The original documents are located in Box 11, folder "Economy (1)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

OFFICE OF THE VICE PRESIDENT
WASHINGTON

File

See Bill

February 28, 1975

MEMORANDUM

TO: Jim Cannon

FM: Dick Allison

RE: NATIONAL ECONOMIC PLANNING - WOODCOCK/ROOSA PROPOSALS

1. You received advance notice of the time, participants, and content of the press conference described in the enclosed clipping. I acknowledged and retained the correspondence and made contact with the people there, who are sending further information as it ~~develops as~~ well as a draft of their planning bill.

2. Bill Seidman received similar advance notice, sending ~~his copy to~~ you with the penciled note "Let's Talk about This." Do you want me/Jeanne to set up an appointment?

YES________________

NO________________

OTHER________________

3. Note that economic planning as envisoned by this group is most common in socialist countries, and that we tend to rely on market forces. However, Leontieff is a Noble laureate; his people (like Bob Solow at MIT) are everywhere, and important; and he was consulted in the early planning stages of the Critical Choices Commission.

Enclosure

Aroused by public policies that have generated heightened inflation and a deepening recession, a group of 11 leading businessmen, academicians and labor leaders today called for a national commitment to economic planning in the United States.

The group, which calls itself the Initiative Committee for National Economic Planning, is headed jointly by Leonard Woodcock, president of the United Auto Workers, and Wassily Leontief, Harvard University's Nobel Prize-winning economist. The committee said it would propose legislation "within weeks" to create a new national Office of Economic Planning in the White House and a Joint Planning Committee in Congress.

This proposal, which has been endorsed by a wide-ranging group of about 70 signatories so far, seems to reflect a growing frustration among many in the United States over the limited economic policy options now available to Washington.

"We can no longer drift from one disaster to another," Mr. Woodcock said at a news conference, held to announce the group's proposal. "Planning is

Continued on Page 48, Column 1

The New York Times/Robert Walker

Leonard Woodcock speaking at news session of economic planning group yesterday as Robert V. Roosa, at right, and Wassily Leontief listened.

28 Feb

Diverse Group Urges Economic Planning for U.S.

Continued From Page 43

compatible with a democratic society," he asserted. "In fact, if we don't take substantial steps toward planning, the days of democracy are very limited indeed."

Robert V. Roosa, a partner in the invesment firm Brown Brothers Harriman & Co. and a member of the Initiative Committee, was also gloomy about the nation's prospects without planning.

"We can no longer afford the waste of a wholly unplanned, nor of a sporadic and parially planned, use of resources," said Mr. Roosa, who was an Under Secretary of the Treasury during the Kennedy Administration.

"The time has come to develop a truly homegrown, American form of national economic planning," he continued. "Our concern is to find a planning approach that will be American in character and democratic in nature."

Form Is Uncertain

Precisely what form such planning would take is a matter that the committee wants to leave to the proposed planning organizations and the public to decide, But the legislation, being prepared by Abram Chayes, a Harvard law professor, will call for a five-year plan, like that used in some European countries. In general, the plan would be voluntary, although some legislative spur to coöperation might be available if necessary.

The planning advocates visualize a team of a few hundred technical experts — most of them scientists and engineers rather than economists—working on planning for either the White House or Congress. Various options would be explored by both teams, resulting finally, after public hearings, in one master plan that the White House would issue.

Thereafter, all economic legislation and every Presidential economic order would be examined in light of the master plan. "Nothing we propose would stop the President from putting on the oil tariff," said Professor Chayes," "but the debate might be quite different."

Range of Goals

"The planning office would not set specific goals for General Motors, General Electric, General Foods or any other individual firm," said the committee's policy statement. "But it would indicate the number of cars, the number of generators and the quantity of frozen foods were likely to require in, say, five years, and it would try to induce the relevant industries to act accordingly." The inducements would be laws, as specific as necessary on taxes, subsidies and environmental problems.

Professor Leontief warned that planning would be no simple matter, but said the United States had no choice. The inventor of input-output analysis, a major worldwide tool for national planners, Professor Leontief called planning the "preventive medicine" the United States needs to "innoculate itself against forever repeating the same miserable mistakes."

He cited the energy crisis and the current recession as evidence that fiscal and monetary policy alone are not adequate to solve America's problems.

The Initiative Committee for National Economic Planning
901 N. Broadway, White Plains, N. Y. 10603
(914) 428-8700

Members of The Initiative Committee for National Economic Planning

Co-chairmen
Leonard Woodcock, President, UAW
Wassily Leontief, Harvard University, Nobel Laureate

Coordinator
Myron E. Sharpe, Editor and Publisher,
Challenge: The Magazine of Economic Affairs

Anne Carter, Brandeis University
Abram Chayes, Harvard University
John Kenneth Galbraith, Harvard University
Robert Heilbroner, The New School for Social Research
Robert Lekachman, Lehman College, CUNY
Robert R. Nathan, President, Robert R. Nathan Associates
Robert V. Roosa, Partner, Brown Brothers Harriman & Co.
Nat Weinberg, Economic Consultant

2/20/75

The Initiative Committee for National Economic Planning
904 N. Broadway, White Plains, N.Y. 10603
(914) 428-8700

Supporters of the statement "For a National Economic Planning System" as of February 4, 1975

Clifford L. Alexander, Jr., Attorney

Lee Benson, University of Pennsylvania

Peter L. Bernstein, President, Peter L. Bernstein, Inc.

Hans A. Bethe, Cornell University

Chester A. Bowles

Kenneth Clark, President, Metropolitan Applied Research Center, Inc.

Carl Djerassi, Stanford University

Frances T. Farenthold, Attorney

Betty Furness, NBC News

Edmund Gordon, Teachers College, Columbia University

Ray Marshall, The University of Texas at Austin

J. Irwin Miller, President, Cummins Engine Co.

Gerard Piel, Publisher, Scientific American

Ronald G. Ridker, Resources for the Future, Inc.

Arthur Schlesinger, Jr., The City University of New York

Melville Ulmer, University of Maryland

Victor F. Weisskopf, Massachusetts Institute of Technology

Willard Wirtz, Attorney

Additional supporters of the statement "For a National Economic Planning System" as of February 14, 1975

Daniel Bell, Harvard University

W. Michael Blumenthal, Chairman and President, The Bendix Corporation

Lester R. Brown, President, Worldwatch Institute

Alexander Eckstein, University of Michigan and The Brookings Institution

Robert Eisner, Northwestern University

William Gomberg, University of Pennsylvania

R. A. Gordon, President, American Economic Association

Michael Harrington, Queens College

Vivian W. Henderson, President, Clark College

Theodore M. Hesburgh, President, University of Notre Dame

Frederick S. Jaffe, President, The Alan Guttmacher Institute

Paul Jennings, President, International Union of Electrical, Radio and Machine Workers

Eugene M. Lang, President, REFAC Technology Development Corporation

David Livingston, President, District 65 Distributive Workers of America

F. A. Long, Cornell University

Robert S. McNamara, President, The World Bank

Carey McWilliams, Editor, The Nation

Gunnar Myrdal, The City University of New York

David Pines, University of Illinois at Urbana-Champaign

Joseph L. Rauh, Jr., Vice-chairman, Americans for Democratic Action

Eugene B. Skolnikoff, Massachusetts Institute of Technology

Floyd E. Smith, International President, International Association of Machinists and Aerospace Workers

Philip Sporn, Consultant

John William Ward, President, Amherst College

Jerry Wurf, International President, American Federation of State, County, and Municipal Employees

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John R. Bunting, Jr., Chairman & Chief Executive Officer, First Pennsylvania Bank

Lamond Godwin, Associate Director, Task Force on Southern Rural Development, Atlanta, Georgia

Britton Harris, University of Pennsylvania

Walter Isard, University of Pennsylvania

G.B. Kistiakowsky, Harvard University

Arnold Miller, President, United Mine Workers of America

Alfred C. Neal, President, Committee for Economic Development

W.N. Peach, The University of Oklahoma

Harris Wofford, President, Bryn Mawr College

The Initiative Committee for National Economic Planning
901 N. Broadway, White Plains, N. Y. 10603
(914) 428-8700

To Jim Cannon
Domestic council; let's talk about this
Bill S

February 20, 1975

Mr. L. William Seidman
Executive Director and Assistant to
the President for Economic Affairs
The White House
Washington, D. C. 20500

Dear Mr. Seidman:

I'd like to acquaint you with the existence of our Committee. On February 27, Leonard Woodcock and Wassily Leontief, our co-chairmen, and Robert Roosa, a member of our Committee, will hold a press conference to announce our program and release a statement entitled "For A National Economic Planning System." I have enclosed a copy.

We are now working on a draft planning bill and would be pleased to have your reactions when it is ready.

Enclosed also is a list of supporters of our statement to date.

Sincerely,

M E Sharpe

Myron E. Sharpe, Coordinator
Editor and Publisher,
Challenge: The Magazine of
Economic Affairs

rs
Enc.

The Initiative Committee for National Economic Planning
901 N. Broadway, White Plains, N.Y. 10603
(914) 428-8700

27 Feb

February 20, 1975

Mr. James Cannon
276 Old Executive Office Building
Washington, D.C. 20501

Dear Mr. Cannon:

I spoke to Mr. Allison today and informed him about the existence of our Committee. Leonard Woodcock, Wassily Leontief and Robert Roosa are holding a press conference on February 27 to announce the program of our Committee. I enclose a statement "For A National Economic Planning System" which will be released at that time. For your information I also enclose a list of the members of the committee and a list of supporters to date.

We are now working on a draft planning bill and would be pleased to have your reactions when it is ready.

With best wishes,

M E Sharpe

Myron E. Sharpe, Coordinator
Editor and Publisher,
Challenge: The Magazine of
Economic Affairs

Blanche Broder rec'y

bb
Enc.

The Initiative Committee for National Economic Planning
901 N. Broadway, White Plains, N.Y. 10603
(914) 428-8700

February 20, 1975

Mr. Richard Allison
276 Old Executive Office Building
Washington, D.C. 20501

Dear Mr. Allison:

As I mentioned on the phone Leonard Woodcock, Wassily Leontief and Robert Roosa are holding a press conference on February 27 to announce the program of our Committee. I enclose a statement "For A National Economic Planning System" which will be released at that time. For your information I also enclose a list of the members of the committee and a list of supporters to date.

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2/20/75

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For discussion only. Not for publication.

For A National Economic Planning System

Few Americans are satisfied with the way in which the economy is now operating. Unemployment is increasing; prices are rising. Inflation in the United States has become a source of instability in the world at large. No reliable mechanism in the modern economy relates needs to available manpower, plant and materials, In consequence we have shortages of housing, medical care, municipal services, transportation, energy, and numerous other requirements of pressing importance.

We have not made it our business to foresee these critical problems and to take steps to forestall them. We do not plan. But in a modern economy planning is not a matter of preference or ideology. It is one of immediate need. In its absence we will all suffer. This suffering is avoidable.

We therefore urge that provision be made for planning at the highest level of the United States government and through regional, state and local units of administration. This effort must be backed by education, by the widest public discussion of the methods and objectives of planning, and by full public participation in the planning process.

National Economic Planning

We believe that economic leadership must be exercised in a new way through an Office of National Economic Planning. This Office must be in a position to perceive our country's economic and social needs now and for many years to come and to provide the public, Congress and the executive branch with alternative plans of action, not only to enable us to avert hardship and disaster, but to guide the economy in a direction consistent with our national values and goals.

Planning is neither strange nor unfamiliar. Every individual and business plans for the years ahead. Our space program is a good example of planning in its most sophisticated and successful form. It also illustrates the magnitude of the effort that must go into national economic planning. Nevertheless, the principles are simple. First, from a set of feasible alternatives, a definite and realizable goal was decided upon: to carry a man to the moon and bring him back to earth. This required setting up a long-range program to fulfill the mission. All the necessary information had to be gathered together in a consistent and useful form. Then, step by step, the program had to be carried out in the required sequence, the results monitored, and corrections made whenever necessary.

Just as it would have been impossible for a man to go to the moon and back by accident, it is impossible for us to achieve our economic objectives by accident.

But the most striking fact about the way we organize our economic life is that we leave so much to chance. We give little thought to the direction in which we would like to go. We make no consistent effort to balance different parts of the economy. We do not attempt to ensure that resources are allocated to meet our most urgent national needs. In fact, we know that they are not so allocated.

Instead of systematically trying to foresee the needs of the nation in years ahead, we have dozens of separate, uncoordinated agencies making policy in this area and that, without any thought of how it all fits together. We have over fifty federal offices collecting economic data, in most instances insufficiently detailed, frequently obsolete, often contradictory and incompatible. No single office is responsible for setting appropriate standards and bringing these data together so that they can be used to pursue coherent national objectives. We make economic policy from quarter to quarter or year to year without any perspective on where the economy is going or where we want it to go.

How Planning Could Work

The mere cataloguing of these problems reveals the inadequacy of our present economic techniques. We therefore recommend that an Office of National Economic Planning, described below, be established with

--plenary power to accumulate, collate, and analyze detailed economic information from all sources;

--a mandate to examine major economic trends and work out realistic alternative long-term economic programs for periods of fifteen to twenty-five years, to be submitted to the President and Congress;

--a mandate to work out alternative plans of intermediate length, such as five or six years, to be submitted to the President and Congress, designed to carry us toward our long-range objectives;

--responsibility to specify the labor, resources, financing, and other economic measures needed to realize these programs and plans.

Needless to say, all programs and plans must be periodically reviewed and revised as changing circumstances require.

Let us examine how the planning Office would go about its work. Its function would be to develop programs in specific areas where there are discernible national needs. Energy, transportation and housing are obvious examples. But it is clear that a planning Office cannot look at energy alone, transportation alone, housing alone, or at any other sector of the economy in isolation. All these sectors interact, draw on scarce resources, require definite numbers of workers with specific training, and require financing. Above all, planning is a way of looking at economic problems as a whole, providing the information needed to set explicit priorities in the use of resources, and guiding all sectors of the economy toward the attainment of our chosen goals. A planning system must balance resources with needs, set goals that can be realized, and inform the public what the choices really are.

Plan and Market

The heart of planning is to go from information to action. Most of the action in the U.S. economy takes place in the private sector. Democratic planning is not a substitute for a decentralized economy nor does it replace the millions of private decisions that are made in the market every day. Rather, to reach democratically chosen objectives, it influences those decisions with a consistent set of economic techniques. The means of influencing those decisions are already familiar to us. Some, such as tax incentives and disincentives, and traditional monetary and fiscal policies, influence individual actions indirectly. Others, such as selective credit controls, guidance of basic capital flows, limits to the use of air, water and land, and mandatory resource allocation, affect individual actions directly. All these measures have been used at one time or another by the federal government, but - save in World War II - in a haphazard fashion, with no view to their overall effect. The purpose of planning is to provide that view.

It should be clear that the planning Office would not set specific goals for General Motors, General Electric, General Foods, or any other individual firm. But it would indicate the number of cars, the number of generators and the quantity of frozen foods we are likely to require in, say, five years, and it would try to induce the relevant industries to act accordingly.

One of the best persuaders available to the planning Office is information. The flow of goods, services, and money from one industry to another can be grasped in great detail through the use of input-output and other programming techniques. The planning Office can provide a continuous stream of detailed information about how various sectors of the economy mesh -- and are expected to mesh in the future -- enabling individual firms, as well as federal, state, and local governments, to make enlightened and coherent decisions about production and consumption.

Organization

In order to be effective and useful, an Office of National Economic Planning must be set up at the center of our economic and political life as one of our most influential institutions. To provide leadership at the highest level, we propose the establishment of such an Office within the Executive Office of the President, provided with sufficient funding and supported by a professional staff large enough to carry out the many functions discussed here. The Director of the Office of National Economic Planning should be designated as the chief adviser to the President for economic affairs. The Office should oversee the implementation of the national economic plan within the executive branch of government. Accordingly, the membership of the Board of this Office should be composed of high administration officials and be supported by an advisory group representing the best talent of business, labor, farmers, consumers, minorities and other sections of society.

We also propose that the Council of Economic Advisers be made a part of the Office and continue to concentrate on short-run problems of full employment and stabilization, usefully supplementing the long-run concerns of the Office.

Planning and Democracy

It goes without saying that the final choice among all feasible alternative planning objectives and programs belongs to Congress; and the execution of all laws embodying planning policy is the responsibility of the Administration. Congress and the executive branch must be equal partners in planning. We therefore recommend that a Joint Congressional Planning Committee, supported by a Congressional Office of Planning, with the necessary funding and technical assistance, be established to oversee all planning activities of the executive branch, and to initiate and review legislation related to planning.

But to be successful, planning has to be undertaken with the full understanding, acceptance, and support of the public. The participation of representatives of all important economic and social interests in every phase of planning is essential. Regional, state, and local units of government must fully share in the planning process. Every national forum - the press, Congress, and the executive branch - should be used for a continuous airing of opinion on planning goals and methods. A network of committees representing every area of economic life should be available for mutual consultation with members of the planning Office.

No one can possibly argue that planning will solve all our problems. Nor will it reconcile conflicting interests between different sections of our society. These will continue to be contested in the political arena as before. But planning can spare all of us the sense of helplessness we feel as the economy drifts from crisis to crisis and replace frustration with a sense of hope, with the conviction that we can, in fact, exert some control over our affairs.

Nor is planning an easy task. It is one of the most difficult enterprises that any society can undertake. But the technical capability and know-how exist to do the job. We believe that the hard thinking, work and experimentation required by a planning effort will be repaid many times over. We are convinced that the American people will respond to the challenge.

February 4, 1975

The signers do not necessarily agree with every detail of this statement, but do share the view that national economic planning as generally described here has become an economic and social necessity.

Part - Issues

THE WHITE HOUSE

WASHINGTON

March 4, 1975

MEMORANDUM FOR THE VICE PRESIDENT

FROM : JIM ~~CANNON~~ Jim

SUBJECT : Capital Formation

After your visit with James Needham, President of the New York Stock Exchange, he offered to provide the Domestic Council with information about capital formation.

Here is a copy of the material that was left with us last week by Dr. Freund, Chief Economist and Vice President of the New York Stock Exchange.

Attachment

Very interesting + helpful

Speak to Jim Frank Peterson

Copies to them first

OFFICE OF THE VICE PRESIDENT

WASHINGTON

February 28, 1975

MEMORANDUM

TO: Jim Cannon

FROM: Dick Allison

SUBJECT: Meeting with Dr. William Freund, Chief Economist and Vice President, NYSE (28 February, 10:00 a.m.)

1. Three key points:

(a) Greatest problem for next ten years is capital shortage, especially in utilities industries;

(b) Greatest danger is the imposition of controls, which will happen unless equity capital needs are met in the private market;

(c) Remedies for capital shortage

(1) Investment tax credit;

(2) Partial tax credit for dividend payments;

(3) Rescinding of withholding tax on dividends and interest paid to foreign owners, in order to attract that foreign capital;

(4) Relaxation of some of the regulations governing foreign investors;

(5) Importance of continuing informal contact between government and organizations like his.

2. He told me about his group, which produces all NYSE statistical data and which is responsible for policy planning and for providing material for testimony.

3. He left the following:

(a) Needham speech on The Future of Equity Capital;

(b) The Need for Equity Capital (charts enclosed);

(c) The Capital Needs and Savings Potential of the U.S. Economy - Projections through 1985;

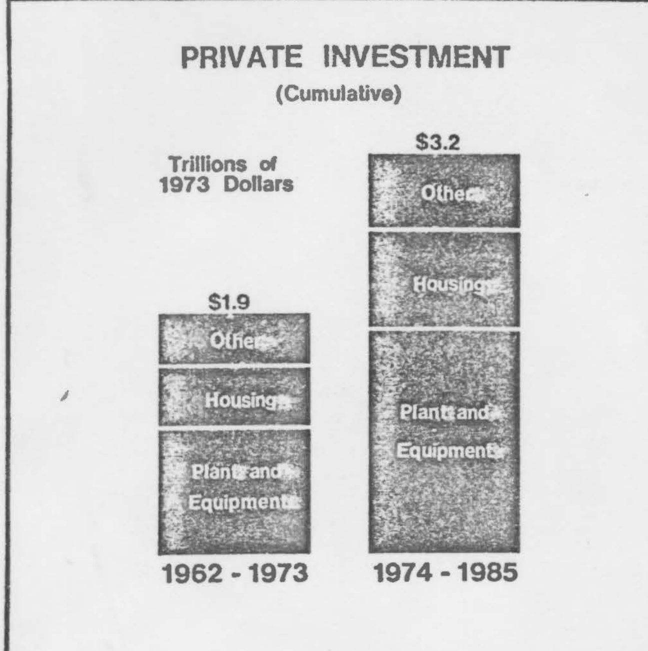
(d) Recommendations regarding Dividends and Interest in Foreign-Held U.S. Securities.

Enclosure (Capital Needs Charts)

The Need for Equity Capital

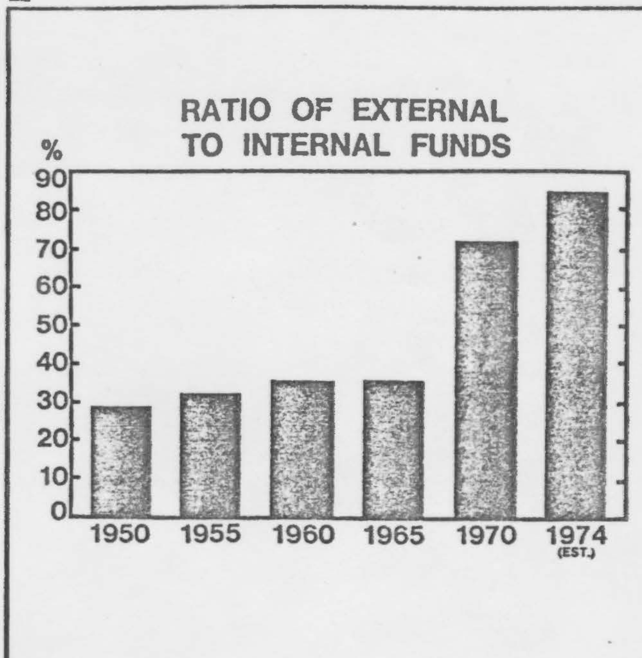
A Summary ...

1



SOURCE: TABLE 1

2

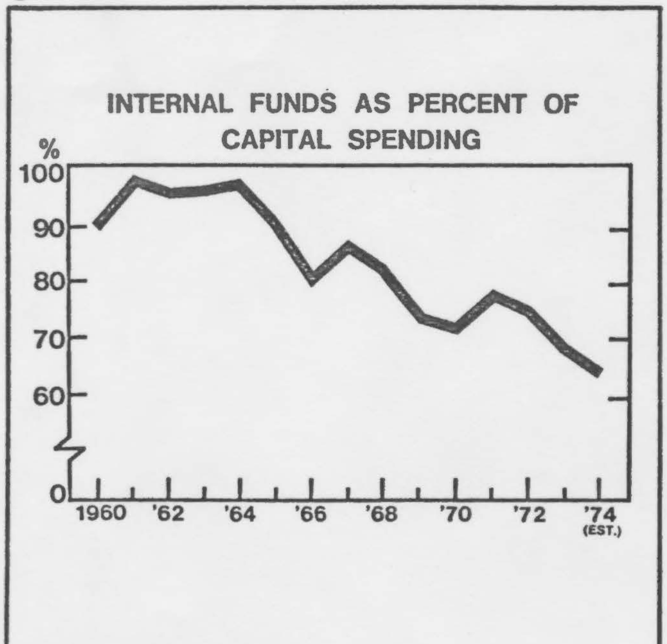


SOURCE: TABLE 2

Prospective capital needs are enormous at the very time when...

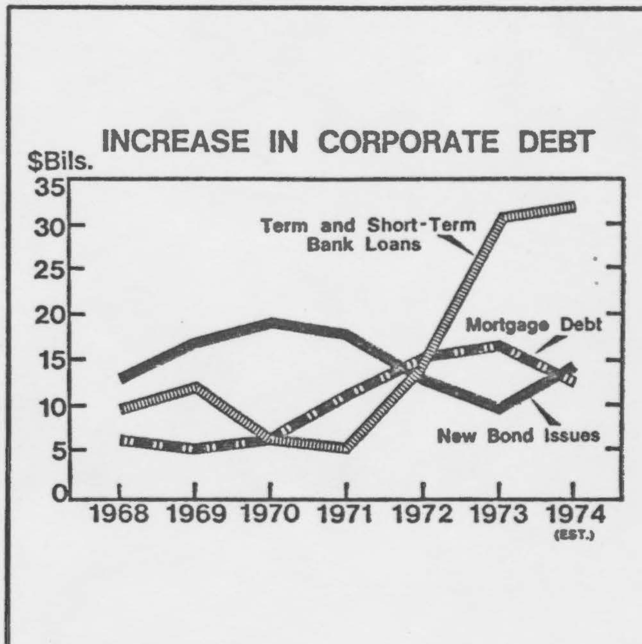
corporations are relying more heavily on external capital...

3



SOURCE: TABLE 3

4

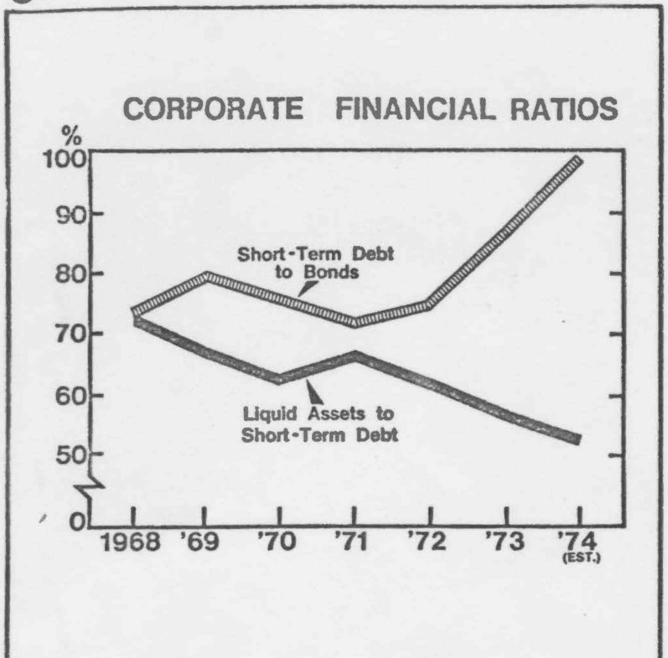


SOURCE: TABLE 6

and less heavily on internal funds -- especially to finance capital investment.

The level of debt has risen sharply...

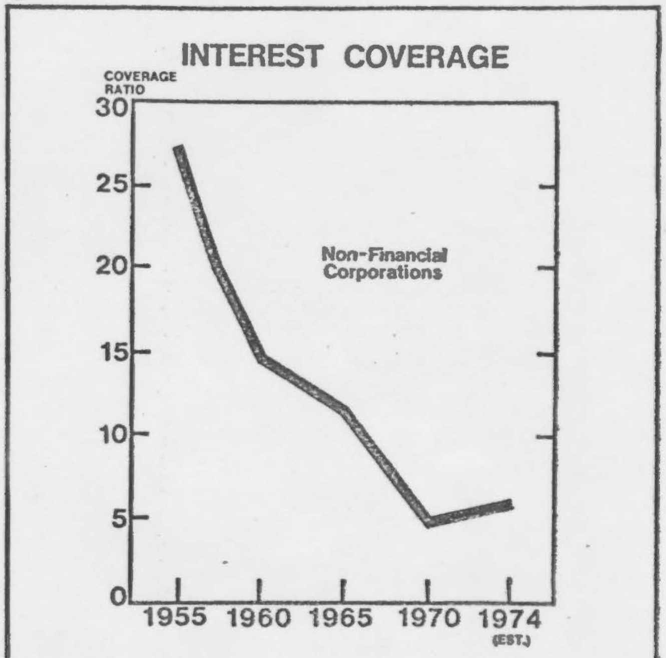
5



SOURCE: TABLES 7 & 9

placing new strains on corporate financial capacity.

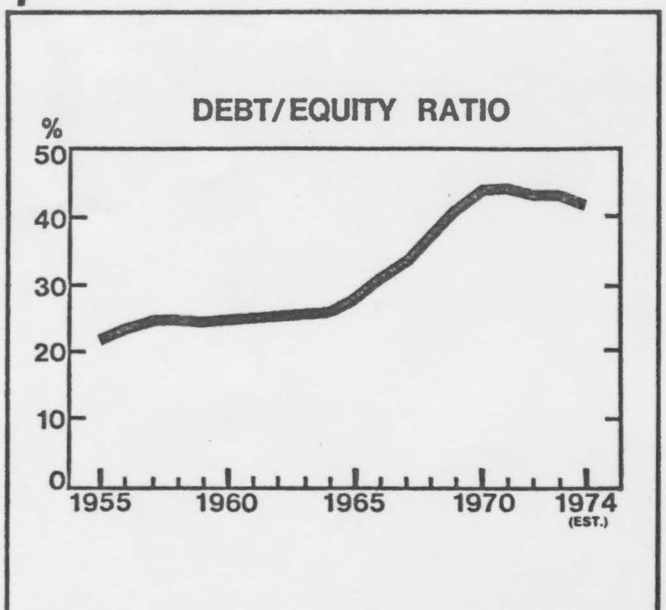
6



SOURCE: TABLE 8

This is seen especially in falling interest coverage...

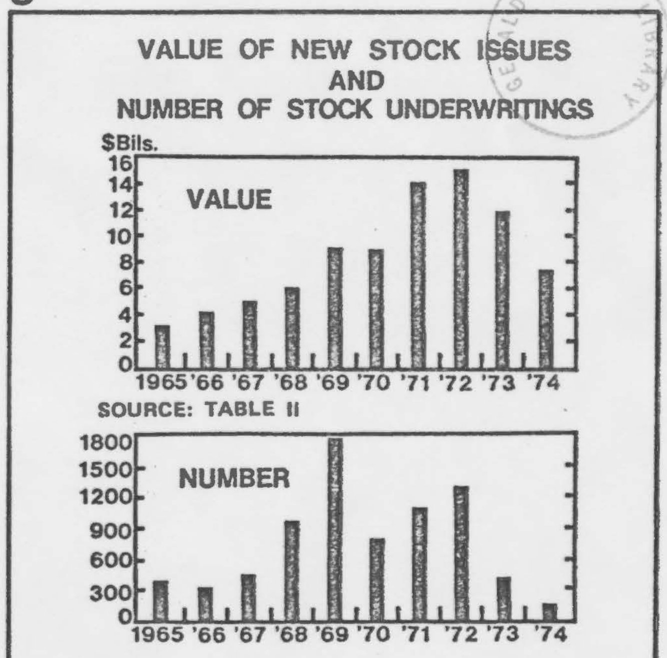
7



SOURCE: SEC/FTC QUARTERLY REPORT OF MANUFACTURING CORPORATIONS, 1955-1974

and rising debt/equity ratios.

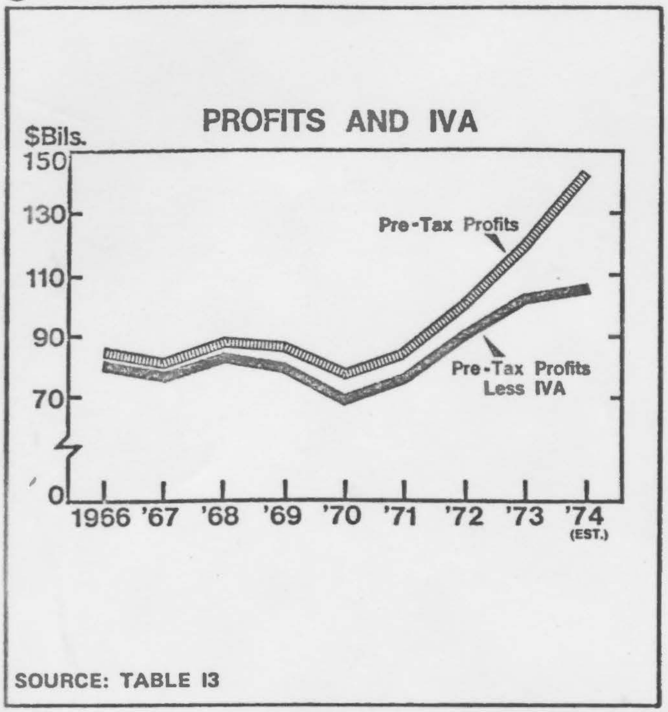
8



SOURCE: TABLE 10

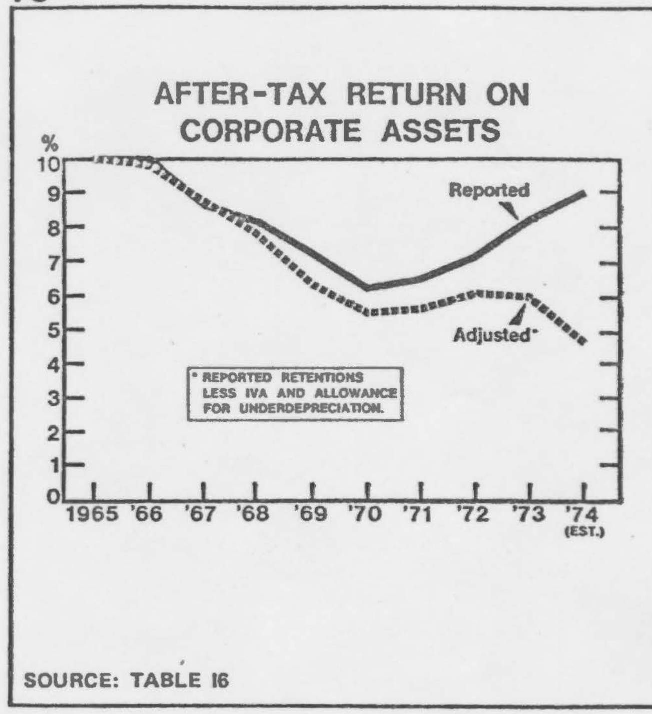
While debt has been increasing, new stock issues have fallen and the number of new stock underwritings has plummeted.

9



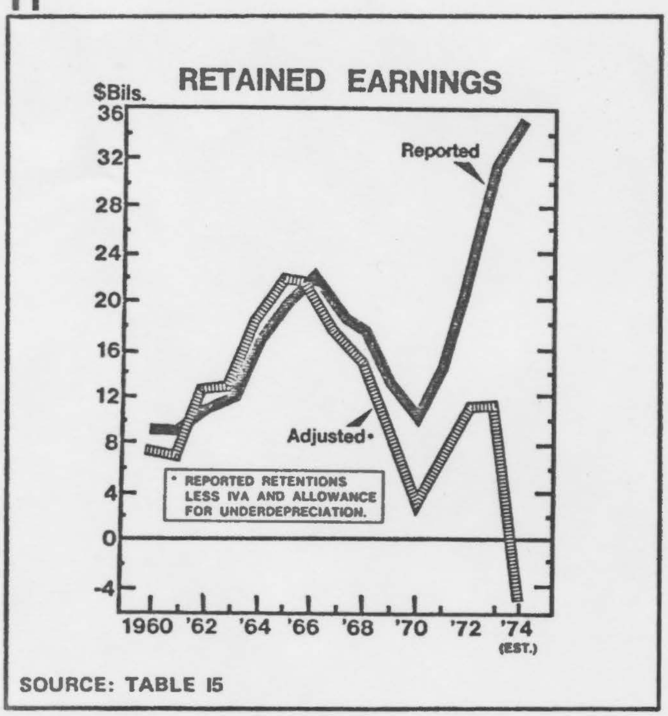
The fall-off in new stock issues is related to reduced growth of real profits...

10



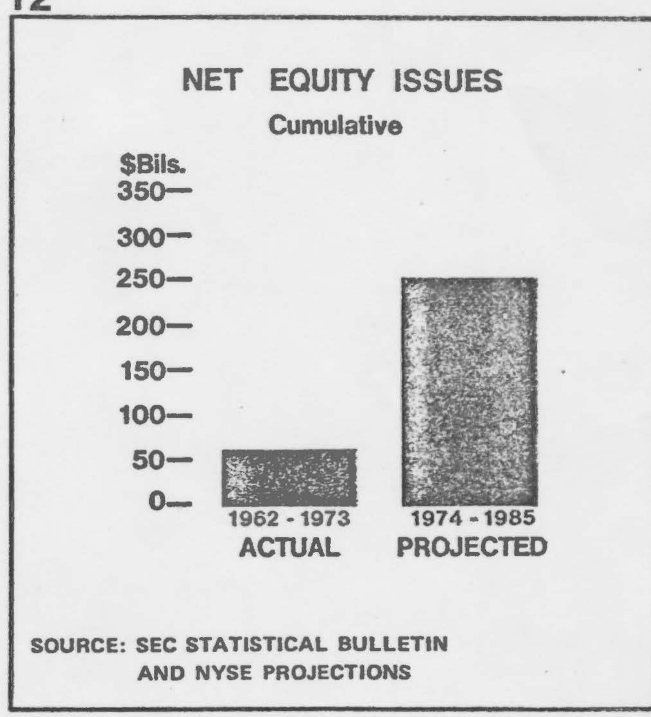
which is reflected in the sharp decline in real rates of return.

11



Decreasing real profitability has resulted in negative retentions in 1974.

12



Unless sufficient new equity is forthcoming, the economy may have serious difficulty in meeting its investment objectives.

File

THE WHITE HOUSE

WASHINGTON

March 10, 1975

ECONOMIC AND ENERGY MEETING
March 11, 1975
11:00 a.m.

From: L. William Seidman LWS

I. PURPOSE

A. To report on the recent OECD Economic Policy Committee meetings in Paris.

B. To review the current status of the tax rebate bill.

C. To report on the status of countervailing duties on EC dairy products.

D. To review Eximbank financing of liquid natural gas facilities.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: Each Monday a one page Weekly Economic Fact Sheet will be prepared by the Council of Economic Advisers for your information and will be included in your briefing paper for the Tuesday Economic and Energy Meeting. The Fact Sheet is attached at Tab A. A memorandum outlining the recommended Administration position on Ways and Means Tax Bill is attached at Tab B. A memorandum on Countervailing Duties on EC Dairy Products is attached at Tab C.

B. Participants: The Vice President, William E. Simon, L. William Seidman, Alan Greenspan, James T. Lynn, Arthur F. Burns, Frank G. Zarb, John T. Dunlop, Robert T. Hartmann

C. Press Plan: David Kennerley.

III. AGENDA

A. OECD Economic Policy Committee Meetings

Alan Greenspan, who headed the U.S. delegation, will report on the March 6-7 meetings of the OECD Economic Policy Committee which considered the economic outlook in the developed world.

B. Status of the Tax Rebate Bill

Secretary Simon will report on the status of the tax rebate bill.

C. Countervailing Duties on EC Dairy Products

Secretary Simon will report on the status of countervailing duties on EC dairy products.

D. Eximbank Financing of Liquid Natural Gas Facilities

Frank Zarb will report on Eximbank Financing of Liquid Natural Gas Facilities.

3/10/75

WEEKLY ECONOMIC FACT SHEET

Employment And Income

--February unemployment rate was 8.2%, unchanged from January, but total employment declined by more than 1/2 million. Since September employment has dropped by 2.4 million.*
--January personal income up slowly at 2.7% rate, due to rise in unemployment benefits.

Production And Sales

--January industrial production dropped 3.6%. Since October, it has dropped 8.9%, and another large drop is likely to be reported for February.**
--Real GNP declined at a 9.1% rate in 4th quarter of 1974.
--January retail sales now estimated to have risen 2.4% and preliminary estimates indicate a further increase of 0.5% during February. **

Prices

--January WPI fell 0.8% as a sharp drop in farm prices more than offset a rise of 1/2 of 1% in industrials.*
--January CPI rose 0.6%, the third monthly slowdown in a row.
--GNP inflation index rose at annural rate of 14.4% in 4th quarter of 1974.

Money And Financial

--Money supply growth was slow from late-November to late-February.
--Annual growth rates during that period: 0 for M_1 and +5.3% for M_2.
--Short-term Treasury bill interest rates edged up from late February to early March.

International

--January trade balance showed a $628 million deficit, a small improvement over December.
-- U. S. dollar value stabilized relative to other currencies last week. The trend has been downward over the past half year.

Key Sectors Of The Economy

--The regular Commerce Department survey of business investment intentions indicates that businessmen expect to increase their plant and equipment spending by 3 1/2 percent from 1974 to 1975, a slightly smaller increase than was earlier expected. This implies a substantial decrease in physical volume.

Key Points

--Inventory correction is still underway; an upturn in production is not imminent.
--Widely-held view of private economists; tax reduction beyond 1975 is necessary.
--Lower inflation is becoming evident at both the retail and wholesale levels.

*Figures released last week.
**New figures to be released this week.

THE SECRETARY OF THE TREASURY
WASHINGTON

March 3, 1975

MEMORANDUM FOR: MEMBERS OF THE ECONOMIC POLICY BOARD

Subject: Economic Policy Board Meeting, March 4, 1975: Position on Ways and Means Tax Bill

Recommended general approach:

Pass the rebate bill quickly.

Accept our original formula. Leave it clear of delaying-inducing amendments like depletion.

Specific points:

1. Rebate formula: We should urge that they do more for middle-income persons.

2. Increases in low-income allowance and standard deduction: We should not make these changes until we know how we plan to pay for them. We are in favor of doing them and they are included in energy package--where revenues to pay for them are provided.

3. Earned income credit: Oppose this strongly. It is pre-judging, without deliberation or analysis, the very major and imminent problems in the social security system.

   - Credit is 5% of earned income up to $4,000 and $6,000. In effect, relieves individuals in those income brackets of the employee's half of social security payroll taxes.

   - Low-income persons get much more than they pay for from social security. Effect of tax <u>and</u> benefits is <u>very progressive</u>.

   - This would be just another program to "buy out" if we are going to straighten out welfare.

   - Provision is very similar to the "work bonus" program that Senator Long has long advocated.

4. Investment credit: Should return to the 12% we proposed, rather than the 10% the Committee adopted. Ways and Means used $1.2 billion of revenues to increase surtax exemption from $25,000 to $50,000 (i.e., first $50,000 would pay only 22%).

5. Surtax exemption: Spending $1.2 billion here is not very efficient use of revenues. Affects very few companies and they are the more affluent ones. But this is a "small business" and, thus, a "motherhood" issue. We should ask that Congress go back to our 12% credit in lieu of this, but should not attack it too hard.

<u>Proposals likely to come up but not now in bill</u>:

1. Loss carryback extension:

   - Various proposals would increase the carryback period, giving cash refunds to some hard-pressed companies. In order to help Lockheed and Pan Am, would have to be "retroactive"--i.e., losses incurred as long ago as 1970 would be carried back to still earlier years.

   - Substantial revenue impact. Possibly $1 billion in first year. Thereafter $200-400 million per year. Not possible to get reliable estimates on this item.

   - No major principle at stake--just dollars. But if done, should probably be done for everyone, not just a favored few.

   - If Senate is going to up the revenue tab, this is probably a better place to spend money than other things they are likely to do.

   - <u>Recommendation</u>: That we reiterate our objections to adding things to the bill; that we let Congress bear the burden of proposing "special interest" legislation; but that we <u>not</u> object so strongly as to derail the proposal <u>if</u> it is clear that it would otherwise happen.

2. Extension of carryback period of investment credit for utilities.

    . Not clear just what they want.

    . Bad to discriminate for or against for particular industries. That is ground for raising the utility credit now.

    . Is, in effect, special relief for just a few utilities. Special relief provisions should be shunned.

    . Others will come in with similar requests. Would be much better to reserve these potentially large revenue losses for use in more thorough reform of the kind we have proposed.

    . Recommendation: That we oppose this kind of change.

3. Permit utility dividends to be tax-free if reinvested ("Citizens Utilities" plan).

    . A major structural change with significant revenue implications.

    . Builds in another discriminatory tax provision. We should concentrate on broader, nondiscriminatory relief later in connection with general reform.

    . Recommendation: Oppose for now.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

MAR 7 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Countervailing Duties on EC Dairy Products

ISSUE:

I have decided that we must impose countervailing duties, equal to the export subsidies paid, on EC dairy products. This must be done in such a way as to minimize adverse reaction from the EC. Given the fact that this decision will have significant impact both on our ability to work with the Congress in the administration of the Trade Act over the next few years and on our relations with the EC, the international economic climate and the course of the multilateral trade negotiations, I want to alert you that I am taking this action.

On February 5, 1975, after a seven-month suspension, the European Community (EC) reinstituted a system of restitution payments (subsidies) on cheese destined for the United States. There is no question that these are bounties or grants within the meaning of the countervailing duty law. Treasury published a Preliminary Determination to that effect on February 14. Our choice of actions was: (1) to impose countervailing duties; (2) to waive the imposition of such duties under the "discretionary" provision of the Trade Act of 1974; or (3) to delay any decision for the present in order to test the system while monitoring imports of EC cheese and consulting with interested parties (legally we have until January 4, 1976 before a final determination is required).

DISCUSSION:

The EC Commission has been pressing us to exercise the waiver provision of the Trade Act, asserting that their reinstituted program is less burdensome to U.S. producers, constitutes a "new" policy with respect to cheese exports and meets the statutory waiver criteria. The "new" EC program includes (1) reduced levels of subsidy payments (the cuts vary from 8 to 56 percent, depending on the product), (2) a statement by the Commission to the effect that they will endeavor to set the payments in such a way as to maintain certain price relationships between EC imports and domestic cheeses, which relationships do not allow deep penetration of U.S. markets, (3) a commitment not to "market aggressively" in the U.S., and (4) an undertaking to consult immediately with U.S. authorities and take corrective action if any EC products are causing problems for U.S. producers. They have also ceased the practice of fixing subsidy payments for up to six months in advance, a practice which greatly limited their ability to control prices by adjusting payment levels.

This case, as you know, has a long history. After we advised the EC that we would countervail their prior export restitution payments, the EC suspended these payments in July of 1974. We therefore suspended our investigation with the commitment to recommence the proceeding promptly if restitution payments were reinstituted. As the enactment of the Trade Bill drew near, both Ambassador Malmgren of STR and Assistant Secretary Macdonald of Treasury were required to commit orally and in writing to Senators Nelson and Mondale during Senate Finance Committee consideration of the Trade Act that Treasury would not exercise discretion in the cheese case if the EC reinstituted the suspended payments. Treasury reserved the right to examine ab initio a "new" subsidy program or policy. Had the Administration not given these commitments, it is my belief that no Trade Bill provision would have been enacted granting any discretion on countervailing duties to the Secretary of the Treasury during the GATT negotiating period. Thus, I believe we are precluded from the use of the waiver provision in this case unless this EC program is deemed to be a "new program". It is clear that Senators Nelson and Mondale do not consider it a new program. These two Senators have asked the Administration "to live up to its commitments." In a letter addressed to me, sixty-six Congressmen have also asked us to countervail. Not to countervail in this case would, in my judgment, leave the Administration open to severe criticism by farm groups, and risk a Congressional override which would reduce our ability to deal flexibly with other cases in the future.

Also, you will recall that you, in a speech in Sioux City on October 31, 1974, stated:

> "If the Europeans reinstitute their export subsidies on dairy products directed at this market, I will impose countervailing duties."

The agencies concerned have been divided on what course to follow, and while the determination is legally to be made by the Secretary of the Treasury, given the highly political nature of the issue in this case, both domestically and internationally, you should be aware of the facts.

Treasury and Agriculture reject the EC contention that the action of February 5 is a "new program". In our judgment the EC has merely reinstituted the program they had in effect prior to the July suspension with somewhat lowered rates. Specifically, we dispute the concept that varying export subsidies necessarily affect the selling price to the U.S. Therefore I believe we must countervail, given the commitments made by the Administration. Treasury, Agriculture and STR agree that the system is <u>not</u> working to maintain "price gaps" between imported and domestic cheeses. At a time when the USDA is buying large quantities of bulk and processed cheese at 81 to 82 cents per pound to maintain support levels (12 million pounds in February) Denmark, the largest EC supplier of competing cheeses, is offering cheese for processing at between 68 and 72 cents per pound.

Treasury and Agriculture further feel that the United States was presented with a <u>fait accompli</u> by the EC, which first sketched the outlines of the plan to representatives of the four concerned agencies on January 22, then unilaterally instituted the program on February 5 before supplying any further details which had been requested.

State, joined by STR, believes that we should not totally reject the EC "system" but that we should test it to determine if it meets our legal requirements; that it may qualify as a new policy; that the commitments made by the Administration give flexibility to determine whether the "new" EC policy will substantially reduce the adverse effect on the U.S. dairy industry; that if there are specific problems on some cheeses, as there appear to be, the Community should be given the opportunity of adjusting their subsidies to correct these problems. They therefore believe that if we do countervail we should only do so on those cheeses which are import sensitive. They are concerned that countervailing at this time, given EC attempts to work out a system which in their view meets the waiver criteria, will jeopardize the trade negotiations and severely damage overall relations between the U.S. and the EC, possibly resulting in retaliation, and adversely affecting the international economic climate.

ACTION TO BE TAKEN:

While the assurances given by the Administration and political sensitivity of the issue require immediate action, all agencies are aware of the effect it could have on our overall relations with the EC. Careful handling of the matter may mitigate that damage.

I therefore intend to do the following:

(1) Send Assistant Secretary Macdonald to Brussels immediately to meet with appropriate officials of the EC Commission;

(2) Have him inform these officials that freedom from subsidized competition is demanded by our hard-pressed dairy farmers as a matter of principle and not merely as an economic matter, and that countervailing duties will be imposed if the subsidies are still in effect on March 20;

(3) Have him assure the EC Commission that we continue to be willing to consult with them on the dairy problem, but that we cannot allow them to subsidize dairy exports into U.S. markets while those consultations are progressing.

William E. Simon

Jerry Jones —
My recommendations are described below.
Jim

THE WHITE HOUSE

WASHINGTON

March 11, 1975

MEMORANDUM TO: ~~JIM CANNON~~

FROM: DICK DUNHAM RD

SUBJECT: Lynn Memo - New Spending Initiatives

Option 1. Reject
Option 2. Reject
Option 3. Reject
Option 4. Reject
Option 5. Adopt

In view of the strong public position and statements that the President has already made concerning "new program initiatives," I do not see how he can publicly change his position at this time.

I do not think, however, that a program which is self-supporting by fees or charges need fall within the proscription against new spending. The Toxic Substances Act is the example cited in the memo.

There are two other alternatives that should be considered if the President decides to stay with the "no new spending" initiatives.

The first is new spending programs could be approved if they are offset by savings or reductions in some other programs. That is no net change in the budget.

The second alternative is to consider new spending programs which begin after June 30, 1976 or the last quarter of 1976. These exceptions could be made only when long range savings can be imputed from the five-year projections.

An example here would be new programs such as Universal Health Insurance which may cost more in the first year or two of operation but would reduce government expenditures over a longer period.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR - 7 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Meaning of "New Spending Initiatives" Action

Background

You have made the following formal statements on the moratorium on new spending:

BUDGET MESSAGE:

"I am proposing no new spending initiatives in this budget other than those for energy."

LIBRARY SPEECH:

"In my State of the Union and subsequent messages, I will not propose any new Federal spending programs except for energy, and the Congress -- your representatives in Washington -- share an equal responsibility to see that no new spending programs are enacted.

"I will not hesitate to veto any new spending programs the Congress sends to me. Many proposed Federal spending programs are desirable and have had my support in the past. They cost money -- your tax dollars. Mainly it is time to declare a one-year moratorium on new Federal spending programs."

STATE OF THE UNION MESSAGE:

"I am now in the process of preparing the budget submissions for fiscal year 1976. In that budget, I will propose legislation to restrain the growth of a number of existing programs. I have also concluded that no new spending programs can be initiated this year, except those for energy. Further, I will not hesitate to veto any new spending programs adopted by the Congress."

We are at a point on various pieces of legislation where further guidance is needed as to the meaning of the moratorium.

Discussion

Although there are others, we face four basic types of problems in interpreting the moratorium:

Deferred Effective Date

These are proposals for legislation that would go into effect subsequent to FY 1976. Perhaps the most important legislative initiatives where this question has arisen involve National Health Insurance and Welfare Reform. Tab A attached sets forth the relevant portions of your Budget Message on these two items. However, the principle also extends to other initiatives.

Administrative Costs Only

These also cover a wide range of initiatives, from a Commission on Observance of National Holidays and Commemorative Occasions to the Consumer Protection Agency, Toxic Substances Act, and Federal No-Fault Insurance legislation. Further listings are set forth at Tab B.

Costs Covered by Fees

It appears that the Toxic Substances Act could be designed in a way that administrative costs would be fully covered by fees from those regulated.

Consolidation, Restructuring or Reform Proposals

The budget includes a number of these, as shown by Tab C.

I understand Tab C is a listing Roy Ash discussed with you to obtain clarification as to whether any of the items shown represent new spending initiatives to be deleted from the budget. Although a number of the items on the list are easily explained as being consistent with the moratorium, on the basis that they are simply extensions of old programs (e.g., the defense and construction programs on page 3), it is difficult to explain some of the other items on a basis that excludes some of the initiatives now being proposed, e.g., the biological services initiative in Interior.

Options

1. Oppose, for one year, any new legislation contemplating any unreimbursed Federal expenditures, even though the effective date would be subsequent to June 30. The rationale would be

-- the top priority of Congress should be initiatives that deal with recession and energy problems and reforms that reduce, rather than increase, expenditures outside of these fields; and

-- it is undesirable to lock in new spending laws now, even with a deferred effective date, because we should determine the scope of new spending programs only when we have a better picture of the total economic scene, budget deficits, etc. at the time the laws are to become effective.

Pros

-- Would be the "toughest" position on trying to hold down expenditures to make room for only those initiatives that are targeted on the recession and our energy problems.

-- Would be a convenient "out" to explain lack of support for particular initiatives, e.g., Consumer Protection Agency, perhaps Land Use, etc.

-- Might hold down budget deficits.

Cons

-- Difficult to rationalize some initiatives already in the budget, e.g., Child nutrition program consolidation, allied services and Library resources demonstration proposals, etc.

Adopt this option ______

Reject this option _____

2. Eliminate initiatives involving administrative expenses except those that are directed at coping with serious human safety problems, e.g., Toxic Substances Act, where delay could conceivably mean substantially increased hazard exposure. Where outlay impact of the initiative is very small, many would perceive the ban as unreasonable.

Adopt this option ______

Reject this option _____

3. Construe the moratorium as not being applicable to initiatives involving administrative costs, whatever that cost may be.

The rationale would be that the moratorium was only on grants-in-aid and various financial assistance such as Federal loans, loan guaranties and the like. This does not mean, of course, that certain of these types of initiatives could not be opposed on grounds other than the moratorium, e.g., the Consumer Protection Act or the Toxic Substances Act.

Pros

-- Would focus the attention on the need to constrain the big ticket items, e.g., domestic assistance programs such as National Health Insurance, increased spending for welfare reform, and other forms of assistance to State and local governments.

-- With such focus, greater acceptance of the principles of the moratorium.

Cons

-- Of course, this option would increase the deficit. Although initial year expenses might be low, past experience indicates administrative expenses for any program can grow substantially in the out-years. For example, although EPA's estimate of first-year costs of the Toxic Substances Act would be \$3 million, OMB's guess is that the costs could easily rise to \$30 million by 1980.

Adopt this option ______

Reject this option ______

4. Same as Option #3, but interpret the moratorium to apply to any program where annual costs in any of the first three years of the program might exceed a specified amount.

Pros

-- A compromise that preserves some of the pros and dampens some of the cons presented in Options #1 and #2.

Cons

-- Extremely difficult to predict administrative costs of a program in advance and would bend estimate to the low side.

-- Once the programs are in effect, extremely difficult to eliminate them later and, although initial aggregate budget effect may be small, it can be much more material in the out-years.

If you accept Option #4, what expenditure amount should be the dividing line:

$10 million per year _____

$25 million per year _____

Other _____ ($_____ million)

5. Exclude from the moratorium programs that are paid by user fees as is possible for the Toxic Substances Act.

Adopt this option _____

Reject this option _____

Attachments

6. Pres would reserve right to make exceptions, but would handle such possible exceptions one-by-one and as they need to be decided.

From the 1976 Budget Message

National Health Insurance

"America needs to improve the way it pays for medical care. We should begin plans for a comprehensive national health insurance system. However, in view of the economic developments and the measures I have proposed to combat recession and inflation, I cannot now propose costly new programs. Once our current economic problems are behind us, the development of an adequate national medical insurance system should have high national priority. I urge the Congress to work with my Administration in order to devise a system that we will be able to afford."

Welfare Reform

"Our present welfare system is inefficient and inequitable. It is wasteful not only of tax dollars but, more importantly, of human potential. Left unchanged, over the long run the situation will almost surely continue to deteriorate. I urge the Congress to work with my Administration to develop reforms that make the system simple, fair, and compassionate. This approach need not cost more, but rather can use our welfare dollars more effectively."

TAB B

New Programs Requiring Only Administrative Costs

	Approximate Annual Cost (In millions)
Health, Education, and Welfare	
Food and Drug Administration:	
Food registration	2
Medical devices	4
Office of Education:	
Library resources integration and demonstration (identified in budget)	20
Treasury	
Customs: New Trade Act	12
Community Services Administration	
Proposed incentives, community food and nutrition research and demonstration bill	50

TAB C

January 2, 1975

New Programs in the 1976 Budget
that May Be Considered Initiatives

1976
Outlays
Affected
(in millions)

A. Consolidation, restructuring or reform of existing programs:

Agriculture - Child nutrition programs consolidation 1,476

Transportation:

Aviation -- Comprehensive proposal which would:

(1) convert present airport grant program into block grants to States and local airports;

(2) provide additional long-term authorization for new airway facilities;

(3) restructure aviation tax system to provide more equitable charges (decrease overall air carrier fees and increase general aviation charges); and

(4) open trust fund to permit funding of FAA maintenance costs, +$30M outlay and +$17M receipts in 1976. 648

Highways -- Comprehensive long-range proposal which would:

(1) provide long-term highway funding through 1980;

(2) extend highway trust fund, but restrict trust funded programs to interstate highway system and reduce trust fund receipts by returning 2¢ of gas tax to general fund and rescinding 1¢ of gas tax (if States pick up) in 1978 and beyond;

(3) prioritize completion of interstate segments and reduce categorical funding programs; and

(4) rescind all unobligated contract authority as of October 1, 1976. .... None

	1976 Outlays Affected (in millions)
A. Consolidation, restructuring or reform of existing programs -- Continued:	
Veterans Administration:	
To carry out recommendations of Quality Survey of VA hospitals	212
Activation of ten new outpatient clinics	9
Interior -- Consolidation into a new Office of Water Research and Technology functions of the Office of Saline Water and the Office of Water Resources Research	19
B. New programs appearing in the budget for the first time but previously announced:	
Treasury -- Petrodollar facility	1,000
Labor, HEW and Commerce -- Program announced at Columbus, Ohio on August 30 for "partnership of labor and educators," including grants to provide data on available occupations and a Federal-State-local partnership of fellowships	5
Interior:	
Plan to lease all promising Outer Continental Shelf oillands by 1978 announced in November 1974	85
Trust Territory initiatives under pending legislation	88
Veterans Administration -- Grants for State veterans cemetaries	5
C. "New" programs not previously announced:	
Interior -- Biological services are planned for the Fish and Wildlife Service. The Service will study the resource programs of the entire Department to understand adverse effects on fish and wildlife and their habitats	9
SBA -- Legislation is proposed to permit full cost recovery interest rates on SBA direct loans	200

	1976 Outlays Affected (in millions)
D. New Defense programs:	
Operations:	
Two new Army divisions	70
Increased Air Force tactical air crew ratios	100
Procurement:	
Contingency stockpiling for allies:	
(1) 30-day stockpile for Asian allies	5
(2) Inventory replenishment fund in advance of foreign sales	30
Navy Captor Mine	5
Navy trainer aircraft	2
B-1 Bomber	15
Air Force Modular Guided Glide Bomb	2
R&D:	
Airborne Intelligence System (Navy)	12
Navy air combat fighter - major development	66
Short-Range Air Defense Missile (Navy)	10
Various Army ordnance and missile programs	7
Advanced Air Defense Supression System	12
Air Force air combat fighter - major development	120
Construction:	
DIA building	4
Diego Garcia expansion	10

THE WHITE HOUSE

WASHINGTON

March 25, 1975

ECONOMIC AND ENERGY MEETING
March 26, 1975
11:00 a.m.
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To review the current status of the tax bill.

B. To review possible relief measures for the U.S. tanker industry.

C. To review the energy program negotiations with the Congress.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Weekly Report briefly outlining Executive Committee activities during the past week and major upcoming agenda items is attached at Tab B.

The Economic Policy Board will hold its monthly meeting on Wednesday, March 26, at 1:00 p.m.

A memorandum on U.S. tanker industry problems and possible relief measures is attached at Tab C.

B. Participants: The Vice President, William E. Simon, L. William Seidman, Alan Greenspan, James T. Lynn, John T. Dunlop, Arthur F. Burns, Frank G. Zarb, Donald Rumsfeld, Robert T. Hartmann, Frederick Dent, Richard Dunham, Brent Scowcroft.

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

III. AGENDA

A. Current Status of the Tax Bill

Secretary Simon will review the current status of the tax bill and a proposed Administration position if the bill has emerged from the Conference Committee.

B. U.S. Tanker Industry Problems

William Seidman will review the current situation in the U.S. tanker industry and possible relief measures to aid the industry. See Tab C.

C. Energy Program Negotiations

Frank Zarb will review the strategy for the energy program negotiations with congressional leaders.

A

WEEKLY ECONOMIC FACT SHEET

Employment and Income

-- February unemployment rate was 8.2%, unchanged from January, but total employment declined by more than 1/2 million. Trend of insured unemployment has been up in recent weeks.
-- Personal income edged up in February because of increases in veterans' benefits and unemployment insurance benefits. Payrolls edged down for the fourth month in a row. *

Production And Orders

-- February industrial production dropped 3.0%. Since October, it has dropped 11.6%.
-- New orders received by manufacturers of durable goods rose 2 percent in February after 5 straight monthly decreases.*

Prices

-- February WPI fell 0.8% as a sharp drop in farm prices more than offset a rise of 1/2 of 1% in industrials.
-- February CPI rose 0.6 percent, the fourth monthly slowdown in a row.*

ey And Financial

-- Growth in money supply over the most recent four week period showed substantial increase following several months of sluggish growth.
-- Corporate profits fell sharply in the fourth quarter of 1974. *

International

-- The balance on current account and long-term capital showed a deficit of almost $6 billion in the fourth quarter of 1974 as compared to a deficit of almost $4 billion in the third quarter. *

Key Sectors Of The Economy

-- Housing starts edged down in February from the very low January rate. Increased availability of mortgage funds should bring about a turnaround in housing starts this Spring. *

* Figures released last week.

March 24, 1975

Weekly Economic Review

Since mid-February when the regular unemployment survey was conducted, the weekly insured unemployment figures have moved higher. Unless the labor force declines again in the March survey, an increase of a half a percentage point or more should be expected in the unemployment rate for the month of March (April 4 release date). Although the rate of layoffs has been falling the unemployment rate is likely to hover in the 9 percent area (plus or minus) well into the summer.

The February turnaround in new orders for durable goods is a favorable development even though this is a very erratic series and one should not attach too much significance to a single month's developments. The February figures are roughly consistent with reports from purchasing agents that the deterioration in February was much less pronounced than the month before. On the basis of past experience changes in new orders tend to be followed by changes in shipments with a lag of roughly one to two calendar quarters.

Severe cutbacks in inventories continues to depress industrial production although the downward pressure from this source has probably reached its peak. The automobile industry has pared stocks sufficiently to reverse in March the sharp production decline that has been underway since last November. Provided sales hold up a similar process should become evident in other industries over the next several months as burdensome stocks are reduced.

The February CPI provided further evidence of a clearcut improvement in the rate of inflation at the consumer level. From November to February the CPI rose at a seasonally adjusted annual rate of 8.1 percent. Over the preceding year the CPI had risen by 12 percent. Provided we do not have bad luck on crops, prospects for continued disinflation over the coming year look promising but we should not expect dramatic results. Although inflation has subsided the rate of price increase for nonfood commodities, however, has worsened slightly during the past 2 months and the service prices continued to advance at quite high rates.

------ ------

Housing starts should start to rise over the next few months. Financial conditions in mortgage markets began to improve last fall and past relationships suggest a lag of 3 to 6 months between an improvement in financial conditions and a rise in starts. A large overhang of unsold homes has been holding back the recovery. Reports from builders over the past month or two show increased interest in home buying on the part of consumers.

B

March 25, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by EPB During Week of March 17

1. Review of the tax cut bill.

2. Review of relief measures for U.S. Tanker Industry.

3. Pan Am/TWA Route Swap memorandum approved for submission to the President.

4. Review of negotiating instructions on Law of the Sea.

5. Review of meeting with financial consultants on conditions and prospects in the financial markets.

6. Preliminary review of national economic planning proposals.

Status Reports Reviewed

1. Task Force on International Commodity Agreements
   Outline of study approved. The Task Force is on schedule for a final report on April 30 in order to provide adequate time to finalize an Administration position for May 27 OECD meeting.

2. Food Deputies Group
   CPI-food index rose only 0.1 percent in February. Planted acreage expected to be 0.5 percent above 1974. House passed emergency farm bill 259 to 162.

3. Interagency Fertilizer Task Force
   Supply-demand situation has improved significantly although it remains tight. Executive Committee decided it was unnecessary to reinstitute fertilizer monitoring program or to recommend use of the Defense Production Act to accelerate construction of ammonia plants.

4. Council on Wage and Price Stability
   Current price monitoring of steel, aluminum, metal can, rubber tire, chemicals, and farm-retail price spreads. Study of postal wages and meetings with plumbers and plumbing contractors in San Francisco Bay area. Discussions with NHSTA on auto safety and tire grading.

Major Upcoming Agenda Items

1. Review of budget outlook and possible increased funding for existing programs.

2. Administration position on Federal Reserve legislation.

3. Proposal to advance General Revenue Sharing payment.

4. Generalized Special Preferences and OPEC.

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THE WHITE HOUSE

WASHINGTON

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: U.S. Tanker Industry Problems

Due to decreased oil movements and rapid growth in tanker capacity, both the worldwide and U.S. tanker industries are in a depressed condition. As indicated in a meeting with the President on March 7, both labor and management representatives from the ship construction and ship operations industry believe that government action to assist the industry is necessary. These representatives proposed that the Administration require oil importers to use American vessels first. The industry representatives further recommended that an exemption from oil import fees be allowed to importers using U.S.-built, U.S.-flag tankers.

The Economic Policy Board has examined the problems facing the U.S. tanker industry, and has considered several options for responding to the problem. These options, and the positions of the interested agencies, are discussed below.

General Considerations Regarding The Options

Options 1(a), 2 and 3, are intended to be implemented by executive order. There must be a sound legal basis for such implementation. Although other legal authorities have been mentioned, it is the President's authority under Section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862) that is most frequently referred to as a possible statutory basis for Executive action on options 1-3. A number of agencies have indicated that they doubt that Section 232 is an adequate authority for imposing a "Use American Vessels First" policy or a partial import fee exemption. Accordingly, any final decision on any of these three options should be based on a legal determination by the Justice Department.

Prior to a final decision, it should be definitely established that implementation of any of the options involving action would be acceptable to the tanker industry and the maritime unions as a substitute for enactment of oil cargo preference legislation. Assurances should be obtained from these interests that further efforts to pursue cargo preference legislation will not be undertaken.

<u>Option 1(a): Require Use of American Vessels First, By Executive Order</u>

This option, which is similar to oil cargo preference enacted by the Congress in late 1974, would require oil importers, as a condition in granting an import license, to use U.S.-flag vessels, provided such vessels are available at fair and reasonable rates. These fair and reasonable rates would cover the cost, including cost of capital, of ships built in the United States and registered under the U.S.-flag.

The limited cargo preference provided under this option may be less undesirable than the cargo preference bill passed by the 93rd Congress, and reintroduced this year, for the following reasons:

- It would apply only to existing ships under 25 years of age and to ships already under contract for construction as of its effective date. Thus it would not entail the legislation's disadvantages of providing support for the oldest, most inefficient ships, and of encouraging the construction of unneeded tankers, with concomitant inflationary pressures on the shipyards and potential conflict with Navy shipbuilding programs.

- It may be possible to make the preference temporary, for two years or so, although it may be very difficult to terminate the preference once it is initiated.

This option, however, has several of the same problems as the vetoed oil cargo preference legislation:

- It would increase the cost of oil to consumers by a total of over $300 million a year.

- It would undoubtedly result in protests by certain foreign nations as contrary to the principle of free trade, and in violation of treaties of commerce. The Commerce Department believes that the objections may be counteracted somewhat by the recent actual and defacto cargo preference actions by some foreign countries, including the OPEC nations.

- It would reduce or remove incentives to the tanker industry to improve their productivity, because of a lack of effective competition.

Option 1(b): Agree to Accept Legislation Requiring Use of American Vessels First

This option would be the same as option 1(a), except that it would avoid problems of using existing authorities, and give Congress the initiative. It may be very difficult to contrain such legislation to limit it only to certain existing tankers.

Option 2: Temporary Partial Exemption From Oil Import License Fees

Partial exemptions from oil import license fees would be granted to importers who use U.S.-flag tankers constructed in the United States. The amount of fee exemption would be equal to the difference between the fair and reasonable charter rates for U.S.-flag tankers, constructed in the United States, and world rates. The fee exemption amounts would be adjusted periodically to reflect changes in U.S. costs and in world rates. When world rates reached levels that were reasonably compensatory, the fee exemption would expire.

It is not certain that importers would use U.S. tankers under this option, but the fee exemption should make the cost of U.S. flag tankers at least equal to foreign flag tankers. If the fee exemption results in the use of U.S. tankers, it would cost about $300 million a year in lost revenues.

This option would not increase the cost of oil to consumers, but it would have many of the other undesirable features of oil cargo preference. It would subsidize inefficient ships, and it would likely provoke strong objections from foreign nations.

FEA opposes exemption from the import fee for the benefit of any industry. It feels that an exemption in this case would establish an undesirable precedent. If the import fee were raised to $2.00 a barrel, however, partial exemptions from the incremental dollar for the tanker industry, may not be objectionable.

Option 3: Use American Vessels First, With A Temporary Partial Remission of Oil Import License Fees

This option was presented by the industry to the President on March 7. Oil importers would be required, as a condition in granting an import license, to use U.S.-flag vessels prior to using foreign vessels, provided U.S. vessels are available at fair and reasonable rates. These fair and reasonable rates would cover the cost, including the cost of capital, of ships built in the United States and registered under the U.S.-flag. The industry further recommended an exemption from import fees to importers using U.S. built U.S.-flag tankers.

Although not included in the industry proposal, it is recommended that this option only be considered as applying to existing tankers under 25 years of age and those contracted for construction as of the effective date. Fee exemptions should be limited to amounts equal to the added cost of U.S. tankers. The measure should be reviewed after two years and lifted whenever world rates return to compensatory levels.

This option would cost about $300 million a year in lost revenues, but it may result in only a small increase in cost of oil imports. It otherwise has the same undesirable features of option 1 and 2.

Option 4(a): Rate Subsidy For U.S.-Flag Tankers in Foreign Trade

This option would provide federal subsidy payments to operators of U.S.-flag tankers employed in U.S. foreign commerce equal to the difference between competitive world charter rates and "fair and reasonable" U.S.-flag costs.

It should bring U.S. tankers that would otherwise remain in layup into operation even though charter rates for foreign-flag tankers continued to be significantly below their operating costs. It would be explicitly limited to tankers currently existing or on order and would not apply when world rates were sufficiently high to allow reasonable profits for U.S.-flag tankers.

This option would require legislation. It would cost about $300 million a year in direct appropriations. It would provide a subsidy to all U.S. flag ships employed in U.S. foreign commerce, even though the majority of those ships would continue to operate without a subsidy.

Option 4(b): Rate Subsidy For Selected U.S.-Flag Tankers in Foreign Trade

This option would be the same as 4(a) except the subsidy would be legislatively limited to only selected ships, e.g., no subsidy would be provided to tankers owned or operated by major oil companies.

It may be possible to focus the subsidy on the independent operators, which are the ones impacted by the current problems, although there may be difficult problems in discriminating against certain ship owners. This option could cost substantially less than option 4(a), depending on how selectively it were applied.

Option 5: Increase Government Preference Agricultural Cargoes

Increasing the share of U.S.-flag participation in carrying P.L. 480 cargoes to 75 percent from the current 50 percent might provide an additional 10 voyages for U.S. tankers by June 30, 1975. This would provide employment for some 400 merchant seamen. The added U.S. cost would be $5.4 million for these tanker shipments and $4.7 million for other cargoes. This total cost of $10.1 million would be borne principally by USDA and AID.

It may be difficult or impossible to implement this in FY 1975 because written agreements with foreign countries would require renegotiation in some cases. It is expected that there would be complaints by recipient countries which use their national flag ships to carry P.L. 480 cargoes.

Option 6: Take No Action

Failure to take effective action by the Administration may provoke labor troubles and upset the favorable labor-management relations that have been fostered during the past several years. A strike by seagoing labor, which might be supported by longshore labor, could have a serious impact on U.S. economy. The labor reaction to inaction by the Administration might also be directed against Soviet maritime activity and could result in a major set-back in U.S./U.S.S.R. commercial relations.

No action also may increase the chances of Congressional action on oil cargo preference legislation.

At this time, it is not clear that the problem in the industry warrants the cost of the options discussed above. Also, it is not clear that any of the options for action would avoid the potential union and Congressional actions.

Agency Positions

Commerce - Option 3.

Defense - Option 3.

Labor - Option 1(a) or 1(b), if the Administration could get enough in return in terms of commitments from unions and industry; otherwise, option 6.

State - Option 6, but should consider other options such as increased unemployment benefits for unemployed seamen.

Agriculture - Opposes option 5.

CEA - Option 6; CEA believes that the available facts do not support any action.

OMB - Option 6; if action is determined to be necessary, recommend option 4(b) to focus assistance on the independent operators.

Treasury - Opposes options 1, 2 and 3; favors option 4, if action is necessary.

CIEP - Option 4(b); opposes options 1, 2 and 3.

AID - Opposes option 5.

Decision

__________ Option 1(a): Require use of American vessels first, by executive order.

__________ Option 1(b): Agree to accept legislation requiring use of American vessels first.

__________ Option 2: Temporary partial exemption from oil import license fees.

__________ Option 3: Use American vessels first, with a partial remission of oil import license fees.

__________ Option 4(a): Rate subsidy for all U.S.-flag tankers.

__________ Option 4(b): Rate subsidy for selected U.S. flag tankers.

__________ Option 5: Increase government preference agricultural cargoes.

__________ Option 6: Take no action.