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ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

October 31, 1975

PRINCIPALS ONLY

1. EPB/NSC Task Force on Commodities

2. CEA Annual Report

Greenspan

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

October 30, 1975

ATTENDEES: Messrs. Simon, Seidman, Greenspan, Robinson, Dunn, Zarb, MacAvoy, Malkiel, O'Neill, Collier, Gorog, Penner, Cooper, Walker, Bennett, Boeker, Porter, Hormats, Bell, Harper, Goldstein, S. Katz, Metz

1. Tax Reduction and Spending Restraint Program

The Executive Committee reviewed a proposed strategy for securing passage of the President's tax reduction and spending restraint program. A general tactical strategy with respect to the Ways and Means Committee was approved as well as supporting the Latta bill under consideration by the House Budget Committee to limit Federal spending in FY 1977 to \$395 billion. The steering group will finalize assignments for contacts with Ways and Means Committee members. The discussion also included a review of potential media events. The Executive Committee members were requested to provide Mr. Gorog with their comments on his draft outline for a Presidential speech.

2. Codes of Conduct for Multinational Corporations

The Executive Committee reviewed a report by the CIEP Inter-agency Committee on Transnational Enterprises, "Guidelines for Multinational Corporations." The discussion focused on the current atmosphere for international investment and the question of whether a code of conduct could help in making this atmosphere more amenable to investment flows. There was general agreement that in connection with the MNC code of conduct exercises every effort should be made to secure an emphatic declaration of support for the concept of foreign investment. The OECD code of conduct exercise is expected to be the first to come to a conclusion, perhaps in time for the spring 1976

ministerial meetings. The Executive Committee also discussed the issue of how international investment would be treated in the International Economic Summit meetings and the current attitudes of the U.S. business community toward MNC codes of conduct. Finally, the discussion focused on the relationship of the U.S. position in the code of conduct exercises to the disclosure of information activities of the SEC, FTC, and Accounting Standards Board.

Decision

The CIEP Interagency Committee will prepare a paper outlining U.S. objectives with respect to international investment at the Summit, the positions other participants at the Summit may take, and draft communique language. This paper should be completed no later than Wednesday, November 5th.

The CIEP Interagency Committee will continue work on the substance of any MNC code of conduct the U.S. would approve, including issues requiring policy guidance, for consideration by the Executive Committee.

3. International Coffee Agreement

Mr. Seidman requested that Executive Committee members with views regarding the negotiating position the U.S. should take in the upcoming International Coffee Agreement negotiations in London should communicate those views to his office no later than 3:00 p.m. today. A memorandum incorporating the views of the Department of State, Council of Economic Advisers, and other EPB members will be forwarded to the President.



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 29, 1975

MEMORANDUM FOR L. WILLIAM SEIDMAN
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC AFFAIRS

Subject: Coordinating U.S. Commodity Policy

Part of the price paid for heading off a confrontation with the developing countries at the UN Special Session in September was U.S. agreement to participate in an unprecedented series of commodity related negotiations over the next few months. There, we will be expected to deliver on our September commitments. Our existing system of resolving commodity issues was suited for the past, when meetings were months apart, but is completely inadequate for this unprecedented schedule -- 20 meetings in 1975 alone, an average of one meeting every 3-1/2 days.

I. Proposal

This schedule will strain the United States' commodities decision making process in general and the EPB's role in that process in particular. Without better interagency planning and coordination of commodities policy, we can anticipate the following:

- The United States' ability to conceive and execute a coherent policy will be strained. The LDCs will exploit our mistakes and inconsistent positions at different forums.
- The EPB must either increase the time spent reviewing individual commodity issues or accept diminished control over the course of events. The EPB will increasingly find itself resolving narrow commodity disputes,

arising at the last minute, without benefit of adequate analysis or a broader view. Essential interests, excluded from timely input, will fight for recognition at a later stage and reduce U.S. ability to deliver on commitments made in international forums.

- Congressional criticism will mount. The 1974 GAO report criticized the Executive's lack of policy coordinating-mechanisms. This charge will be echoed by the Commission on Supplies and Shortages which may well recommend a new group or agency for commodities policy if it finds existing coordination inadequate. Elements of industry may support this proposal.

To remedy this situation, we propose a Commodity Policy Coordinating Committee using the EPB/NSC Task Force for Commodities Policy. This Task Force includes the 11 agencies concerned with commodities policy and has the necessary expertise. If temporarily established as an arm of the EPB and reinforced by greater senior level participation, it could in effect serve the EPB as a Secretariat for Commodities.

It would not supplant existing groups but would undertake the following:

- Prepare an initial report highlighting the key negotiations and crucial decisions.
- Thereafter, present regular updates each week or as needed. It would draw on more detailed reports to be regularly submitted by each of the groups responsible for individual commodities decisions (identified on the chart you received last week).
- Attempt to reduce the number of individual commodity issues on the EPB's agenda by seeking adequate and timely participation in decision making by representative agencies and resolution of disputes at the Committee level.

II. State's Proposal

State reviews the current system, finds that it works well, and concludes that the only change needed to deal with the unprecedented calendar of commodity events is a series of bi-weekly "status" reports, prepared by the lead agency for each issue.

Why this system will not work is well illustrated by the "status" report which State has submitted. It paints a comforting picture: a series of unrelated commodity meetings; none apparently requiring the EPB's attention. The interagency perspective would have been different:

- One agency has already found it necessary to raise one of these events to the EPB -- coffee is under review.
- Coordination is imperfect. A "senior official" was quoted last week as saying that "price wasn't the issue" in the recently renegotiated cocoa agreement. Most agencies would disagree, but this may encourage producers to reopen the cocoa agreement.
- At Japanese and European insistence, the OECD's High Level Group on Commodities will consider copper buffer stockpiles next week. The unresolved U.S. position on this issue has contributed to industry concern over a "disquieting report that the U.S. Government will indicate its receptivity to a copper commodity agreement at the December meeting in Paris."

These issues may not all require EPB review, but an interagency perspective is imperative if the hard decisions are to be brought to the EPB's attention before events overtake policy.


Gerald L. Parsky

Attachment



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

ATTACHMENT

MEMORANDUM FOR L. WILLIAM SEIDMAN
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC AFFAIRS

Subject: Future Role for EPB/NSC Commodity Task Force

At the conclusion of our discussion about the future work of the joint Commodities Task Force last Wednesday, you asked us to identify which agencies participate in formulating policy for each of the 24 currently identified commodity related meetings, to recommend what future role the Task Force might play.

We have completed the analysis (Attachment I). For a minority of forums, such as the MTN and IMF, a group representing a broad range of interests meets regularly. For most forums, however, the situation is different. In some cases, no group currently exists. In other cases, a large group exists on paper, but policies are in fact formulated by the lead agency passing out position papers for telephone clearances shortly before the meeting. In a third category of situations, ad hoc groups meet once or twice shortly before the meeting.

If the coordinating mechanisms for handling individual meetings are deficient in many cases, as this analysis suggests, it will be difficult if not impossible, to achieve satisfactory coordination among the 20 meetings scheduled during the remainder of 1975. The groups meet erratically if they meet at all. In many cases, the agencies are different. Where the agencies are not different, the personnel frequently differ.

I. Need for Coordinating Committee

We conclude that the current framework for coordinating commodities policy, erected in quieter times, cannot stand the strain of the 20 international commodities-related meetings scheduled in the next three months and the numerous follow-up meetings which these 20 will spawn. Its continuation poses two serious dangers:

- (1) It will undermine the United States' ability to conceive and execute a coherent commodities policy during this critical period
 - There is inadequate representation of domestic and other interests at an early stage. Congress may not approve what the Executive negotiates, leading to international recriminations.
 - Isolated groups, unaware of rapid developments elsewhere, will be forced to make decisions during shortened time periods. Lacking policy guidance from senior officials, they will unwittingly set damaging precedents for negotiations being carried on elsewhere and will make concessions which may be reasonable within the context of a single negotiation but unwarranted from an overall standpoint in view of concessions being offered in other forums.
 - Our weaknesses will be exploited by the LDC producers who, in numerous forums over the past year and a half, have displayed surprising ability to hammer out common positions before international meetings, and stick to them. Over a broad range of forums they have executed sophisticated negotiating strategies aimed at whipsawing industrialized country negotiators.
 - The Executive will be subject to severe criticism from Congress which, for the past two years, has repeatedly accused the Executive of lack of commodities policy coordination (see Attachment II). Congress' consent will be increasingly necessary to ratify and finance the type of agreements currently being negotiated.

(2) In the absence of a Commodity Policy Coordinating Committee, the EPB must either increase the time spent on commodities issues or accept diminished control over the course of events

-- The Tin Agreement and cocoa negotiations are illustrative of how time consuming commodities issues can be. Their peculiarly individual characteristics suit them for a "case-by-case" approach but also mean that each agreement has its own constellation of factors which must be mastered anew every time another case arises. Yet 19 more potential conflict-producing negotiations are scheduled in less than three months -- averaging more than one per week.

-- The EPB will find itself increasingly involved in narrow issues instead of policy. The overall trend will be increasingly hard to discern as issues arise individually. In the absence of an across-the-board analysis, it will be exceedingly difficult to execute strategy.

-- Agency differences worked out in one commodities area will resurface in other areas where different agency personnel are involved, or a different constellation of forces affects the relevant group. The EPB will be mediating the same disputes several times.

II. Recommendations: Use the Commodity Task Force as a Policy Coordinating Committee to Function As Follows

There is no time, nor a need, for a major restructuring of existing groups. The Committee would not supplant them. It would not alter the lead agencies. Where groups have functions extending beyond commodities, the Committee would only be concerned with their commodity aspects.

Its purpose would be to serve the EPB.

(a) It would be a Secretariat for Commodity issues for the EPB, concerned with assuring adequate and timely agency representation in individual commodity groups and assuring

that the individual groups themselves prepare weekly reports on commodity issues which would be transmitted to the EPB regularly.

- (b) It would prepare summaries and highlight impending policy or organizational problems. (see Attachment III).
- (c) It would keep individual decision making groups informed of developments elsewhere and bring significant departures from overall commodities policy to the EPB's attention.
- (d) It would assure that a representative range of agencies has adequate and timely input into the decision making process at the negotiating stage, and that the full range of affected agencies participates before final action, such as seeking Congressional action, is undertaken. If assured of representation, the number of agencies currently involved in some negotiations could be reduced -- increasing flexibility, and reducing disputes rising to the EPB level.

III. For the Following Reasons the EPB/NSC Task Force on Commodities Policy Should Take on the Above Described Coordinating Function

It is ready now - The negotiations will be occurring in rapid fire succession, six in October, nine in November, and five in December. An experienced Committee must be established immediately.

It has the expertise - Over the past eight months, it has developed both the detailed expertise and the ability to handle fundamental analysis necessary to a group undertaking a policy coordinating function.

It has the necessary membership base - Its eleven constituent agencies include all the relevant agencies who must be represented at some stage.

It has functioned well - The Task Force has met its deadlines, and made commodity policy recommendations that were generally accepted. It has given the EPB an effective tool during the period of fundamental policy formulation and has the necessary broad perspective to carry on during the execution phase.

Gerald L. Parsky

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON


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

October 29, 1975

MEMORANDUM FOR THE EXECUTIVE COMMITTEE OF THE ECONOMIC POLICY BOARD

SUBJECT: CEA Annual Report, January 1976

I am enclosing a draft outline of the CEA Annual Report for discussion at the Friday, October 31 EPB meeting.


Burton G. Malkiel



OUTLINE

1976 ECONOMIC REPORT OF THE PRESIDENT

CHAPTER 1. ECONOMIC POLICY AND OUTLOOK

The President's Economic Programs

Description of President's Proposals

Analysis And Justification Of The Programs

The Outlook For The Economy

Inventories

Consumption Expenditures

Importance of Savings Rates

Explanation Of Recent Increase In Savings Rates

Change In Composition Of Consumption And Its Effect
On Savings Rates

Business Fixed Investment

Capacity Utilization Rates

Financing Problems

Outlook For Corporate Profits And Cash Flow
In 1976 And Beyond

Change In Relative Prices Affecting Profitability
Of Future Investment

Construction

Residential Construction

Demographic Factors

Inventory of Unsold Housing Units

Costs of Single Family Houses

Financing Issues (Disintermediation)

Multifamily

Nonresidential Construction

Government Purchases

Federal, State and Local Government Purchases

The Outlook For Net Exports

The Outlook For Prices

Food

Energy

Wage Negotiations In 1976

Productivity, Unit Labor Costs And Business Profits

International Considerations

How Can There Be So Much Inflation With So Much Excess Capacity?

Inflation As A Lagged Response To Excessive Growth of Aggregate

Special Supply Factors In Determining Inflation Rates

Inflation And Long Run Marginal Costs

Risks In The Forecast

Inflation Can Throw The Recovery Off The Track

Inflation And Savings Rates

Inflation And Interest Rates

Mix Of Macroeconomic Policies Could Produce Problems For Several Sectors And Alter Consumption/Investment Balance. (Big deficits and tight credit conditions and the structure of the recovery)

Housing, An Interest-Sensitive Sector

Interest Rates, Stock Prices And Business Investment

Financing Problems For Some Businesses And State And Local Governments

The Need For Stable Economic Policies

High Rates Of Inflation Complicate Policymaking

Expectational Effects Quickly Incorporated Into
Economic Decisionmaking

Stop-go Economic Policies Have Been Extremely Damaging

Difficulty of Measuring Capacity

Difference Between Short and Long Run Capacity

CHAPTER 2. ECONOMIC DEVELOPMENT AND POLICY IN 1975

How Benchmark Revisions In National Income Accounts Have Altered Our Understanding Of Past Changes In The Economy

Demand And Output

Inventories

Consumer Incomes And Spending

Construction Expenditures

Business Fixed Investment

Net Exports

Inflation In 1975

Price Developments In 1975

Developments In Agriculture And Energy

Changes In Output And The Rate Of Change Of Inflation

International Aspects

Fiscal Policy In 1975

The 1975 Tax Cut

Balances Of The Federal Budget

Money And Credit Conditions

Monetary Aggregates And Interest Rates

Changes In The Structure Of Interest Rates

Development Of Risk Premiums In Corporate
And Municipal Markets

Conditions In Credit And Mortgage Markets

Labor Market Developments

Analysis Of Unemployment

Energy Developments In 1975

Agricultural Developments In 1975

CHAPTER 3. LONGER RUN ECONOMIC PROBLEMS AND POLICIES

Income Maintenance Programs

Social Security Reform

Regulatory Reform

Energy Problems And Policies

Tax Reform

The Long Run Capital Formation Problem

Environmental Problems

CHAPTER 4. THE INTERNATIONAL ECONOMY

The U. S. Balance of Payments In 1975

The International Economy In 1975

Deep Recession In The OECD Countries

High Consumer Savings Rates

Inventory Adjustments

Business Fixed Investment

The Slowing Of Inflation

The Special Problems Of The Less Developed Countries

The International Economic Outlook

Monetary And Fiscal Policy Changes In 1975

Long Run International Economic Problems

Multilateral Trade Negotiations And Threats To THE
International Trading System

The Evolution Of The International Monetary System

The Exchange Rate Regime

The Provision Of International Reserves And The Role
Of Gold.