum for the President outlining further options for estate and gift tax revisions is attached. This is currently being formally staffed to members of the EPB Executive Committee. For your information, at our two previous discussions of these issues at the EPB most members favored exempting interspousal transfers from estate and gift taxes (Issue 1 - Option 1) and proposing no change in the present gift tax structure (Issue 2 - Option 2).

In view of the Treasury testimony on this subject, Monday morning, March 22, and the need to expedite a decision, please provide my office with your comments and recommendations on these issues no later than Noon, Friday, March 19.

Thank you very much.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Further Options for Estate and Gift Tax Revisions

Background

You have previously approved proposing an increase in the estate tax exemption to $150,000 with a revised rate schedule eliminating the lower rate brackets (three percent to 28 percent) on the first $90,000 of taxable estate and starting the new rate schedule with a 30 percent rate. You also approved proposing that these changes be phased in over a five year period.

The proposed $150,000 estate tax exemption together with your previously proposed 25 year payment period for the estate tax on family-owned farms and family-owned small businesses, provide significant benefits to farmers and small businessmen many of whom are presently faced with a very substantial tax on their estates due to the effect of inflation on farm and business values.

The House Ways and Means Committee is now holding hearings on the broad issues of estate and gift tax reform. Secretary Simon or Assistant Secretary Walker will be presenting the Administration's proposals on Monday, March 22.

Two issues remain for your consideration.

Issue 1: Should the Administration propose a free interspousal transfer rule, or unlimited martial deduction, under which all transfers between spouses would be completely excluded from the estate and gift taxes?

The estate and gift tax marital deduction was introduced in 1948 to equalize the treatment of couples in community property states and common law property states. The property of couples in community property states is automatically split

50-50 between spouses without imposition of estate or gift taxes. The objective of the 1948 legislation was to provide equivalent tax treatment for couples in common law property states.

Under present law, a gift tax marital deduction may be claimed for one half the amount transferred to a spouse and an estate tax marital deduction may be claimed for up to one half of the adjusted gross estate.

These deduction provisions have been criticized on several grounds:

- o Community property laws operate automatically to split the spouse's property between two estates, while the estate tax marital deduction may be utilized only if the wealthier spouse dies first. A tax-free division of property may not be accomplished during life, because the gift tax marital deduction equals only one-half of the property transferred.

- o Many families regard their property as generated by their combined efforts and transfer property from separate ownership to joint ownership, without paying much attention to the legal change in ownership. Taxing such transfers that are basically merely incidents in the common management of a family's pooled resources is considered inappropriate by many.

- o The present 50 percent deduction has created difficult administrative problems for many estates because of attempts to maximize tax benefits by very exact utilization of the maximum deduction through complicated formula provisions.

In response to a question during his Senate Finance Committee tax reform testimony on Wednesday, March 17, Secretary Simon indicated our estate and gift tax recommendations would include a proposal exempting interspousal transfers.

<u>Option 1</u>: <u>Propose exempting interspousal transfers from estate and gift taxes.</u>

<u>Advantages</u>:

- o Responds fully to the above criticisms of the present marital deduction.

- o Maximizes flexibility in family estate planning.

Disadvantages:

- May be attacked as unduly favorable to very large estates and as unnecessary to permit adequate provision for a surviving spouse.

- Will cost approximately $500 million annually when fully effective, over and above the revenue loss from the $150,000 estate tax exemption.

  The cost is very difficult to phase in, though it could be postponed beyond fiscal year 1977.

Option 2: Propose liberalized marital deduction provisions without completely exempting interspousal transfers from tax.

For example, the maximum estate tax marital deduction could be $150,000 plus one-half of the portion of the adjusted gross estate in excess of $150,000.

Advantages:

- This would be equivalent to complete exemption of marital transfers for most estates. Together with the proposed $150,000 estate tax exemption, it would permit an estate of up to $450,000 to be given tax free to a surviving spouse.

  Of 174,899 estates filing returns in 1973, only 11,314 (or 6.5 percent) had a gross estate value in excess of $500,000.

- Avoids criticism of providing excessive benefits for large estates.

Disadvantages:

- Revenue loss remains large, about $300-$350 million annually when fully effective. It would be difficult to phase in the loss though it could be postponed beyond fiscal year 1977.

- Would retain the complexity of the present estate tax law.

Option 3: Propose no change in the present law.

With the proposed $150,000 estate tax exemption, the present law would permit an estate of up to $300,000 to be given tax free to a surviving spouse.

Advantages:

- o This would still provide complete exemption of marital transfers for most estates. In 1973, only 23,577 estates had a gross estate value in excess of $300,000.
- o Many consider $300,000 adequate provision for a surviving wife, and insurance and other devices may be used to transfer additional amounts to a spouse outside the estate.
- o Avoids a substantial revenue loss.

Disadvantages:

- o May be criticized as evidencing lack of concern for women's rights and as unresponsive to criticisms of the present interspousal transfer provisions.

If either Option 1 or 2 is selected, the Treasury Department would recommend the adoption of a postponed effective date designed to avoid any fiscal year 1977 impact, rather than an attempt to phase in the change. Any phase-in rule would seriously disrupt will drafting and estate planning during the phase-in period.

Decision

Option 1 ________ Propose exempting interspousal transfers from estate and gift taxes.

Option 2 ________ Propose liberalized marital deduction provisions without completely exempting interspousal transfers from tax.

Option 3 ________ Propose no change in the present law.

Issue 2: Should the Administration propose increasing the gift tax exemption from $30,000 to $75,000 (the same proportionate increase as the proposed estate tax exemption)?

The present gift tax exemption is $30,000 and gift tax rates are set at three fourths of the estate tax rates. Retaining the present relationship between the gift and estate taxes would require, if the proposed $150,000 estate tax exemption and beginning estate tax rate of 30 percent are adopted, a gift tax exemption of $75,000 and a beginning gift tax rate of 22 1/2 percent.

However, there has been no particular political pressure for an increased gift tax exemption. The numerous bills to increase the estate tax exemption do not provide for any increase in the gift tax exemption. Taxable gifts are generally made by the very wealthy, rather than individuals who have an estate of $150,000 to $500,000.

Option 1: Propose increasing the gift tax exemption to $75,000 and increasing the beginning rate to 22 1/2 percent.

This increase would cost an estimated $75 million in FY 1977 assuming it would be immediately effective, for gifts after July 1, 1976. Phasing in an increased gift tax exemption would not substantially reduce the first year revenue loss.

Advantage:

- o Provides the same adjustment for inflation as the proposed increase in the estate tax exemption from $60,000 to $150,000.

Disadvantage:

- o May be criticized as primarily a benefit to the wealthy.

Option 2: Propose no change in the present gift tax structure.

Advantages:

- o Would have a neutral effect on existing estate plans and lifetime gift programs.
- o Avoids the revenue loss of an increased gift tax exemption and does not increase gift tax rates.

Disadvantage:

- o Would destroy present symmetry between estate and gift tax structures.

Option 3: Retain the gift tax exemption at $30,000 but propose increasing the beginning gift tax rate to 22 1/2 percent.

Raising the gift tax rates would increase revenues by $125 million in FY 1977.

Advantages:

- o Would preserve the present relationship between estate and gift tax rates.
- o Would make possible a package of estate and gift tax changes having a balanced revenue effect in FY 1977.

Disadvantage:

- o Would raise the tax burden on lifetime gifts and, because of a substantial beginning tax rate, could inhibit gifts by persons of moderate wealth.

Decision

Option 1 ________ Propose increasing the gift tax exemption to $75,000 and increasing the beginning rate to 22 1/2 percent.

Option 2 ________ Propose no change in the present gift tax structure.

Option 3 ________ Retain the gift tax exemption at $30,000 but propose increasing the beginning gift tax rate to 22 1/2 percent.

Tax Treatment of Unrealized Appreciation in Property Transferred at Death

Under present law, unrealized appreciation in property transferred at death entirely escapes income tax. Neither the deceased prior owner of the property or his heirs are taxed. Many tax reformers consider this one of the major tax loopholes. Any attempt to change the law would, however, either impose substantial tax burdens that would fall particularly heavily on the family-owned farms and small businesses we are seeking to aid by our other proposals, or would be exceedingly complicated. Moreover, it is likely that legislation in this area will be extremely controversial and that any provision that is enacted will contain so many exceptions and exclusions that its overall contribution to tax equity would be marginal at best.

Recommendation: The EPB Executive Committee recommends that the Administration oppose any change in the present tax treatment of unrealized appreciation in property transferred at death.

Approve __________ Disapprove __________

THE WHITE HOUSE

WASHINGTON

① Schmults ② Buchen P.W.B

April 13, 1976

MEMORANDUM FOR PHILIP BUCHEN
BRENT SCOWCROFT
JOHN MARSH
JAMES M. CANNON

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Eximbank Loans to Poland: National Interest Determination

A memorandum for the President seeking a national interest determination for two Eximbank loans to Poland is attached.

Please provide your comments and recommendations on this memorandum to my office no later than c.o.b. Wednesday, April 14, 1976.

April 14, 1976

No objection.

Ken Lazarus

Attachment

Comments were phoned in 4/14.

THE WHITE HOUSE

WASHINGTON

April 13, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: Eximbank Loans to Poland: National Interest Determination

The Export-Import Bank is prepared to approve two loans to assist in the financing of U.S. exports to Poland for the construction of a color television plant. These loans have been approved by the National Advisory Council on International Monetary and Financial Policies (NAC) and are described in a letter and memorandum from Secretary Simon attached at Tab A.

The loans would total $68.5 million, representing 55 percent of the total transaction value, and would be repaid over 7 years at 8.75 percent in 14 approximately equal semiannual installments beginning October 5, 1979. The principal U.S. suppliers involved are RCA and Corning Glass Works.

The Export-Import Bank has indicated that it finds the project sound from a credit and technical standpoint and is prepared to approve the two loans. Tab B.

Since these loans are part of a transaction which would involve Eximbank loans in excess of $50 million to a Communist country, they are subject to the requirement in Section 2(b)(2) of the Export-Import Bank Act of 1945, as amended, that the President make a separate determination that the extension of Eximbank loans in such transactions would be in the national interest. The text of this section of the Act is attached at Tab C.

The State Department has indicated that the Polish government considers Eximbank participation crucial to the financing of the project and that we should do what we reasonably can to accommodate the Poles with respect to financing. Under Secretary Robinson has indicated in a letter, attached at Tab D, the principal reasons why these loans are in our national interest. Briefly they are as follows:

1. Since the riots of 1970 which brought First Secretary Gierek to power, the Polish leadership has made a conscious effort to develop trade and business ties with the West, and as a result the proportion of Polish trade with the West has increased from 27 percent in 1970 to 48 percent in 1975. These loans would help to facilitate the continued growth of our trade with Poland.

2. Poland has for some years produced black and white television sets but has generally imported color receivers from the Soviet Union. The Poles, in order to meet growing consumer demand, are committed to undertaking domestic production and are anxious to do so with the best technology available. Although European and Japanese firms actively entered the bidding, the Poles have from the outset indicated a keen desire to have the U.S. supply the necessary technology, know-how and equipment. Minister Wrzaszczyk, Chairman of the Polish Planning Commission, expressed a strong preference for the RCA/Corning bid and was able to obtain support for his choice at the highest level of Polish leadership. The Poles took this highly political position in the face of reportedly vigorous criticism from the Soviets that Poland's trade and economic relations were becoming too oriented towards the West. It is hard to underestimate the impact on the Polish people of having many Polish homes with U.S. brand television sets.

3. Although the Poles have signed contracts with RCA and Corning, neither contract will be enforceable until financing satisfactory to Poland's Commercial Bank has been arranged. Officials of that bank have indicated that the financial terms are an essential part of the final deal. The Polish government is increasingly concerned about its growing foreign indebtedness and the resultant hard currency outflows. Thus, if we are not able to come up with terms satisfactory to Poland's bankers, there is a very real danger that a substantial contract would be lost. We understand that the Japanese firm Hitachi has already put together an attractive package.

The Eximbank has forwarded to the White House for your signature a proposed national interest determination, which is attached at Tab E.

In addition to the requirement for a national interest determination, this transaction is subject to the requirement in Section 2(b)(3) of the Act that Eximbank submit to the Congress a description and explanation of each loan, financial guarantee or combination thereof, in an amount which equals or exceeds $60 million at least 25 days of continuous session of Congress prior to the date of final approval by the Eximbank.

Agency Views

The member agencies of the NAC (State, Treasury, Commerce, Eximbank and the Federal Reserve Board) as well as of the member agencies of the East-West Foreign Trade Board (State, Treasury, Defense, Agriculture, Commerce, OMB, STR, CIEP, and Eximbank) favor approval of these loans.

The only agency which has expressed concern about approval of this transaction is the Department of Labor. Labor's concern is over a possible adverse economic effect on U.S. employment, possible negative reactions by U.S. labor organizations, and the providing of U.S. government financing support to another source of foreign production.

Recommendation

That you sign the national interest determination involving two Eximbank loans to Poland for the construction of a television tube plant.

Approve ____________ Disapprove ____________

Dear Mr. President:

This is to inform you that, consequent to its consideration of the proposals, the National Advisory Council on International Monetary and Financial Policies, which I chair, informed the Export-Import Bank on February 25, 1976 -- that it had no objection to the Bank's considering two direct credits to the Bank Handlowy W. Warszawie S.A. in the amount of $37,964,905, to assist in financing the sale of U.S. equipment, technology and technical assistance for a new facility to produce color television tubes and $30,537,045, to assist in financing the sale of U.S. equipment, technology and technical assistance for a new facility to produce glass funnels for color television tubes. Both credits are to be guaranteed by the People's Republic of Poland.

Subsequently, on March 12, 1976, at the request of the Export-Import Bank, the National Advisory Council amended its Actions on these credits to approve a reduction in the interest rate to be charged by the Export-Import Bank from 9.00 percent to 8.75 percent and a reduction in the repayment schedule from 17 to 14 approximately equal semi-annual installments beginning October 5, 1979.

Copies of the original National Advisory Council Actions (Numbers 76-112 and 76-113) and its amended Actions (Numbers 76-146 and 76-147), certified by the Secretary of the Council, are attached.

Faithfully yours,

William E. Simon

The President

The White House

Attachments

Drafter/Watson:man:4/2/76

Cleared by: JBushnell
RVastine

February 25, 1976

National Advisory Council
On International Monetary and Financial Policies

Subject: Export-Import Bank - Proposed $37,964,905 Direct Credit -- Poland

Action:

The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of the following direct credit:

Direct Credit:	
Amount:	$37,964,905 (U.S. costs $69,027,100)
Obligor:	Bank Handlowy w Warszawie S.A.
Guarantor:	Polish People's Republic
Purpose:	To assist in financing the sale of U.S. equipment, technology and technical assistance for a new facility to produce color T.V. tubes
Terms:	
Maturity:	17 approximately equal semiannual installments beginning December 5, 1979 (Eximbank repayment from later installments)
Interest:	9 percent per annum
Commitment Fee:	1/2 of 1 percent per annum on undisbursed, uncancelled, and unexpired credit balance
Other Facts:	Cash payment $6,902,710 from non-U.S. sources; unguaranteed private source loan, $24,159,485

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on February 25, 1976.

Robert S. Watson

Robert S. Watson
Secretary

eferences:
AC Document 76-102
taff Committee Minutes 76-8

Subject: Export-Import Bank - Proposed $30,537,045 Direct Credit -- Poland

Action:

The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of the following direct credit:

Direct Credit:	
Amount:	$30,537,045 (U.S. costs $55,521,900)
Obligor:	Bank Handlowy w Warszawie S.A.
Guarantor:	Polish People's Republic
Purpose:	To assist in financing the sale of U.S. equipment technology and technical assistance for a new facility to produce glass funnels for color TV tubes
Terms:	
Maturity:	17 approximately equal semiannual installments beginning July 5, 1979 (Eximbank repayment from later installments)
Interest:	9 percent per annum
Commitment Fee:	1/2 of 1 percent per annum on undisbursed, uncancelled, and unexpired credit balance
Other Facts:	Cash payment $5,552,190 from non-U.S. sources; unguaranteed private source loan $19,432,665

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on February 25, 1976.

Robert S. Watson

Robert S. Watson
Secretary

References:
NAC Document 76-103
Staff Committee Minutes 76-8

SUBJECT: Export-Import Bank - Proposed $37,964,905 Direct Credit--Poland

ACTION:

NAC Action 76-112 is hereby amended to read as follows:

The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of the following direct credit:

Direct Credit:	
Amount:	$37,964,905 (U.S. costs $69,027,10
Obligor:	Bank Handlowy w Warszawie S.A.
Guarantor:	Polish People's Republic
Purpose:	To assist in financing the sale of U.S. equipment, technology and technical assistance for a new facility to produce color TV tubes
Terms:	
Maturity:	14 approximately equal semiannual installments beginning October 5, (Eximbank repayment from later ins ments)
Interest:	8 3/4 percent per annum
Commitment Fee:	1/2 of 1 percent per annum on undisbursed, uncancelled, and unexpired credit balance
Other Facts:	Cash payment $6,902,710 from non-U sources; unguaranteed private sour loan, $24,159,485

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on March 12, 1976.

Robert S. Watson

Robert S. Watson
Secretary

References:
NAC Document 76-140
Staff Committee Minutes 76-11

SUBJECT: Export-Import Bank - Proposed $30,537,045 Direct Credit--Poland

ACTION:

NAC Action 76-113 is hereby amended to read as follows:

The National Advisory Council advises the Export-Import Bank that it offers no objection to consideration by the Bank of the following direct credit:

Direct Credit:	
Amount:	$30,537,045 (U.S. costs $55,521,90
Obligor:	Bank Handlowy w Warszawie S.A.
Guarantor:	Polish People's Republic
Purpose:	To assist in financing the sale of U.S. equipment, technology and technical assistance for a new facility to produce glass funnels for color TV tubes
Terms:	
Maturity:	14 approximately equal semiannual installments beginning October 5, 1979 (Eximbank repayment from late installments)
Interest:	8 3/4 percent per annum
Commitment Fee:	1/2 of 1 percent per annum on undisbursed, uncancelled, and unexpired credit balance
Other Facts:	Cash payment $5,552,190 from non-U sources; unguaranteed private sou loan $19,432,665

- Continued -

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on March 12, 1976.

Robert S. Watson

Robert S. Watson
Secretary

References:
NAC Document 76-140
Staff Committee Minutes 76-11

EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

February 27, 1976

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

MEMORANDUM FOR DAVID M. EVANS, Assistant Director for Nonmarket Economies, Council on International Economic Policy (CIEP)

From: Raymond J. Albright, Vice President, Europe and Canada Division, Export-Import Bank of the United States

Subject: National Interest Determination -- Poland: Color Television Tube Project

The Export-Import Bank is prepared to approve two loans to assist in the financing of U.S. exports for the construction of a color television tube plant in Poland, as described in the attached memoranda.

These transactions are part of a project which would involve Eximbank loans in excess of $50,000,000 to a Communist country, or agency or national thereof, and, therefore, are subject to the requirement in Section 2(b)(2) of the Export-Import Bank Act of 1945, as amended (the Act), that the President make a separate determination that the extension of Eximbank loans in such transactions would be in the national interest. In addition, these transactions are subject to the requirement in Section 2(b)(3) of the Act that Eximbank submit to the Congress a description and explanation of each loan, financial guarantee or combination thereof, in an amount which equals or exceeds $60,000,000 at least 25 days of continuous session of Congress prior to the date of final approval thereof by Eximbank.

Eximbank has forwarded the attached memoranda for review by the National Advisory Council on International Monetary and Financial Policies (NAC) and has provided such memoranda to the East-West Foreign Trade Board. After your receipt of favorable Action Memoranda regarding these cases from the NAC and before our submitting these cases to the Congress, Eximbank would appreciate receiving the required Presidential determination with respect to these cases. Eximbank will report such determination to the Congress at the same time it submits to the Congress the required description and explanation of these cases.

Attachments: Loan Memoranda to the Board of Directors
February 23, 1976
Poland - Credits No. 6190 and No. 6192

Eximbank Transmittal Letter to NAC,
February 23, 1976

Draft Form of Presidential Determination

(2)[6] The Bank in the exercise of its functions shall not guarantee, insure, or extend credit, or participate in any extension of credit—

(A) in connection with the purchase or lease of any product by a Communist country (as defined in section 620(f) of the Foreign Assistance Act of 1961), or agency or national thereof, or

(B) in connection with the purchase or lease of any product by any other foreign country, or agency, or national thereof, if the product to be purchased or leased by such other country, agency, or national is, to the knowledge of the Bank, principally for use in, or sale or lease to, a Communist country (as so defined),

unless the President determines that guarantees, insurance, or extensions of credit in connection therewith to such Communist or such other country or agency or national thereof would be in the national interest. The President shall make a separate determination with respect to each transaction in which the Bank would extend a loan to such Communist or such other country, or agency, or national thereof an amount of $50,000,000 or more. Any determination required under the first sentence of this paragraph shall be reported to the Congress not later than the earlier of thirty days following the date of such determination, or the date on which the Bank takes final action on a transaction which is the first transaction involving such country or agency or national after the date of enactment of the Export-Import Bank Amendments of 1974, unless a determination with respect to such country or agency or national has been made and reported prior to such date of enactment. Any determination required to be made under the second sentence of this paragraph shall be reported to the Congress not later than the earlier of thirty days following the date of such determination or the date on which the Bank takes final action on the transaction involved.

(3)[7] No loan or financial guarantee or combination thereof in an amount which equals or exceeds $60,000,000 shall be finally approved by the Board of Directors of the Bank, and no loan or financial guarantee or combination thereof which equals or exceeds $25,000,000 for the export of goods or services involving research, exploration, or production of fossil fuel energy resources in the Union of Soviet Socialist Republics shall be finally approved by the Board of Directors of the Bank, unless in each case the Bank has submitted to the Congress with respect to such loan, financial guarantee, or combination thereof, a detailed statement describing and explaining the transaction, at least 25 days of continuous session of the Congress prior to the date of final approval. For the purpose of the preceding sentence, continuity of a session of the Congress shall be considered as broken only by an adjournment of the Congress sine die, and the days on which either House is not in session because of an adjournment of more than 3 days to a day certain shall be excluded in the computation of the 25 day period referred to in such sentence. Such statement shall contain—

(A) a brief description of the purposes of the transaction, the identity of the party or parties requesting the loan or financial

[6] As amended and restated by Public Law 90-267 (82 Stat. 48) and by Sec. 4 of Public Law 93-646 (88 Stat. 2333 at 2334).

[7] Section 5 of Public Law 93-646 (88 Stat. 2333 at 2335) inserted paragraph (3) and redesignated paragraphs (3), (4), and (5) of the existing law as paragraphs (4), (5), and (6), respectively.

Hand-carried to EXIM Bank
by Mr. Timothy Deal, EUR/EE
1/28/76 - 12 noon

Eur R

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS
WASHINGTON

EE

DIST:
E
C
EUR
EB
RF:rw

January 28, 1976

Dear ~~Stephen~~ Steve;

I am writing to you in regard to Poland's application for Export-Import Bank financing for the RCA/Corning Glass color television project. As you know, the Polish Government considers EXIM participation crucial to the project and is seeking the most favorable credit terms available. For the reasons outlined below, we believe we should do what we reasonably can to accommodate the Poles with respect to financing.

Since the riots of December 1970, which brought First Secretary Gierek to power, the Polish leadership has made a conscious effort to develop trade and business ties with the West and to raise the country's standard of living. As a result, the proportion of Polish trade with the West has increased from 27% in 1970 to 48% in 1975, real personal income in Poland has risen substantially during this period, and the supply and variety of consumer goods have improved markedly.

Poland has for some years produced black and white television sets, but has generally imported color television receivers from the Soviet Union. However, to meet what one Polish official has termed the "explosive demand" of the public, the Poles recognized that they would have to undertake domestic production and that the best technology was available only in the West. Although European and Japanese firms actively entered the bidding, the Poles have from the

Mr. Stephen M. DuBrul, Jr.,
President and Chairman,
Export-Import Bank of
the United States,
811 Vermont Avenue, N.W.
Washington, D.C.

start indicated a keen desire to have the U.S. supply the necessary technology, know how and equipment. The then Minister of the Machine Industry Tadeusz Wrzaszczyk, now Chairman of the Planning Commission, expressed a strong preference for the RCA/Corning bid and was able to obtain support for his choice at the highest level of the Polish leadership. The Poles took this highly political decision in the face of reportedly vigorous criticism from the Soviets that Poland's trade and economic contacts were becoming too oriented towards the West. From the U.S. point of view, it is hard to underestimate the impact on the Polish people of the fact that every Polish home could have an American manufactured TV.

Although the Poles have signed contracts with RCA and Corning, neither contract will be enforceable until financing satisfactory to Poland's Commercial Bank has been arranged. Officials of that bank have indicated that the financial terms are an essential part of the final deal. The Polish Government is increasingly concerned about its growing foreign indebtedness and the resultant hard currency outflows. Thus, if we are not able to come up with terms satisfactory to Poland's bankers, there is a very real danger that a substantial contract would be lost. We understand that the Japanese firm Hitachi has already put together an attractive package.

Considering our politically-motivated desire to expand economic and trade ties with the current Polish leadership and since the RCA and Corning contracts are contingent upon EXIM financing of the project, we believe that the Board of Directors should, insofar as its mandate allows, be as forthcoming as possible with respect to the portion of the project to be financed by EXIM and the repayment terms. Ambassador Trampczynski has informed us that the Poles are seeking 70% EXIM financing with a 10 year repayment schedule and a 3 1/2 year grace period.

I hope you will give our views your careful consideration. If you need any additional information concerning our views, please do not hestitate to let me know.

Very best regards,

Sincerely,

Chuck

Charles W. Robinson

Draft:EUR/EE-NGAndrews:dpb NA
X22673:1/26/76
Concurrences: EB/IFD/ODF:RSwart
EUR:Mr. Armitage
C:Mr. Shinn
EB/ITP/EWT:MLorimer

PRESIDENTIAL DETERMINATION

In accordance with Section 2(b) (2) of the Export-Import Bank Act of 1945, as amended, I hereby determine that it is in the national interest for the Export-Import Bank of the United States to extend credit and participate in the extension of credit in connection with the following cases involving the purchase of United States products and services by the Polish People's Republic or an agency or national thereof:

A. Eximbank Credit No. 6190

Borrower: Bank Handlowy w Warszawie S.A.

Project: Purchase of United States equipment, technology and technical assistance required for construction of a plant to produce glass funnels for color television tubes.

Total U.S. Costs (Approximate):	$55,521,900
Cash Payment:	$ 5,552,190 (10%)
Eximbank Loan:	$30,537,045 (55%)
Participation Financing without Eximbank Guarantee:	$19,432,665 (35%)

B. Eximbank Credit No. 6192

Borrower: Bank Handlowy w Warszawie S.A.

Project: Purchase of United States equipment, technology and technical assistance required for construction of a color television tube plant in Poland.

Total U.S. Costs (Approximate):	$69,027,100
Cash Payment:	$ 6,902,710 (10%)
Eximbank Loan:	$37,964,905 (55%)
Participation Financing without Eximbank Guarantee:	$24,159,485 (35%)

THE WHITE HOUSE,

THE WHITE HOUSE

WASHINGTON

May 3, 1976

MEMORANDUM FOR PHILIP BUCHEN
JOHN O. MARSH
MAX FRIEDERSDORF
JAMES M. CANNON

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Review of Employment and Unemployment Statistics

A memorandum for the President on a review of employment and unemployment statistics is attached. It is currently being staffed to members of the EPB Executive Committee.

I would appreciate if you could provide your recommendations on this memorandum to my office no later than c.o.b. Tuesday, May 4, 1976.

The Counsel's office supports Option 2.

Edward Schmults
5/4/76

Attachment

THE WHITE HOUSE

WASHINGTON

May 4, 1976

MEMO FOR: ED SCHMULTS

FROM: KEN LAZARUS

SUBJECT: Review of Employment and Unemployment Statistics

Suggested Response:

Suggest that proposal be tabled until after the primaries. At that time, we can reassess the potential political impact of Option #1 with regard to the general election.

Approve ______ Disapprove ______