The original documents are located in Box 53, folder "1975/11/03 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

EPB MEETING
Monday, November 3, 1975
8:30 a.m.

gmc

EYES ONLY

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

October 31, 1975

ATTENDEES: Messrs. Simon, Seidman, Dunlop, Robinson, Dunn, Cannon, Zarb, O'Neill, MacAvoy, Malkiel, Parsky, Katz, Goldstein, Kasputys, Porter, Davis

1. Council of Economic Advisers Annual Report

Mr. Malkiel reported on the outline of the CEA Annual Report, which will be published in January 1976. The report would include chapters on economic policy and outlook, economic development and policy in 1975, longer run economic problems and policies, and the international economy.

Decision

Executive Committee members were requested to provide Mr. Malkiel with any comments they have on the outline no later than c.o.b. Tuesday, November 4.

2. Tax Cut Strategy

Secretary Simon reported on his meetings yesterday with minority members of the House Ways and Means Committee and their discussion of strategy on the tax cut bill. He will meet again with them to further consider strategy Monday morning.

3. EPB/NSC Task Force on Commodities

The Committee went into executive session to discuss alternative procedures for the Economic Policy Board and National Security Council to consider commodity related issues. There was general agreement on the need for the EPB and NSC to be systematically informed on commodity related international matters and for them to consider in a timely manner any policy issues which arise in the area of commodities.

Decision

An EPB/NSC Task Force on Commodities, jointly chaired by the Departments of Treasury and State, will serve as the focal point for monitoring and regularly reporting on commodity issues to the EPB/NSC.

EYES ONLY
RBP

Messrs. Robinson and Parsky will prepare a paper outlining the procedures for the functioning of the Task Force for review by the EPB/NSC.

4. Energy

Mr. Zarb reported on recent developments with respect to decontrol and energy legislation currently pending in Congress.

THE WHITE HOUSE

WASHINGTON

October 31, 1975

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your information.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

October 29, 1975

MEMORANDUM FOR ECONOMIC POLICY BOARD

Subject: Unemployment Insurance: The Administration Proposals and the Subcommittee Bill

On October 20, 1975, the Unemployment Compensation Subcommittee of the House Ways and Means Committee approved a clean bill (H.R. 10210) for consideration by the full committee. The vote was 7-3 as follows: Pro--Corman, Fisher, Keys, Jacobs, Burke, Frenzel and William Steiger; Con--Pickel, Burleson and Ketchum. The Ways and Means Committee hearing is now expected to be held on October 31.

Although the changes made by the Subcommittee are in my view consonant with the Administration's proposals, the Subcommittee's bill does differ in some respects from the original Administration bill (H.R. 8614):

Coverage. The Administration proposed increased farm coverage--employers with 4 or more workers in each of 20 weeks or $5,000 in a calendar quarter. The Subcommittee bill makes the crew leader the employer, rather than the farm operator, if the crew leader is registered under the Farm Labor Contractor Registration Act.

The Subcommittee bill provides for domestic service--employers with quarterly wages of $600 or more compared to $500 or more in the Administration bill.

The Subcommittee bill provides with respect to State and local government employment that States are required to cover State and local government workers, excepting only legislators, judges, elected and appointed officials, emergency employees, National Guardsmen, and inmates of custodial and penal institutions. (The Administration bill would have extended required coverage, now limited to State hospitals and colleges and universities, to all State and local government hospitals and institutions of education, including primary and secondary schools.)

Coverage changes effective January 1, 1977.

The Subcommittee bill would increase coverage by about 9 million workers compared to 6 million provided in the Administration bill.

Financing. The Subcommittee bill provides that the net Federal unemployment tax rate is increased from 0.5 percent to 0.7 percent, beginning in 1976; to drop back to 0.5 percent in 1982 or earlier, if the general revenue advances to the Federal extended benefit account are repaid sooner than 1981.

The Federal unemployment tax base is increased, from the present $4,200 to $8,000, beginning January 1, 1977.

(The Administration bill would have, beginning in 1977, raised the tax base to $6,000 and the tax rate to 0.65 percent, to drop back to 0.45 percent when the advances to the extended benefit account were repaid.)

Extended benefits. The Subcommittee bill provides that the national trigger rate for extended benefits (weeks 27-39) is to be based on the most recent 13 weeks, as is the case now for the State trigger. The State trigger rate is to be seasonally adjusted as is already being done for the national trigger rate. The national trigger rate remains 4.5 percent (insured unemployment) and the State trigger rate 4.0 percent. The 120 percent factor is deleted from the State trigger. (This provision is the same as the Administration bill except for the deletion of an option to the States to use area triggers.)

Repeal of UCFE finality provision. This provision now makes Federal agency findings of the reasons for Federal workers' separations binding on State agencies (not in the Administration bill).

Ban on State UI disqualifications based solely on pregnancy. (Not in the Administration bill.)

Requirement that States pay administrative costs and entire extended benefit costs (weeks 27-39) of State and local government workers. (Same as Administration bill but effective date changed from January 1, 1976, to January 1, 1978.)

Transition from SUA. Provision for Federal reimbursement from general revenues to the extent that benefits are paid on the basis of services newly covered under H.R. 10210, until July 1, 1977; after July 1, 1977, to the extent that benefits are based on such services performed before January 1, 1977. (No transition from SUA provided for in Administration bill.)

UI Study Commission. As in Administration bill, with only minor changes.

Benefit Amount Standard. The subcommittee deadlocked, 5-5, on the Administration's proposal for a weekly benefit amount standard (50 percent of the individual's average weekly wage, up to the State maximum; State maximums of two-thirds of the statewide average weekly wage). No benefit amount standard is included in H.R. 10210 and this issue will be presented to the full House Ways and Means Committee. It is my intention to seek to get the Ways and Means Committee to put the standard into the bill. I intend to urge this position at a meeting with the full Committee in the near future.

We have been working closely with the Committee to see to it that the bill which emerges for consideration by the House stays on track, within the scope of Administration proposals.

John T. Dunlop

Secretary of Labor

STATEMENT

of

ALAN GREENSPAN, CHAIRMAN

COUNCIL OF ECONOMIC ADVISERS

before

THE JOINT ECONOMIC COMMITTEE

October 28, 1975

I am pleased to appear before this Committee today to discuss the economic impact of the President's tax and expenditure proposals for next year. As necessary background however, I should like to begin by touching first upon some of the recent evidence on the state of the economy and the recovery which has been underway for six months.

The surge in industrial production and gross national product indicate that the rebound in economic activity from the depressed levels of last April has been running ahead of forecast. Over the same period, there has been an excellent gain in total employment and a more rapid decline in joblessness than we had expected last spring. Equally important, the flareup in prices during June and July abated during the past two months, and the easing of pressures in the farm product markets have served to allay partially the widespread concern regarding an early renewal of strong inflationary pressures. One result has been the restoration of a much better expectational climate in the money and capital markets and a retreat in interest rates from this summer's highs. The recovery is underway and in its initial stages at least, it is stronger than we could have prudently expected.

The course of the economy this year has been dominated by sharp movements in business inventory investment, as I have pointed out before this Committee on earlier occasions. The preliminary estimates indicate a very sharp inventory swing in the third quarter. Although inventories were still being run down the much slower pace of liquidation accounted for more than half of the gain reported in GNP. We have known for some time that the inventory liquidation of earlier in the year was simply unsustainable and that its reversal was inevitable, as the excessive inventory overhang which was built up last year was worked off. Moreover just as inventory movements accentuated the recession earlier in the year they will continue to be a source of strength -- although a decline one -- over the next two or three quarters at least.

One impressive aspect of the third quarter figures is the strength in final demand. Final sales in real terms rose at an annual rate of 4.4 percent, just about as rapidly as in the second quarter of the year, largely because of a continued strong rise in personal consumption expenditures. Consumer outlays in real terms rose at a 7 percent annual rate -- slightly more rapidly than the 6.3 percent rate of advance during the second quarter. I should point out that some of these growth rates are exaggerated by a quirk in the statistical techniques used to put the GNP in constant dollars. The real GNP gain during the third quarter would be closer to 9 percent than 11.2 percent if more updated techniques were used in removing the effects of inflation from the current dollar GNP levels.

Perhaps more important to the immediate outlook, the evidence to date for October indicates that the pickup in economic activity has continued into the present quarter. Retail sales of durable goods are exhibiting special strength as automobile sales, following the introduction of the new models, are continuing the pattern of increase which began in the first quarter of the year. The strength in final demand is laying a solid foundation for a further recovery next year and this is more important than the precise pattern and timing of the inventory swing which we are now experiencing.

A second encouraging aspect is that recent evidence suggests a somewhat earlier bottoming out in business capital investment outlays than many have anticipated. Business fixed investment in real terms held even during the third quarter despite the wide margins of excess capacity which prevails throughout the economy. Nor is this development without support. Following the sharp declines of late last year, the inflow of new orders for capital goods in August was up by 12 percent from the March low and this level held up in September. Production of business equipment in the industrial production index rose at a nearly 10 percent seasonally adjusted annual rate between June and September. There are also indications of a more favorable upturn in corporate earnings in the second half and this would facilitate the recovery in investment. There are still reasons, however, to question the speed and the timing of the upturn in business investment next year but the evidence continues to provide support for the possibility of an earlier and a more substantial upturn in capital outlays than past experience might indicate.

As one would expect the sharp pickup in production has resulted in a correspondingly marked improvement in the employment situation. Between March and September civilian employment, as measured in the monthly household survey, rose by 1.5 million. In recent months, and especially since June, rising employment in the household survey has been accompanied by a significant pickup in nonfarm payroll employment. Although the labor force has continued to expand at a rapid 2.0 percent annual rate since December, the level of unemployment has declined, and the decline from the second quarter peak has been more rapid than we had anticipated.

Of course there are problem areas and we all recognize them. The recovery in housing has lagged expectations. Housing starts in September were at a seasonally adjusted annual rate of 1.24 million units, a full 41 percent above the levels of December, 1974. Nonetheless they were still below our earlier expectations for this time and the levels consistent with the country's long-term housing needs and a healthy residential construction sector. Mortgage interest rates have moved upward in the past several months, and by September the rise in short-term interest rates seemed to imperial the inflow of funds into the mortgage lending institutions. Although mortgage interest rates remain at very high levels, short-term rates have come down. The savings flow data now indicate resumed inflow and a more reassuring outlook for the availability of mortgage financing in the months ahead. Accordingly we expect the gradual recovery in housing to continue in 1976.

Even with the easing of the June and July price flareup, consumer prices have risen at a 7 percent annual rate so far this year, a rate which is too high in comparison with historical standards and the requirements for a stable prosperity. High inflation and inflationary expectations moreover have their direct counterpart in high interest rates. Perhaps most important of all consumers and businessmen are not yet convinced that economic recovery can be achieved without setting off another set of forces which will quickly recreate the virulent inflationary conditions of 1973 and 1974. These are problems which policy must recognize and deal with.

But it is important to recognize that economic conditions have undergone a marked improvement in recent months. Quite apart from the inventory swing, the recovery appears to be resting upon solid enough foundations to suggest a continuation during the present quarter and into next year as well.

Now that the recovery is underway it is even more important to focus upon the problems which we are going to confront in the next year and beyond. Unless we carefully assess the risks that are involved with alternative policies we may exacerbate the problems which we will face by late next year and greatly increase the chances of setting off another inflation-recession cycle.

The dilemma is how to achieve recovery without recreating inflation. At this juncture in the recovery, ideally, one would want assurance that fiscal and monetary policy will be adequate to support the continuation of a healthy recovery. At the same time the improvement in the economy makes it even more important to assure that the thrust of fiscal and monetary policy does not have embedded in it the seeds of future inflation.

A second and, in a sense, more difficult problem, is that consumers and businessmen are not convinced that the dilemma of achieving recovery without inflation can be resolved. Recent experience has made them wary, watchful and mindful of the risks which the various policy alternatives pose for the future. Past experience indicates that it is easy to continue expansive policies, but it is very difficult to curb budget deficits and hold monetary expansion to rates which are appropriate for high employment price stability. Rightly or wrongly our past mistakes have created a situation in which recovery itself is dependent upon confidence that policy will become significantly less expansive when and as circumstances require.

Fiscal and monetary policies are, in my judgment, generally suitable for present circumstances. But as circumstances change, policy must also change. The budget deficit must be closed as the recovery proceeds and unless we are able to rein in the rapid rise in federal outlays I do not believe that we can count on the passive growth in revenues from the recovery to fully close it.

In fact it is this longer-term fiscal problem to which the President's program, to tie a $28 billion cut in the growth in federal outlays to a comparable cut in taxes, was addressed. It was not proposed for its short-term effects -- although the discussion and the criticism has tended to concentrate upon these aspects. The major economic thrust of the President's program is directed at what we perceive to be one of the most important long-term economic problems confronting the United States. It is directed at what is clearly an accelerating and increasingly uncontrollable rate of increase in federal outlays. The flexibility, or so-called controllability, of our expenditures has sharply decreased during the last decade. Nearly three fourths of the budget now is in outlays for programs for which payment is required under existing law or contracts. These payments must be made unless substantive law is changed. Government payrolls make up an additional one-sixth of the federal budget. The largely discretionary remaining one-tenth includes mainly nonpayroll purchases of goods and services. In 1967 when such analyses were first initiated, a fifth of the budget was discretionary.

An even more important problem is that the rate of increase in nondefense budget outlays, in real terms, in recent years, has exceeded the real growth in the economy.

Payments to individuals in real terms for example, rose at a 10.9 percent annual rate between fiscal 1965 and fiscal 1975. Real outlays for all nondefense programs excluding NASA and interest payments rose at an annual rate of more than 8 percent.

The size of the developing problem has been obscured for years by the decline in real defense outlays following the Vietnam War peak. Between fiscal years 1968 and 1975 such outlays declined by an average of 6.4 percent per year. The sharp shift in the underlying composition of outlays in the budget and practical realities of the forces that have produced it, clearly suggest three choices -- a sharp curb in the growth of domestic programs, a further gradual dismantling of our defense establishment, or significant tax increases. Even should we, as a nation, short-sightedly opt for either of the latter two courses of action, we would be only postponing again, the inevitable confronting of the unsustainable real rise in domestic programs.

The full significance of this acceleration in outlays became particularly evident during the spring and summer of this year as the fiscal 1977 budget began to take shape. As the magnitude of the increases in outlays which would have to take place under existing law became clear, the President directed the Office of Management and Budget to devise measures and ways by which the expenditure growth could be slowed. He further directed that any savings be refunded to the American taxpayer in order to maintain private purchasing power and job creation.

One problem that the President had in formulating his program was that the temporary tax cut for calendar year 1975 expired on December 31st. Unless the new permanent tax structure were put in place as of January, income tax rates would have risen automatically. In order to reduce the uncertainty with respect to taxes, he decided to recommend his tax legislation to be effective as of January 1, 1976.

Should the spending curtailment lag the tax cut, the deficit for the first nine months of calendar year 1976 would be increased and this in itself is admittedly undesirable. Additional fiscal stimulus does not seem to be necessary considering the extent of the economic recovery now underway. As a consequence, the President has indicated that he would support further crubs in fiscal 1976 expenditures.

In any event, the deficit increases are certainly not large when compared with a program of an extension of the current tax withholding rates and prospective outlays. As a consequence, the impact on the path of economic recovery would not be significant.

What would be significant are the effects on the levels of federal outlays during the fiscal years 1978, 1979 and beyond. The $28 billion cut in the fiscal 1977 rate of increase in outlays, which the President has proposed, would help insure that the dangerous acceleration in federal spending would be dramatically slowed. This would be a major first step toward defusing the very strong inflationary bias that has gripped our economy.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE AT 1:00 P.M. October 15, 1975

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE ASSOCIATED PRESS MANAGING EDITORS ASSOCIATION
WILLIAMSBURG, VIRGINIA, OCTOBER 15, 1975

As a public figure who spends a good deal of time talking with reporters, I very much appreciate the opportunity to address such a distinguished gathering of journalists.

Six months ago, I had the pleasure of speaking to the American Newspaper Publishers Association in New Orleans where we talked extensively about the state of economic reporting today. I told them that in my view the state of the art was much higher now than in the old days. You may recall that only a few years ago, the Chairman of the Council of Economic Advisers under President Johnson, Gardner Ackley, was so vexed with reporting that he urged that every economics reporter be required to meet two standards:

-- First, that he had taken an introductory college course in economics; and,

- Second, that he had passed it.

Fortunately, times have changed and reporters have changed for the better. There is far more economic sophistication among the writers in Washington today, and I think a large portion of the credit belongs to the Associated Press and the other wire services. By emphasizing the need for accuracy and straight, factual reporting, the Associated Press is not only enhancing its own reputation but is performing a valuable service for the American people. I congratulate you for your performance.

Let me turn now to my theme for this address: Government spending and inflation.

WS-413

"The credit of the family depends chiefly on whether that family is living within its income. And that is equally true of the Nation. If the Nation is living within its income, its credit is good.

"If, in some crises, it lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates.

"But if, like a spendthrift, it throws discretion to the winds and is willing to make no sacrifice at all in spending; if it extends its taxing to the limit of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy."

That's strong language--the fire and brimstone you might expect from a Bill Simon, or as the New York Times called me this weekend, the Cotton Mather of fiscal orthodoxy.

But that statement was actually issued more than 40 years ago and it came from the Democratic candidate for President in 1932, one Franklin Delano Roosevelt. To Mr. Roosevelt it was unconscionable that the Hoover administration has permitted the National debt to increase by more than $3 billion.

One can only wonder what the FDR of those early days before the New Deal would think of all that has come to pass in the Nation's fiscal affairs since then. Consider just a few of the most salient points about the growth of government spending:

* Under FDR's predecessor, government spending at all levels amounted to 10% of our Gross National Product. Today it accounts for fully one third of the GNP and by the year 2,000, if recent trends in transfer programs were to prevail, it could be nearing 60% of the Nation's economic activity.

* It took 195 years of our history for the Federal budget to reach $200 billion. Now we are threatening to double that amount in only 6 years.

* To those who say that the economy is growing rapidly so that higher spending can be accommodated, it should be pointed out that over tha past decade, Federal spending has increased by 175% while the economy has grown by only 120%.

* Prior to the New Deal, this Nation during its peacetime years kept its Federal budget in surplus for four years out of almost every five. Since the beginning of New Deal, the Federal budget has been in the red in nearly 4 years out of every five, and over the last 15 years we have had only one budget surplus.

* It took 74 years for the Nation to accumulate a national debt of $1 billion. Now our national debt is climbing at the rate of more than $1 billion a week.

* Paying interest on the national debt has now become the third largest item in our budget--ranking behind only national defense and social security. In fact, paying interest on the debt now costs us more than $160 a year for every man, woman and child in the country--$36 billion a year and climbing.

* As large-scale deficits have mounted in the regular agencies and departments as well as the off-budget agencies--the creatures set up in recent years partly to avoid the discipline of the regular budgeting process--the Federal Government has been forced to borrow extraordinary amounts of money in the private money markets--money that would otherwise be available to private enterprise to expand their operations and create new jobs. In the past 10 fiscal years, the Federal Government has borrowed over a third of a trillion dollars from those markets. Last year, four out of every five dollars borrowed in the long-term capital markets--excluding housing--were borrowed by an agency of the Federal Government.

* Growth in federal programs has accompanied growth in spending. In 1960, at the end of the Eisenhower years, there were approximately 100 Federal programs for domestic assistance. Today there are 1009.

* And with the growth of government, there has also come a growth in governmental bureaucracy, especially at the state and local level. Today one out of every six people in the labor force works for the Government.

By citing the growth of government in recent years, I do not mean to suggest that all of these spending programs have been ill-advised or that they ought to be abolished to the contrary, it is clear that many of the actions taken by the government have been progressive and helpful. The human hardships resulting from the recession, for instance, would have been much more painful had their impact not been cushioned by expanded benefits for unemployed workers. The poor and disabled people of this country are also much more secure than they were a few years ago.

Yet, it is time to recognize that this explosive growth in government spending, in government deficits, in government bureaucracy, and in government regulation is exacting a higher and higher toll within our nation. Unless we change direction soon, we will drift relentlessly--even aimlessly--into a society that is run and directed out of Washington and in which the freedoms we once enjoyed will be nothing more than a page in our history.

One of the most pernicious results of the horrendous growth in government spending during the past decade--and a result that now lies at the root of many of our economic problems--has been the persistent rise in prices.

When the Federal Government increases its spending and runs deficits year after year, especially during periods of high economic activity, it becomes a major source of economic and financial instability. The huge increase in Government spending in the 1960s and 1970s has added enormously to the aggregate demand for goods and services and thus has been a major factor in the upward pressures on price levels.

In addition, the heavy borrowing by the Government has been an important factor in forcing up interest rates and in the strains that we have seen in the financial markets. With the Treasury Department standing at the head of the credit line with oversized borrowing needs, interest rates are naturally driven up, some private needs go unfulfilled and private investment suffers. This is the essence of the "crowding out" problem that has become so apparent now in the financial markets. Even with a considerable degree of slack on the economy, access to the capital markets today is for all practical purposes limited to only top-rated companies. Marginal companies, new growth companies, and even solid companies with less than A-ratings have almost been totally shut out from the long-term sector. And interest rates today are more illustrative of the terminal stages of a boom that the early months of economic recovery. To be sustainable, the recovery must be broad-based; the credit system must be capable of putting funds into the many and diverse sectors of the economy. That is why it is essential that as the recovery progresses, the Government must play a less dominating role in the financial markets.

And even worse result of recent budgetary practices is the erosion of public confidence in the ability of our Government to deal with inflation. As Government spending and deficits continue year-in, year-out and inflation mounts, inflationary expectations are built into the very frabic of our economy. There is a growing public perception that those who promise the most tend to deliver the least--except for inflation.

Closely related to these excessive fiscal policies in recent years have been excessive monetary policies. Our printing presses have been churning out more and more currency that is worth less and less. Indeed, the monetary supply during the past decade has grown more than two and one-half times as rapidly as in the decade before when we enjoyed greater price stability. Ultimately, this monetary growth has increased the upward pressure on the rate of inflation and interest rates. And one prime reason for this monetary growth, I might add, has been the need to accommodate the chronic budget deficits.

Thus, excessive spending policies and excessive monetary policies lie at the very foundation of much of our inflation--an inflation that in turn rose so high that it tipped us into recession. Economists did not agree at first that it was excessive inflation which forced us into a recession, but now there is widespread recognition of that fact.

I do not mean to suggest that excessive government policies are the only factors behind inflation. Higher food and energy prices have plainly had an impact, especially in most recent years. Devaluations of the dollar and other actions have also played a role. But I would argue that the underlying causes of the past decade of higher and higher inflation are the clearly excessive fiscal and monetary policies that began back in the 1960s.

I believe the American people are fed up: they are fed up with a government that spends more and more of their money with so few results; they are fed up with massive deficits; they are fed up with overzealous bureaucracy; they are fed up with unemployment and under-employment; and most of all, they are fed up with inflation. They know something is seriously wrong in Washington--and believe me, they're right.

Sometimes when one is looking at the national economic picture, it is possible to lose sight of what inflation has come to mean for the average working family in this country.

The housewife going to the supermarket last year must have felt that she was wandering through a mine-filed, with prices exploding on every side. Indeed, at 1974's inflation rate of 12 percent, the bill for a bag of groceries costing $10 would triple in only 10 years--to $31. Even at today's inflation rate of 7-8 percent, the bill for that bag of groceries would double in 10 years. How many can continue to make ends meet under those conditions?

While everybody suffers from inflation, those who are hardest hit are those who can least afford it: the poor, the unemployed, the retired, the disabled and the dependent. At last year's inflation rate, a person retiring on a $500 monthly check would see the purchasing power of that check cut by two thirds in only 10 years--to only $161. Even at the current rate of inflation, the value of the check would be sliced in half in 10 years. How can a retired couple be expected to live in any kind of comfort with that kind of shrinking dollar?

And I'm sure you need few reminders of what's happened to the cost of running a newspaper -- or what inflation has done to any businessman who has to replace worn-out equipment and machinery. It's like the bag of groceries all over again. If you bought a printing press for $1 million, today's inflation rate would mean it would cost you $2 million to replace it in 10 years. It's small wonder that with the persistent inflation of the past decade, we have suffered from underinvestment and that more and more serious observers are becoming worried about the prospects of future "capital shortages" and more unemployment than we should have.

Even this listing of the consequences of inflation is far from complete, for it does not take into account the far-reaching social and political implications of chronically high inflation rates. Indeed, such inflation would place the entire free enterprise system in this country in peril. If our financial markets remain under the strain they are today, if utilities have trouble obtaining necessary financing to keep up with inflation, if money flows out of the thrift institutions because of inflation, if the housing industry suffers along with the thrifts, and if the airlines, the real estate investment trusts, and others go to the wall, who will be called in to the rescue? If the retired people of this country cannot protect themselves against inflation, who is it that can serve as a rescuer? You know the answer: Government. Clearly, continued inflation would bring a massive expansion of the public sector and would threaten the very survival of large areas of the private sector.

Those who are so liberal in spending other people's money are fond of quoting from the economist John Maynard Keynes. I suggest to them that they not forget a very critical passage in the book by Lord Keynes on the Versailles peace conference:

"Lenin is said to have declared that the very best way to destroy the Capitalist System was to debauch the currency ... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one in a million is able to diagnose."

Some observers call this message negative and hard-hearted. These so-called compassionate people say we are callous and unsympathetic to be against massive new spending, to be against huge deficits, and to be against the government running our lives. I am sorry, but I respectfully disagree. There is no such thing as true compassion without responsibility; to show true concern, we must take into account not only the short-term effects of our actions but the long-term as well. The suggestions that we simply spend and spend are precisely those which have over the years hurt the poor and the disadvantaged the most. It would be a grave injustice to the people of this nation, and especially to those who deserve a helping hand, to continue down that path when we know from experience that the short-term prosperity we buy now will be followed by years of even greater hardship and suffering tomorrow. It is time in these United States to put our economy back on a sound, steady footing so that people may have lasting jobs and lasting hope for the future.

Inflation has been and remains today the most fundamental economic problem in the United States. It is inflation that caused the recession and it is the reapperance of persistent high inflation that could jeopardize our future. Despite what some may say, it is not necessary to make an agonizing choice between fighting inflation and fighting unemployment. They are part of the same economic challenge, and must be faced simultaneously. The real choice is between policies that work and policies that don't work.

It was against this backdrop that President Ford acted last week in announcing his proposals to seek a $28 billion reduction in the projected levels of government spending during fiscal year 1977 and to return the savings, dollar for dollar, to the American people. The benefits in this program are concentrated among the working people of the country -- the men and women who have borne so much of the burden of high taxes and high inflation, and who badly need and deserve some relief. It is a program designed to place the Federal budget in balance within three years. And it is a program which presents a critical choice to the American people: Whether we will continue down the path toward Big Government or whether we will finally change course before it is too late.

As the President pointed out in his October 9th press conference, this package is not proposed simply as a stimulant for the early part of 1976.

The major economic thrust of the President's program is its longer-run impact on our economy and hence on our society. It is an attempt to blunt the underlying inflationary momentum that we face, which -- if not accomplished -- is likely to prevent an early attainment of full economic recovery. Unless the growth in Federal spending is markedly slowed, the choice in future years will be between higher taxes or highly inflationary budget deficits followed by significant distortions which are inconsistent with a stable prosperity.

The President's proposal is focused on reducing the rapid growth in expenditures and reducing the tax burden imposed upon the American people -- and in a manner which would reduce the risks of inflation. We have become too accustomed to looking at the near term and to assessing only the short-term benefits of what government policies do. As a consequence, we have often lost sight of where we are heading and the ultimate costs that we are imposing upon the productivity of our economic system. It is long past time that we stood back and took stock of where we are going.

As the President pointed out in his State of the Union message last January, "Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of government benefits and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

"One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is a dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

"It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget."

You have hear it said -- as I have -- that it is unrealistic to ask the Congress to set a ceiling on 1977 expenditures as low as $395 billion.

Is it really? The implication of that statement is that Congress cannot come to grips with the problem of accelerating Federal spending -- that spending is now beyond our control -- and that this must somehow be taken for granted when we formulate tax and spending and spending policies.

The critical question is not what will happen if we succeed in slowing the growth in spending but what will happen if we fail. What happens if we remain on the "spending as usual" path through fiscal 1977 and beyond? To me, if we fail, we will have surrendered control over our own economic destiny and we will be struck in the same quicksand that has pulled down other great nations in the past.

It will be exceptionally difficult to hold expenditures to a $395 billion level in the next fiscal year, as the details of the President's budget will clearly indicate, but if we value the future of the country's economy and society we must do so. We do not have the luxury of "spending as usual." Remember: this is not a reduction in spending but a slowing in the growth of spending. Our expenditures will still grow by 7%, high by an historical standards.

As the President said last Monday night: "For several years, America has been approaching a crossroads in our history. Today we are there ... I deeply believe that our nation must not continue down the road we have been traveling. Down that road lies the wreckage of many great nations of the past. Let us choose instead the other road -- the road that we know to be tested, the road that will work."

I have said this once before and I repeat it to you now: what we face in the United States is the classic choice between socialism and freedom.

Thank you.

oOo

THE DEPUTY SECRETARY OF STATE
WASHINGTON

October 29, 1975

MEMORANDUM TO: Mr. William Seidman
The White House

FROM: Robert S. Ingersoll RSI

SUBJECT: Implementation of the Trade Reform Act's Provisions on Generalized Preferences As They Relate to Expropriation Cases

Attached is a report from the CIEP Interagency Coordinating Group on Expropriation describing how it proposes to implement provisions of the TRA with regard to generalized preferences in expropriation cases.

DEPARTMENT OF STATE

Washington, D.C. 20520

October 24, 1975

TO: Members of the CIEP Interagency Coordinating Group on Expropriation

FROM: EB/IFD - Paul H. Boeker PB

SUBJECT: Application of Section 502(b)(4) of the Trade Act of 1974

Subsequent to the Group's October 14 meeting to consider country eligibility for generalized preferences (GSP), I have had further consultations with members of the Group and now believe we have broad agreement on how we should proceed over the next couple of months in implementing 502(b)(4). We would propose to proceed as follows:

1. Amend Executive Order 11844 of March 24 designating beneficiary developing countries by adding Somalia, Turkey and Uganda to the list of eligible beneficiaries.

2. For each of those gray-area cases where a determination of appropriate steps toward settlement is fragile at this point, we shall make a diplomatic demarche as soon as possible. The gray-area cases are Argentina, Bangladesh, Central African Republic, Congo (Brazzaville), Dahomey, Ethiopia, Morocco, Peru, Tanzania, and Turkey. This demarche, while varying somewhat from case to case, would essentially make the following points:

(a) While the country is for now on the beneficiary list, the U.S. frankly believes a positive determination of appropriate steps toward settlement will be difficult to sustain beyond the January 1 implementation date for GSP unless significant concrete progress toward settlement of outstanding expropriation cases is made prior to that time.

(b) The USG will be reconsidering elegibility of each of these countries prior to January 1, and on or before that date further decisions on formal exclusion from GSP may be made.

(c) We are taking this procedure because we wish to give the governments concerned some additional time to settle outstanding expropriation cases, or to take steps resulting in significant progress toward settlement, before the USG finds itself possibly having to give formal public notice of intent to exclude a country from beneficiary status.

3. The CIEP Expropriation Group will keep all of these cases under continual review. In December the Group will review each of these gray-area cases. If a finding of appropriate steps toward settlement cannot be sustained in some of these cases at that point, we would recommend to the President that formal notification of intent to withdraw GSP eligibility be given on January 1, simultaneously with implementation of GSP or earlier if events make a clear finding possible. We will also consider at that point whether any particularly egregious cases should be considered for "suspension" under 504(a), in addition to "termination" under 502 (the difference being that the latter requires 60 days notice, while the former does not).

4. State will ask STR to inform the concerned Congressional Committees by letter that the Administration's review of expropriation cases is not yet completed, that in the case of several countries we will have to review their situation in December, and that further decisions on exclusion of countries from the list of GSP beneficiaries may be made at that time.

PHB:jb

Business Conditions Report

October 31, 1975

U.S. Department of Commerce
DOMESTIC AND INTERNATIONAL BUSINESS ADMINISTRATION
Bureau of Domestic Commerce

FOR OFFICIAL USE ONLY

FOREGOING RESTRICTIONS MAY BE REMOVED
90 DAYS AFTER PUBLICATION

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LABOR DEVELOPMENTS

For further information contact:

Mr. Samuel B. Sherwin 967-5491
Mr. Charley M. Denton 967-5223

Questions and suggestions are welcomed.

Price Developments

PRICE DEVELOPMENTS

PAPER INDUSTRY: IMPROVING MARKET SEEN IN PRINTING PAPER BID PRICES

° Government Printing Office (GPO) paper procurement bid prices were among first to reflect declines in domestic printing paper demand in 1974-75 period. Marked and progressive declines were noted in GPO paper bid prices through first half 1975.

CURRENT ° Latest GPO bid prices opened October 7, 1975, averaged 4 percent higher than previous quarter's offerings and marked first price increase since declines began in fourth quarter 1974.

° Development is significant in that short-term GPO contract competitive bidding can be compared to spot market transactions which are reflective of basic market changes. Bid price increase follows announced price increases in selected domestic paper and board packaging areas.

PRICES OF PHOSPHATIC FERTILIZER MATERIALS REDUCED

° U.S. and Morocco are among major world producers of phosphate rock, accounting for 37.6 percent and 17.5 percent of 1974 world output, respectively.

° Both countries are the major exporters of phosphate rock. Morocco accounted for 33.5 percent and U.S. for 23.1 percent of 1974 world exports.

° Moroccan price of $68 per metric ton for rock phosphate has been one of highest in world market.

° Moroccan exports during first nine months 1975 declined sharply, and, as a result, production fell by one third.

CURRENT ° In effort to recover its market, the Office Cherifien des Phosphate (Moroccan government phosphate monopoly) reduced price on top quality phosphate rock by 12 percent, from $68 to $60 per metric ton. This is designed to bring Moroccan price closer to U.S. price of $58 per metric ton.

- In U.S., Phosphate Chemicals Export Association (recently formed by five important producers of phosphatic fertilizer materials) revised the list prices at which its members will sell fertilizers for export in October. F.o.b. list price for diammonium phosphate fell from $200 to $155 per ton (22.5 percent), and for granulated triple superphosphate, from $150 to $120 per ton (20 percent).

- Despite **current list prices, average U.S. export prices** in August 1975 were **above these levels, $162 for diammonium** phosphate and $136 for triple superphosphate.

- U.S. exports of triple superphosphate amounted to 1,046,729 tons in 1974 and 598,857 tons in January-August 1974. Exports of diammonium phosphate, shown separately in government export tabulations for first time in 1974, totaled 1,583,475 tons for January-August.

STRONGER PRICE COMPETITION IN PHOTOCOPIER INDUSTRY

- Since appearance of modern automated photocopier in 1960, the industry has enjoyed a steadily expanding market and steady profits.

- But market is nearing saturation point.

- Last month, Xerox, the leading producer, announced an 11 percent decrease in per-copy charges. (See Business Conditions Report, October 10.)

CURRENT
- IBM countered Xerox move by reducing its fees by 10 percent. Eastman Kodak has set its rates for its new Ektaprint machine 10 percent below comparable Xerox models.

- With the market nearing saturation, intensified market competition and declining prices could result in shakeout of some smaller manufacturers.

FERROUS SCRAP

CURRENT
- Composite price of No. 1 Heavy Melting Steel Scrap declined by 66 cents per ton to $61.67 per gross ton from last week through October 27. Lowest price so far in 1975 was $58 per ton last July.

- Ferrous scrap market is expected to continue weak for balance of year because of reduced steel production in U.S. and overseas.

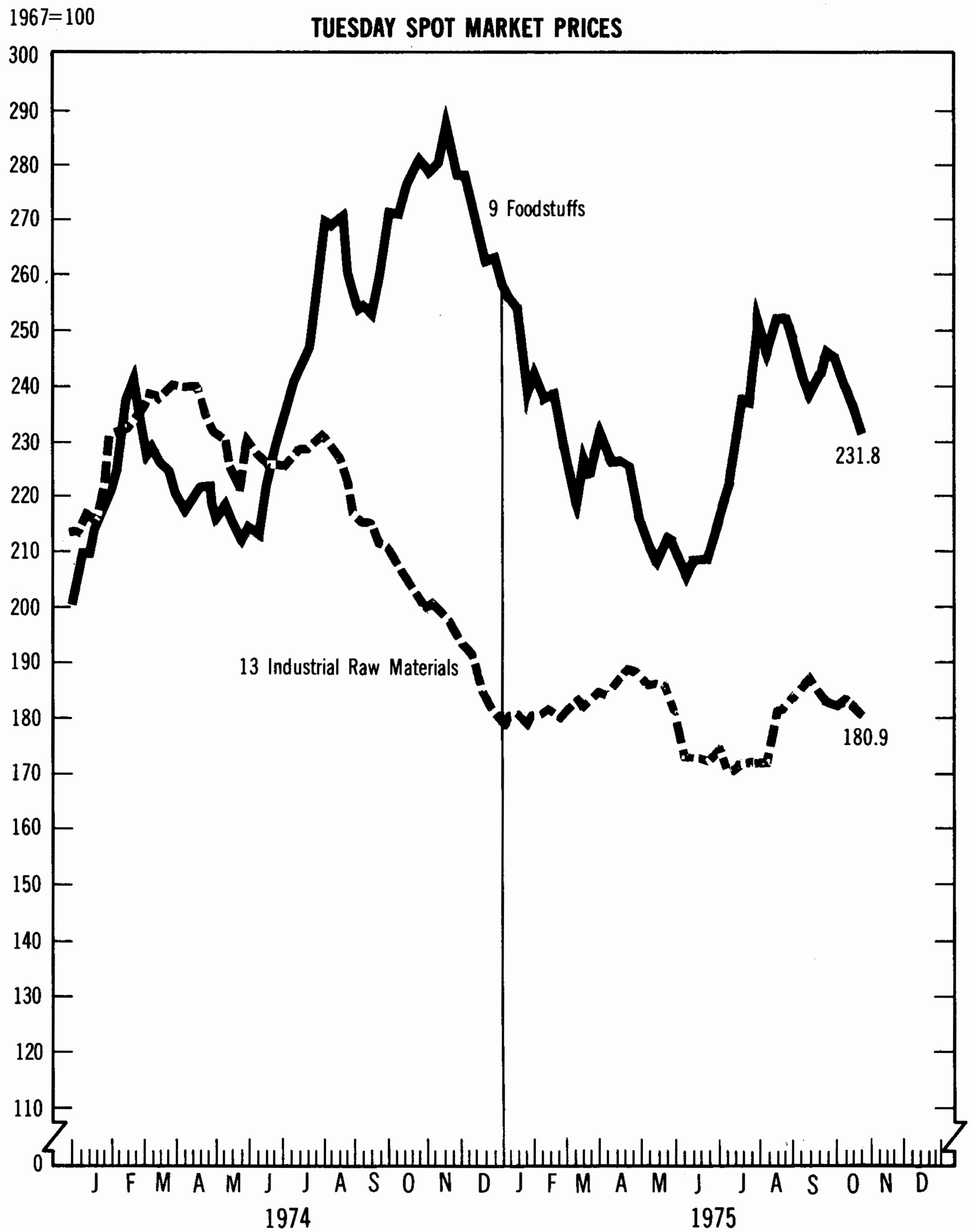
- Exports of ferrous scrap fell to 771,000 net tons in September, lowest monthly exports since February of this year.

- September exports were 4.7 percent below August, but 37 percent higher than in September 1974 during period of quantitative export controls on ferrous scrap.

- For first nine months 1975, sales of scrap abroad totaled 7.5 million tons, 10 percent above same 1974 period.

PRICE INDICATORS

WHOLESALE PRICES



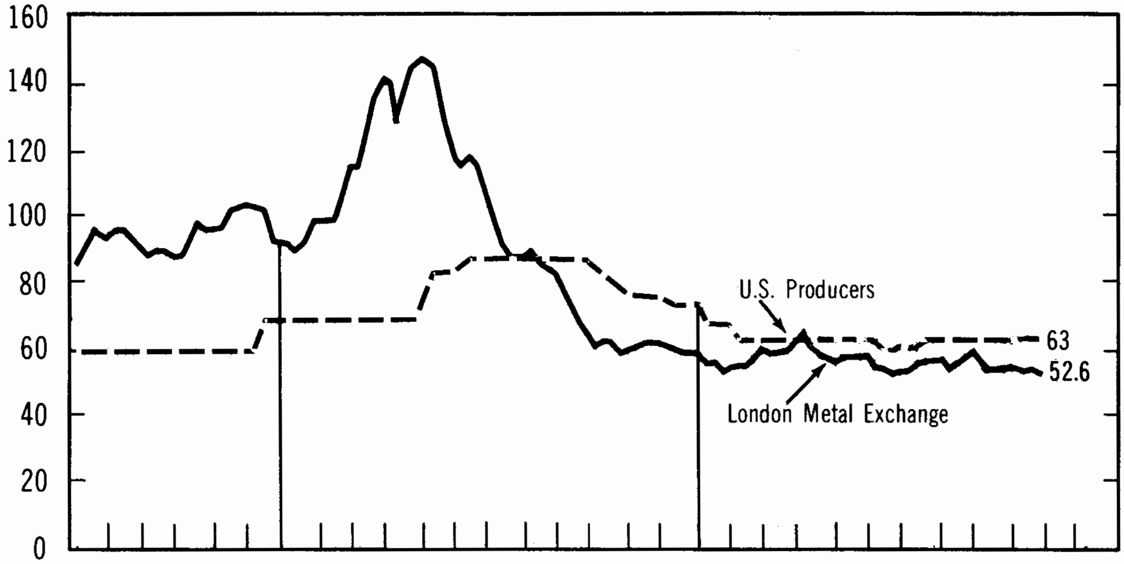
Source: Department of Labor

KEY COMMODITY PRICES

COPPER PRICES
(Wirebar Basis)

TUESDAY PRICE EACH WEEK

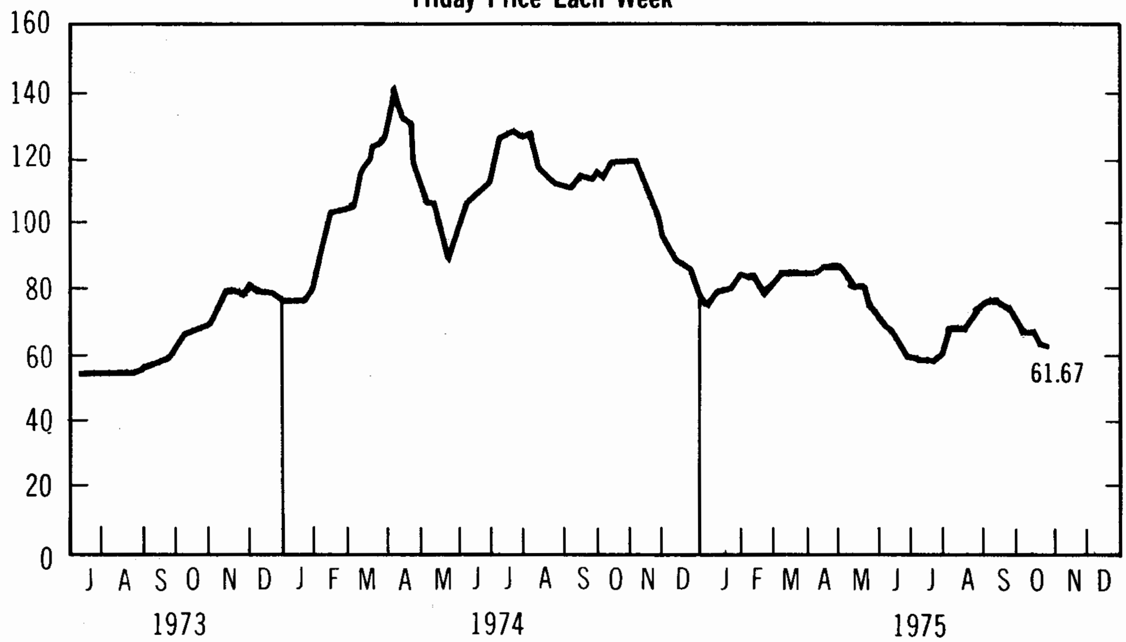
Cents per Pound



FERROUS SCRAP
(Composite Price , No. 1 Heavy Melting Steel Scrap Pittsburgh, Chicago, Philadelphia)

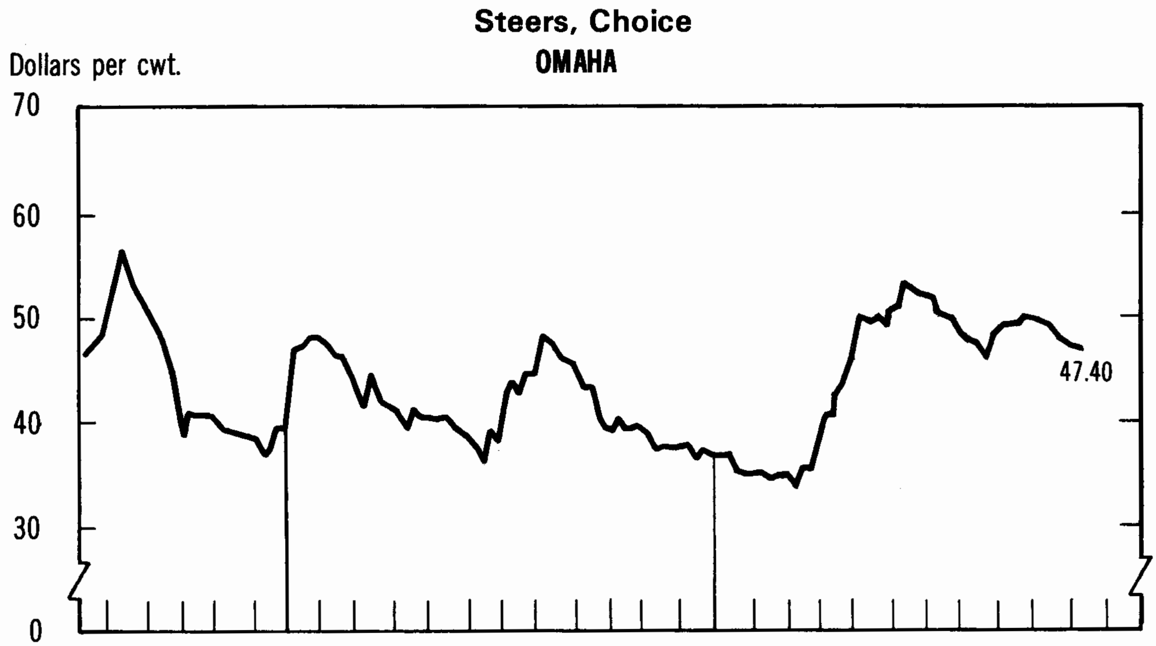
Friday Price Each Week

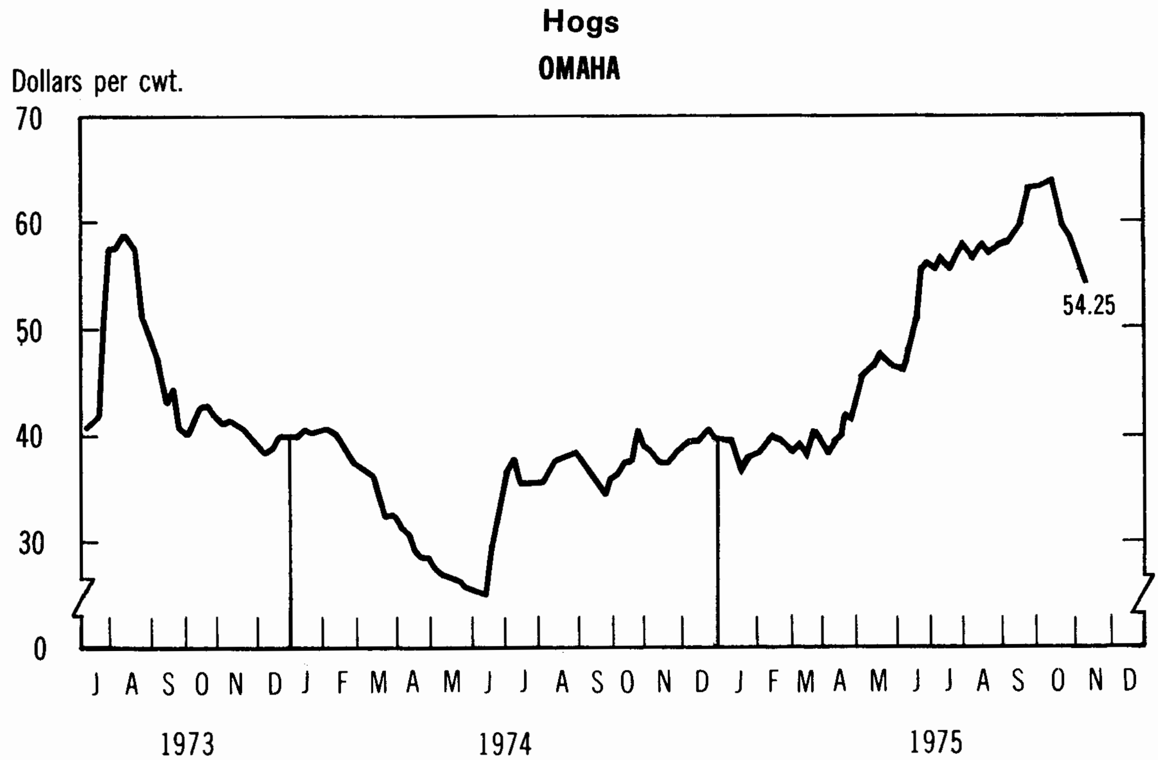
Dollars per Gross Ton



Source: American Metal Market

SPOT AGRICULTURAL PRICES



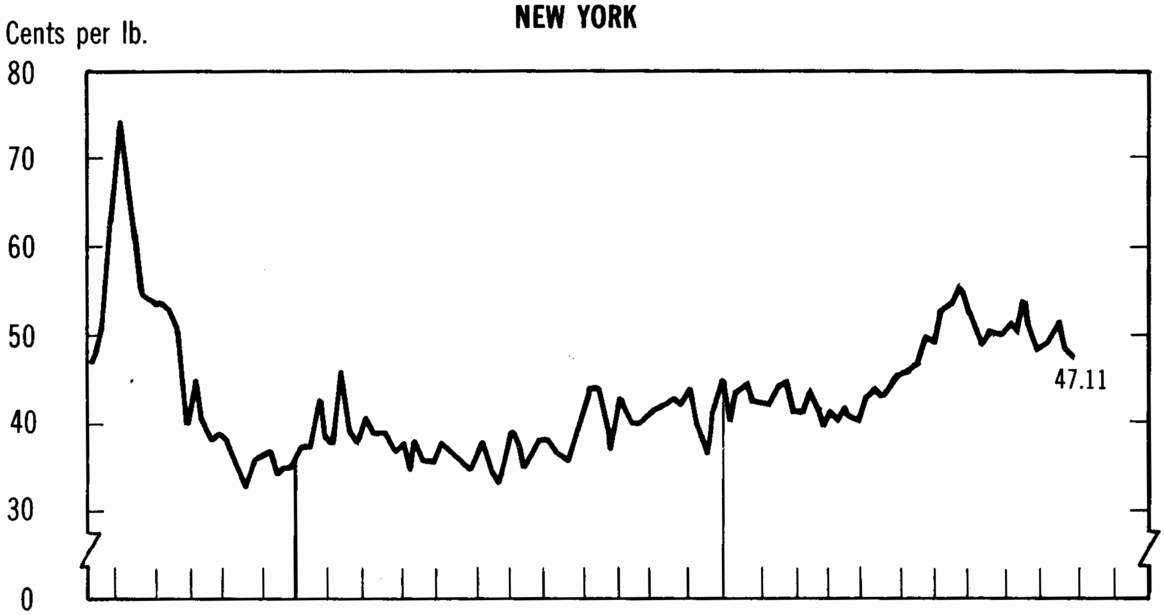


Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

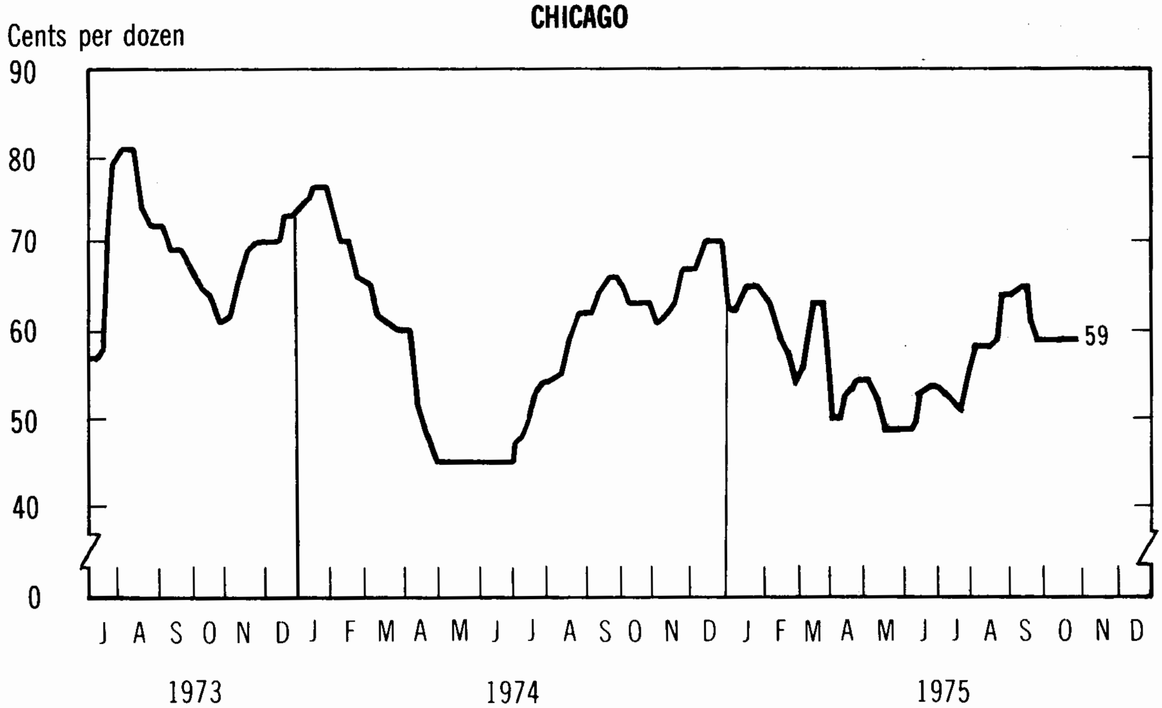
Broilers, Dressed 'A'

NEW YORK



Eggs, Large White

CHICAGO

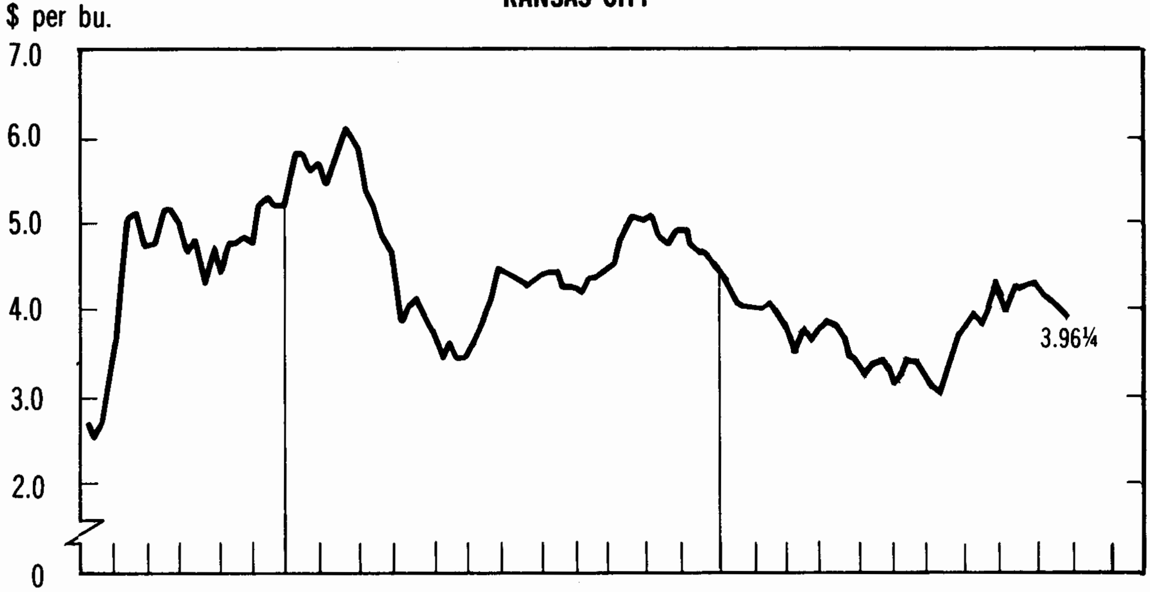


Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

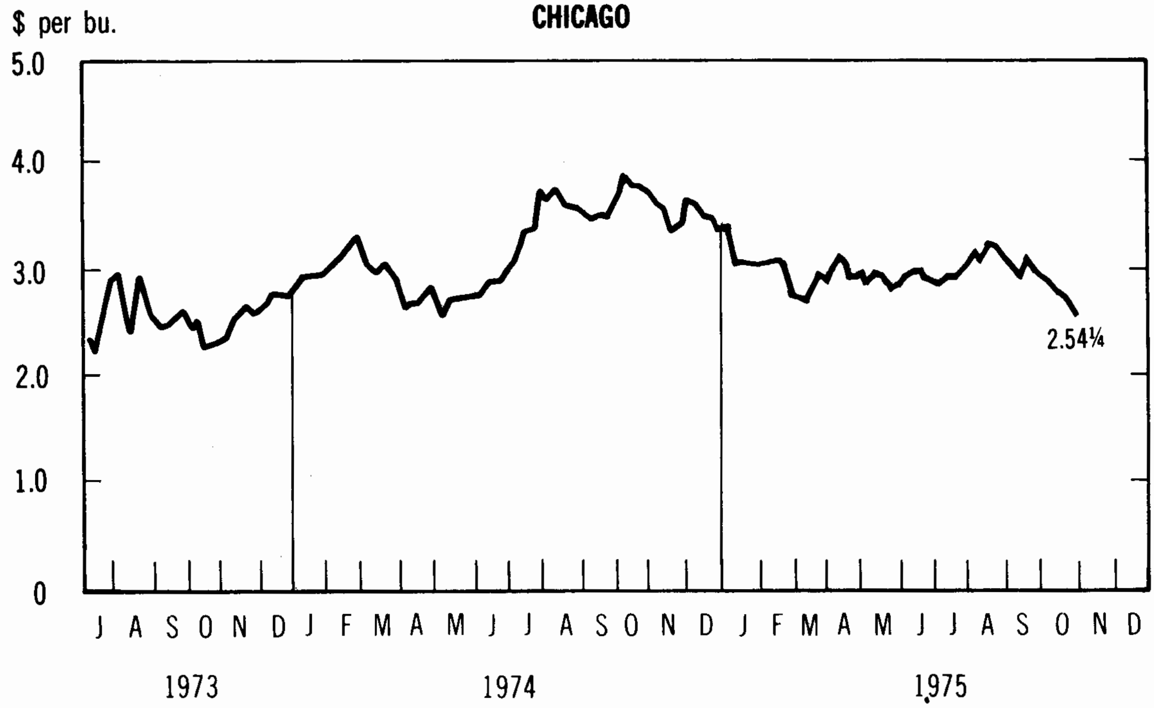
Wheat No. 2 Ord. Hard

KANSAS CITY



Corn No. 2 Yellow

CHICAGO

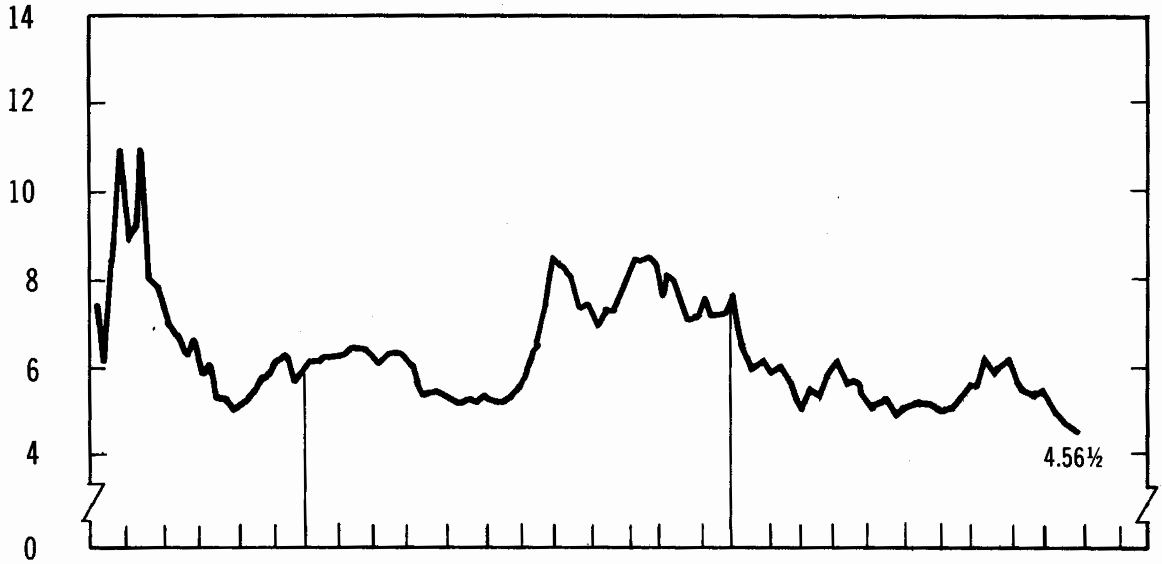


Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

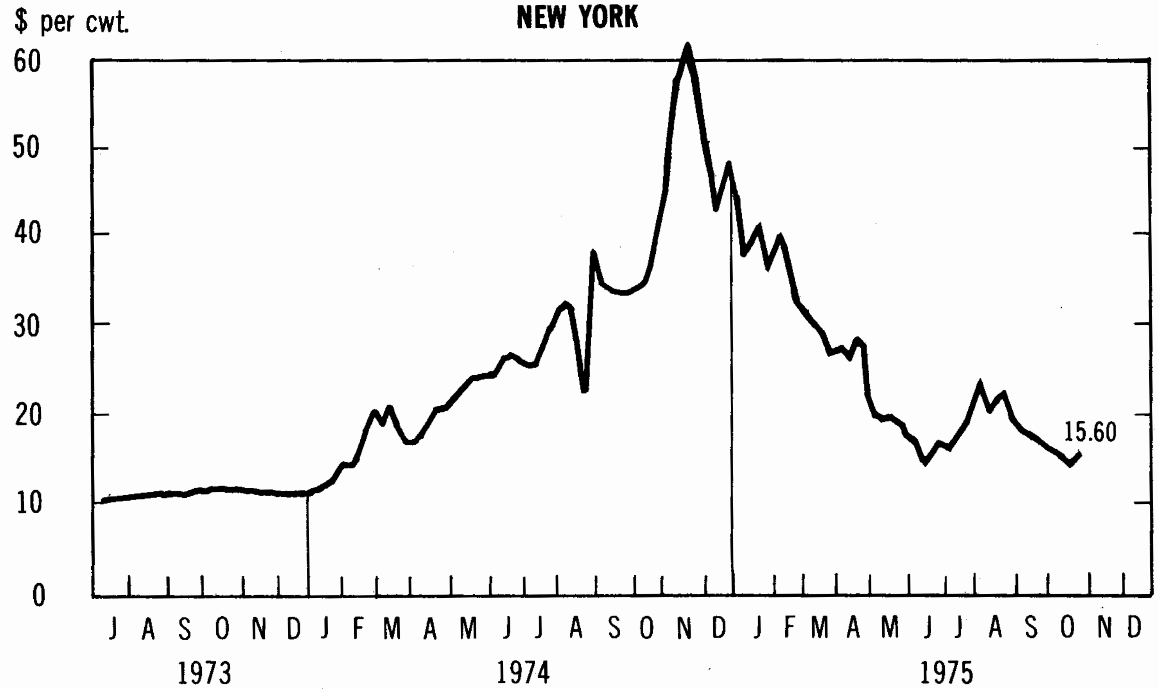
Soybeans No. 1 Yellow

CHICAGO



Raw Sugar

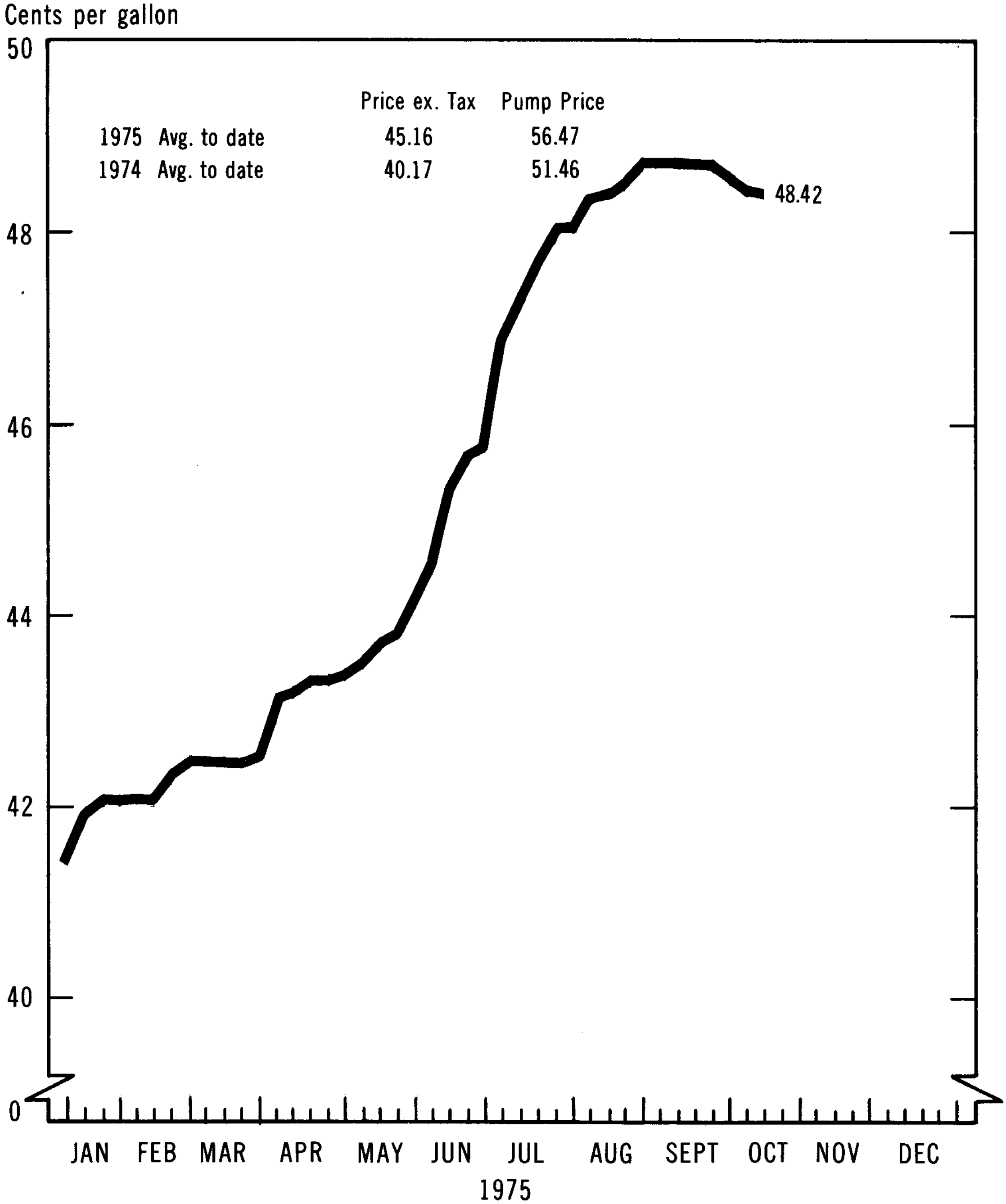
NEW YORK



Source: Agricultural Marketing Service, Department of Agriculture.

GASOLINE PRICES IN 52 CITIES

WEEKLY AVERAGES[1]



1/ Prices exclude Federal, state and local taxes ranging from 9¢ to 13¢

Source: Oil and Gas Journal

Supply Situations

SUPPLY SITUATIONS

CASTINGS AND FORGINGS

° The National Association of Purchasing Agents and other groups have reported domestic shortages in certain castings and forgings.

CURRENT ° On October 20, however, during a briefing to Secretary of Commerce, the Chairman of the Board of a major U.S. manufacturer of heavy electrical equipment reported that, worldwide, his company is not experiencing any difficulty in obtaining castings or forgings.

° Commerce is attempting to obtain additional information regarding the extent of any actual or reported short supply problems.

Industry Highlights

INDUSTRY HIGHLIGHTS

AUTOMOBILES

Car Sales and Production:

CURRENT
- Car sales in mid-October increased 37 percent over same 1974 period. All U.S. car makers reported sales gains from mid-October 1974; American Motors up 54 percent, Chrysler gained 33 percent, Ford up 28 percent, and General Motors increased 43 percent.
- During September, auto makers produced 672,000 units, 3 percent more than the 654,000 scheduled earlier. A few assembly plants in October are curtailing production to keep inventories under control.
- October should end with inventories of 1.5 million units, an estimated 56 selling day supply. While this inventory is near normal, some auto models have aproximately 100 or more selling days' supply.
- Auto industry, which has capacity to produce 1.5 times the number of cars presently being sold, is using inventory control as a guideline for production schedules.

Automobile Imports:

- Foreign built cars imported dropped 31 percent to 83,683 units in September, lowest monthly total in 1975. August imports totaled 122,000 units.
- For first nine months 1975 imported automobiles totaled 975,209 or 33.6 percent below total in same 1974 period.
- Historically, number of cars imported declines in fourth quarter. Further reductions of shipments to U.S. will result in shortages of various models in dealer showrooms. Unavailable models will result in a drop in market penetration.
- Market share held by imports is expected to decline below 17 percent by end of 1975. Importers are concerned about possible protectionist reaction if foreign car models sold exceed 15 percent share of U.S. Market.

RETAIL SALES IMPROVED BY AUTO SALES MAY BE TEMPORARY

CURRENT

- Retail sales during the last 4 weeks averaged 10 percent above year-ago comparable totals. This is also considerably higher than annual rate of sales increase of 7 percent for January through mid-October 1975.
- Favorable overall increase in sales is attributed mainly to gain in automotive sales.
- Rate of auto sales may moderate soon, reflecting industry plans to close or curtail production at some assembly plants. (See preceding Automobiles article.)
- In this eventuality, growth rate in retail sales will probably return to its sluggish pattern of 7 percent.
- Non-automotive retail sales remain sluggish. Department store sales for year to date are ahead by 7 percent. Furniture, home furnishings and equipment stores show no increase and building materials, hardware and farm equipment dealers are ahead by 3 percent.
- Sales of eating and drinking places and gasoline service stations are experiencing higher rate of increase, as they have all year, and are ahead by 14 and 11 percent, respectively.

WHOLESALE TRADE

- Merchant wholesalers are showing optimism regarding future sales and are now increasing inventories in response. Stock-sales ratio for all lines was 123 in August compared with 109 the year before and shows first rise in 6 months. A "normal" ratio is in the 120 to 125 range.
- Sales of merchant wholesalers at end of first 8 months, 1975 reached $287.8 billion, trailing comparable 1974 sales levels by 3 percent. For same 8-month period, wholesale price index rose 3.4 percent.
- Durable goods sales totaled $122.4 billion, 9 percent below comparable 8-month period. Of 9 major commodity lines, only machinery and equipment remained above year ago sales levels.
- Nondurable goods sales totaled $165.4 billion, 3 percent above same 1974 period. Of 8 major commodity lines, 4 were above year ago sales levels.

° Merchant wholesalers' inventories, valued at $44.9 billion (unadjusted) in August, were 5 percent above August 1974 levels.

SAVINGS: DEPOSIT OUTFLOWS REAPPEAR

CURRENT ° Following substantial savings inflows over past twelve-month period, disintermediation appeared once again as two separate Treasury sales of high-yield notes attracted large volume of funds from individuals.

° Consequently, Mutual Savings Banks experienced a $300 million outflow in September compared to a revised $21 million outflow in August and a $264 million inflow in July.

° Savings and Loan Associations, although not experiencing an outflow, showed a sharp decline in inflow. September gain was $618 million down from $1,326 million in August and $2,865 million in July. (See chart in Business Indicators.)

CONSTRUCTION INDUSTRY: MODERATE OPTIMISM ON 1976 NEW CONSTRUCTION CONTRACTS

° The 36th annual Building Products Conference held in Washington, D. C. on October 23 produced only moderate optimism concerning situation facing U.S. construction industry in 1976.

° Speakers from industry, as well as many participants from the construction sector, showed little enthusiasm for immediate prospects as the industry passes from a poor 1975 year into 1976.

° Lack of funds for capital expansion, high interest rates, environmental regulation problems, rising costs, and lack of productivity growth were cited as factors behind relatively dim prospects for building and construction businesses.

° Formal construction outlook of the F. W. Dodge Division of McGraw-Hill underlined basic uncertainty about construction demand. Dodge predicted that housing starts could rise to 1,525,000 units, a forecast conditioned by the assumption that mortgage money flows will not be impeded by disintermediation (see article on Savings in this section) or by aborted economic recovery.

- Contract volume for construction of housing facilities is estimated to rise from $31.4 to $43.0 billion in 1976, a rise of 37 percent.

- However, contracts for all other types of facilities, nonresidential buildings, engineering projects, and public works, are slated to rise by only 4 percent from $62.3 billion to $65.8 billion between 1975 and 1976. This would be an increase less than the assumed inflation rate for construction next year.

- Dodge spokesman verbally revised the Dodge housing outlook to 1.6 million units, which represented a last minute up-date of the outlook in its printed report which was 1,525,000 units.

TURNAROUND APPEARS IN AUGUST SCREW MACHINE PRODUCTS ACTIVITY

- Screw machine products producers, suppliers to broad range of durable goods industries, experienced a 21 percent drop in shipments during first seven months 1975, from comparable 1974 level.

- During same 7-month period, orders booked by screw machine products producers declined 41 percent from 1974 level.

CURRENT

- Although still below 1974 levels, encouraging signs of turnaround in both shipments and orders appeared in August 1975.

- Monthly industry shipments index increased 3.5 percent to 117 in August from 113 in July 1975 (1967 = 100). Monthly orders booked index rose 5.8 percent to 109 in August from 103 in July 1975 (1967 = 100).

- Continued improved activity suggests expansion in shipments by capital goods producers.

LEATHER INDUSTRY

- The leather tanning and finishing industry faced with serious problems in raw material supplies, pollution abatement and control, and imported leather and finished leather products, has been in the doldrums for several years.

- The industry had been operating at less than 80 percent capacity and at least a half dozen important tanneries discontinued operations in past couple of years.

CURRENT
- At its recent annual fall meeting, executives report a definite upturn in the small industry. Demand for leather is rising sharply and producers are gearing up to meet it.
- Although tanning capacity has been reduced significantly, remaining tanners are currently operating at nearly 100 percent capacity, despite continued depressed conditions of its largest customer, American footwear manufacturing industry.
- Leather garment producers and exports have taken up most of slack created by reduced domestic shoe production.
- While there has been increased demand by domestic users, foreign trade picture is also bright. Exports from January through August 1975 are up by 33 percent, to $90.1 million, over comparable 1974 period. In same period, imports have dropped to $50.4 million, down 43 percent from $88 million.
- Although raw materials continue to present problems, tanners are not as reluctant to pay increased prices for many types, as consumers appear willing to pay higher prices to get genuine leather products.

LUMBER INDUSTRY: JAPAN'S CONSTRUCTION PLANS SHOULD STRENGTHEN DEMAND FOR U.S. LUMBER AND WOOD PRODUCTS

CURRENT
- Japanese Ministry of Construction announced a five-year plan to build 8.6 million new housing units from April 1976 to March 1981. Annual rate for this plan is 1.72 million units.
- This is a reduction from annual rate of 1.92 million units targeted in previous five-year plan, but is slightly above the 1.67 million units per year actually achieved. Thus, Japanese government commitment to provide new housing apparently remains intact, despite currently depressed Japanese housing market.
- New plan differs in emphasis from its predecessor. New stress is on home size and quality, with planning for average home size of 958 square feet compared to 818 square feet attained in previous plan. Plan also puts some emphasis on housing built with public funds.
- U.S. forest products industry sources consider plan promising, but note that current Japanese market conditions indicate that demand for U.S. lumber and wood products will not increase rapidly as:

- current housing starts in Japan are 4 percent below 1974 level, and 1974 was down 31 percent from 1973; and
- apparent large inventories in Japan of wood products are estimated at four months consumption.

LARGEST BANK FAILURE OF 1975

CURRENT ° A medium-sized Milwaukee bank ($145 million in deposits), was declared insolvent in Nation's largest bank failure this year, but no losses will be sustained by the 35,000 depositors of the American City Bank and Trust Company.

° Losses will be prevented because of $94 million in loans made by the Federal Government and "a substantial premium" of $6 million paid by Marine National Bank of Milwaukee, that will assume most of American City's assets and liabilities. American City's main office will become a Marine National branch.

° Previous largest failure in 1975 was the collapse of the Northern Ohio Bank of Cleveland ($95 million in deposits) which folded in February.

CONVENIENCE STORES AND CRIME

° A report by National Assocation of Convenience Stores (NACS) confirms belief that convenience stores are major victims of robberies.

° Study was made to determine and identify scope of crime in the industry, and to obtain necessary data to request state legal changes.

° Data obtained from survey of seven convenience store companies operating 10,516 company-owned and franchise stores in four selected states (Arizona, Texas, Georgia and Florida) showed that they had 10,274 robberies in 1974, an average of .98 robberies per store.

° Highest incidence rate (robberies per store) occurred in urban cities with population exceeding 650,000.

° Actual losses for these seven companies totaled more than $1,847,000. Average loss per robbery was $175.

° Based on statistics for first 6 months 1975, an estimated 11,786 total convenience store robberies will occur among these seven companies in 1975. This represents a 15 percent increase in robberies over 1974.

COMPUTERIZATION IS INCREASING IN HEALTH CARE INDUSTRY

- ° American hospitals are estimated to spend approximately 30 percent of their budgets, or some $8 billion annually on data collection, recordkeeping, and other processing and communication of information of various types. As much as half of this spending is for functions which could probably be automated.

- ° A leading market research firm estimates that sales of computers for use in hospitals totaled $156 million in 1974. This may reach nearly $380 million in 1979 according to the firm.

- ° With mounting labor costs, needs for better administration and management, and to meet various regulations and reporting requirements, hospitals are turning to automation of information functions.

- ° According to another study, over 60 percent of hospitals polled had moved to computerization in health care or financial applications.

OSH COMPLIANCE LOAN FUND AIDS SMALL BUSINESS

CURRENT ° A special loan fund administered by Small Business Administration is available to help small businesses comply with Occupational Safety and Health (OSHA) regulations. Only 8 companies applied for such loans during the first 14 months of program but number of applications is now increasing.

- ° Advantages of OSHA compliance loans include a 6.5 percent interest rate for as much as a 30-year period and no closing fees. Loan money may be used for renovation or moving to a new location.

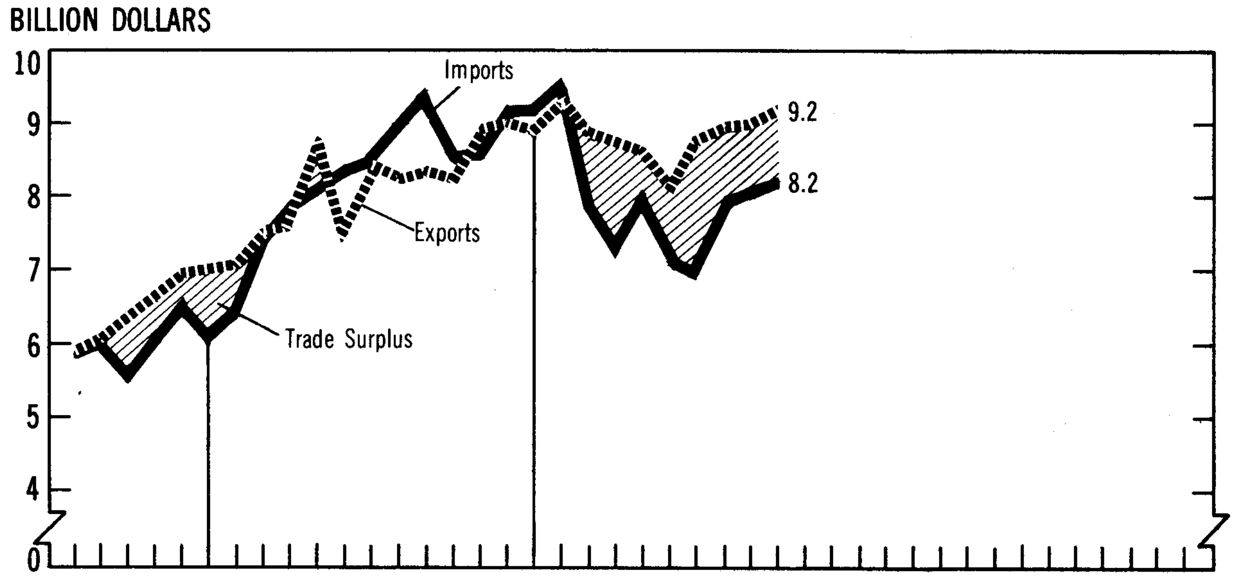
- ° Guidelines for compliance loans require firms:

  - to be independently owned and operated and not dominant in their field;

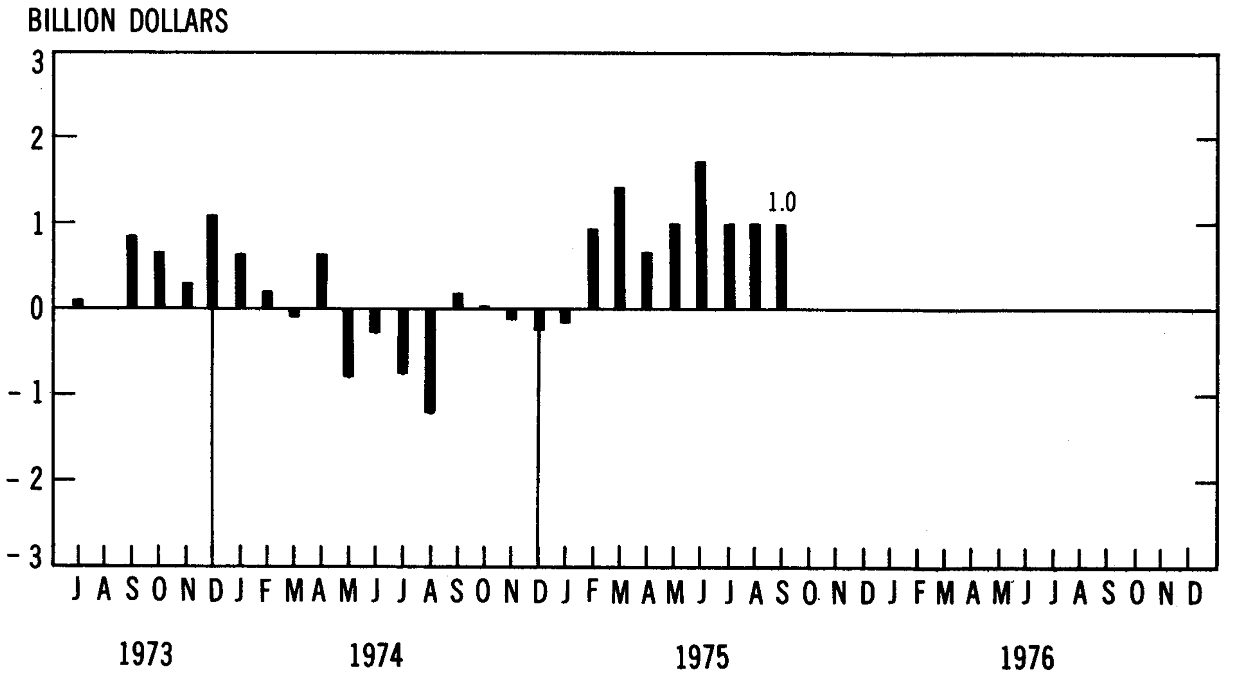
  - to submit a report of a plant survey prepared by a licensed engineer or architect identifying hazards that are in violation of OSHA standards; and

  - to submit a contractor's estimate of cost of violation correction.

BUSINESS INDICATORS
MERCHANDISE IMPORTS AND EXPORTS
(Seasonally Adjusted)

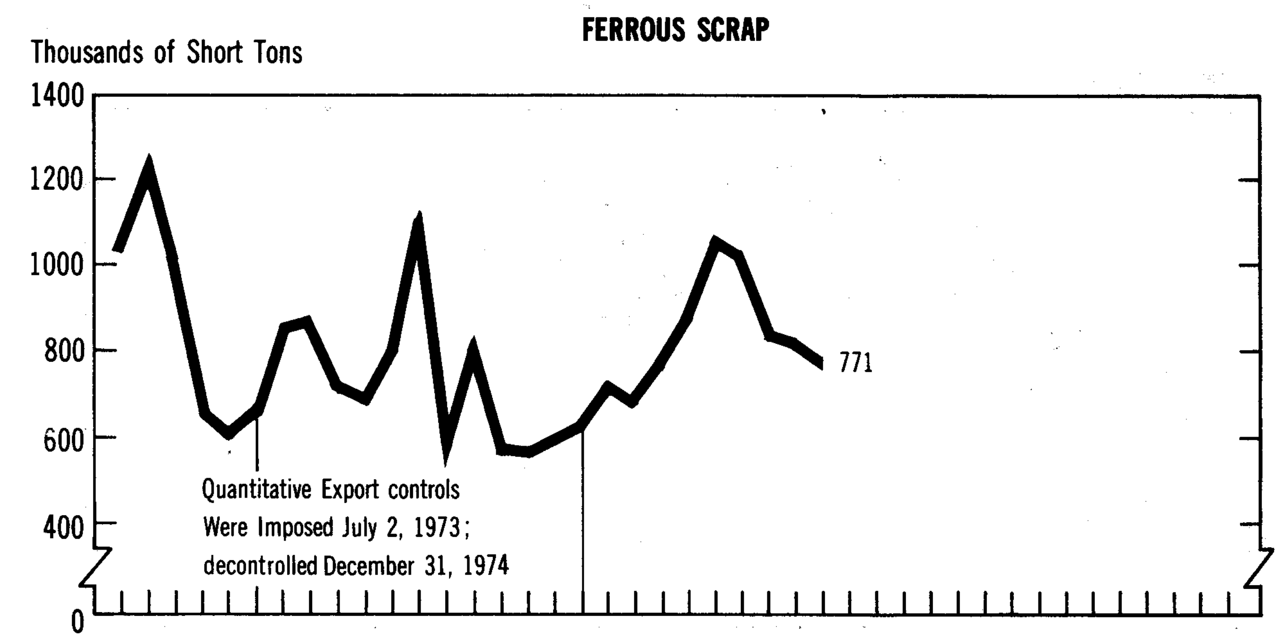


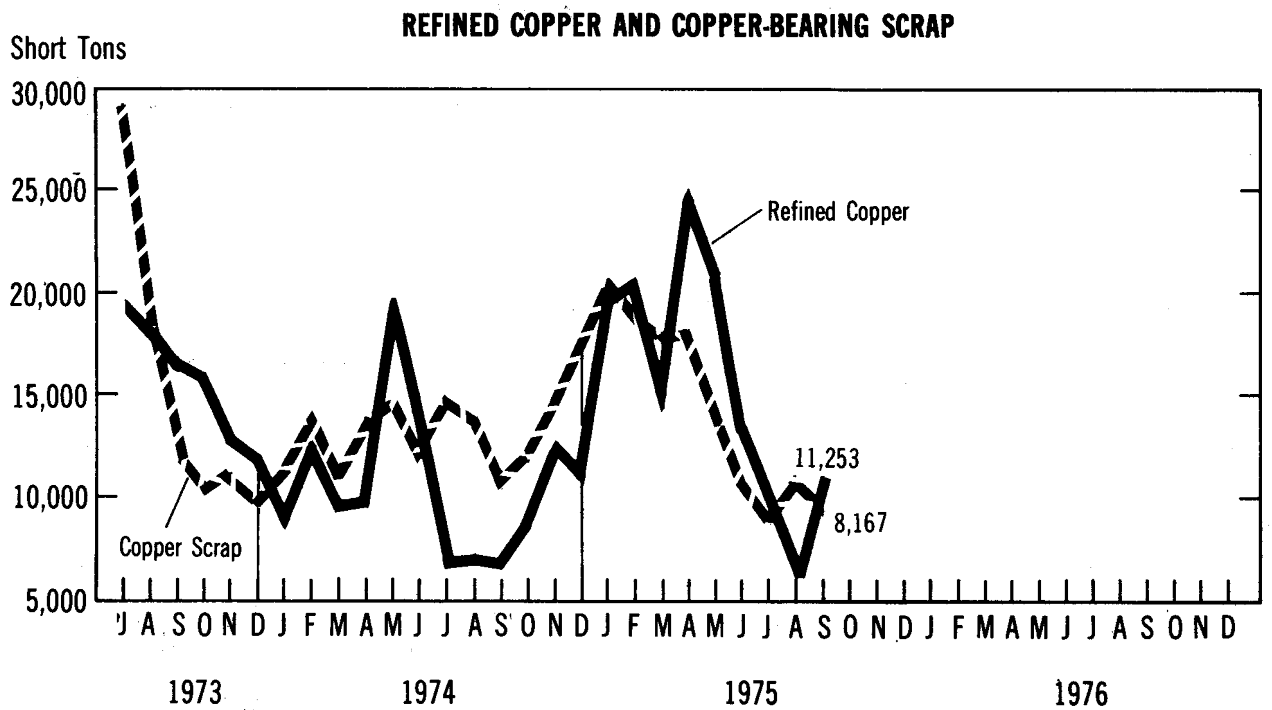
TRADE BALANCE



Source: Bureau of the Census

KEY COMMODITIES — U.S. EXPORTS

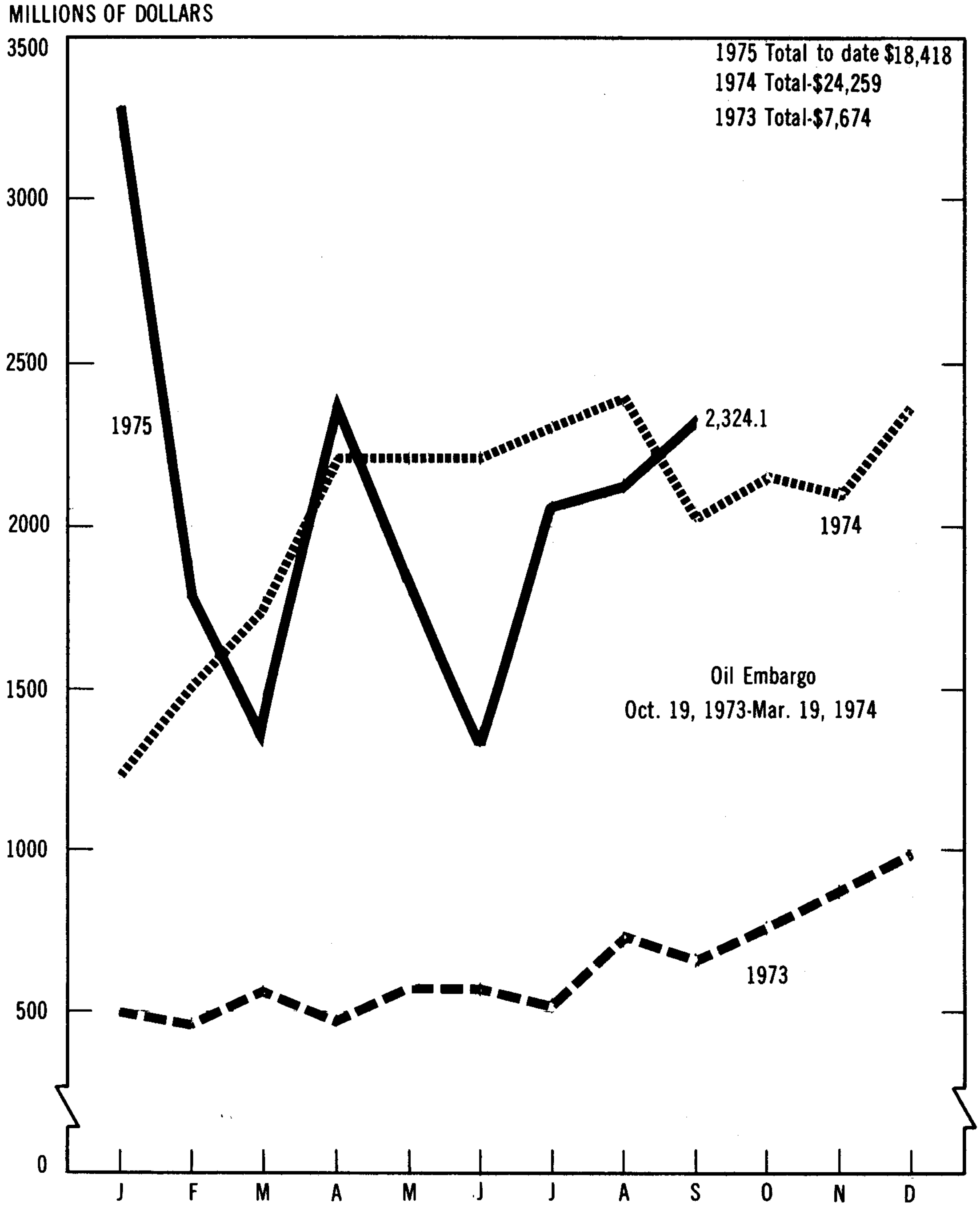




Source: Bureau of the Census

VALUE OF U.S. PETROLEUM IMPORTS FOR CONSUMPTION

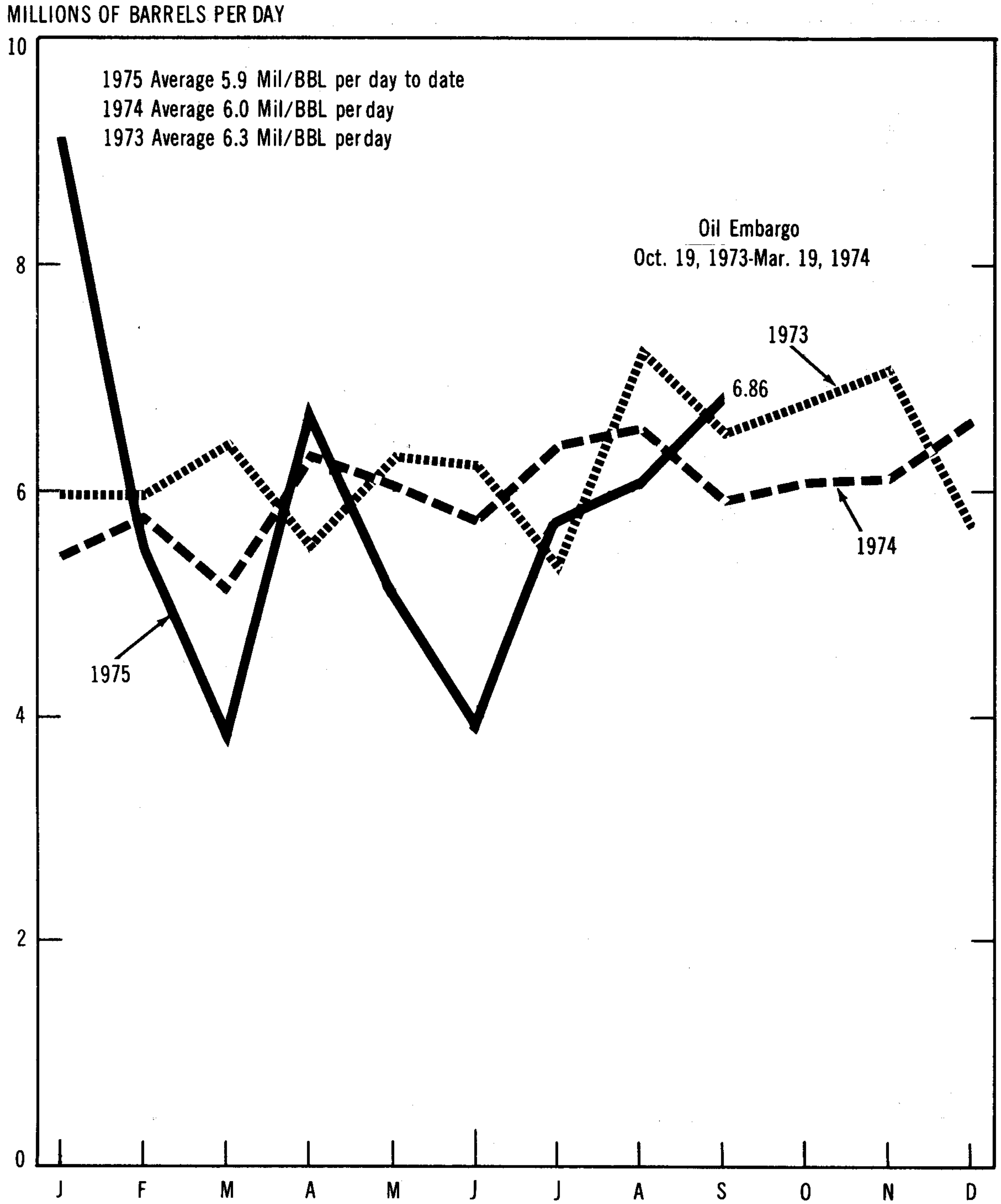
CRUDE AND REFINED PRODUCTS



Source: Bureau of the Census.

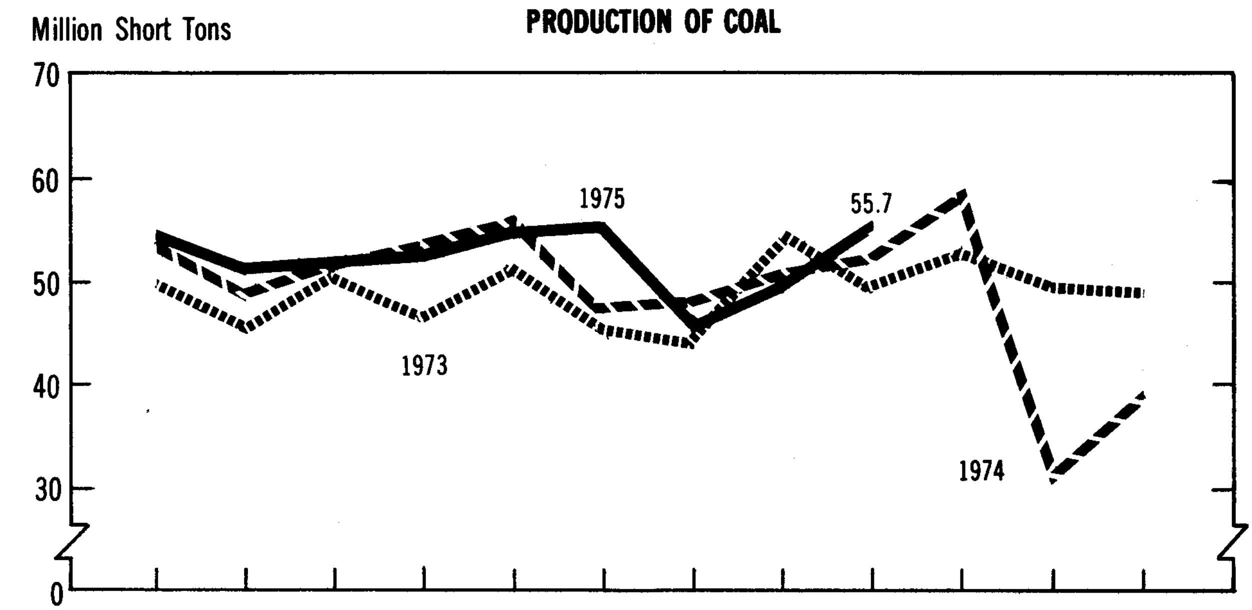
QUANTITY OF U.S. PETROLEUM IMPORTS FOR CONSUMPTION

CRUDE AND REFINED PRODUCTS

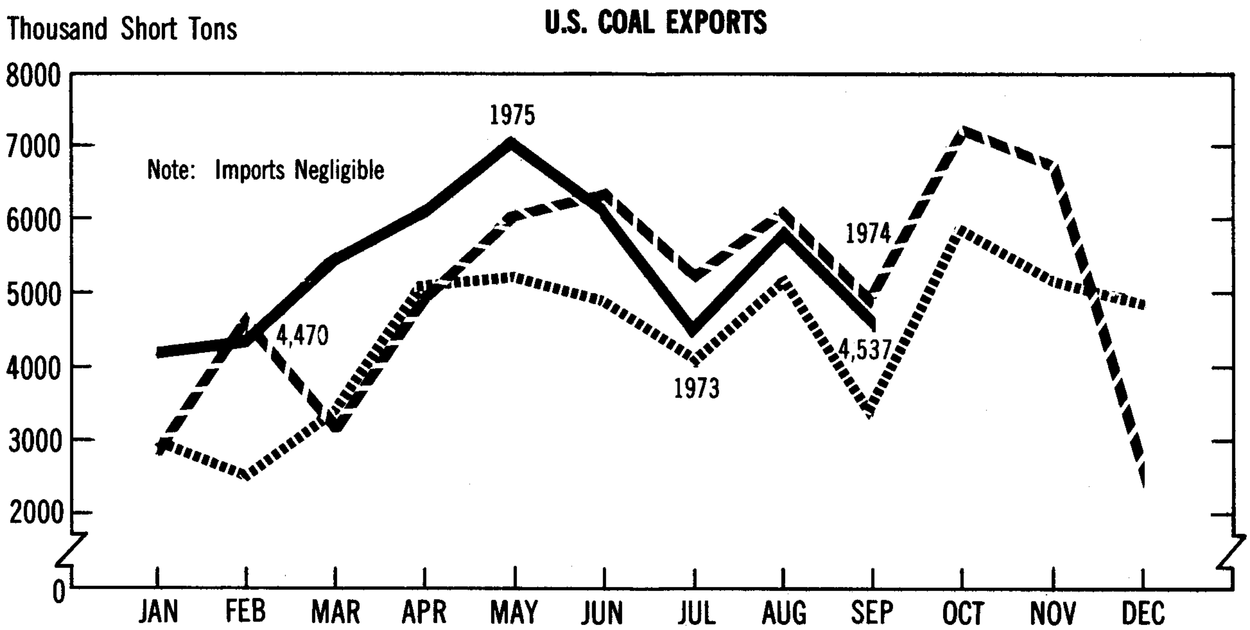


Source: Bureau of the Census.

COAL



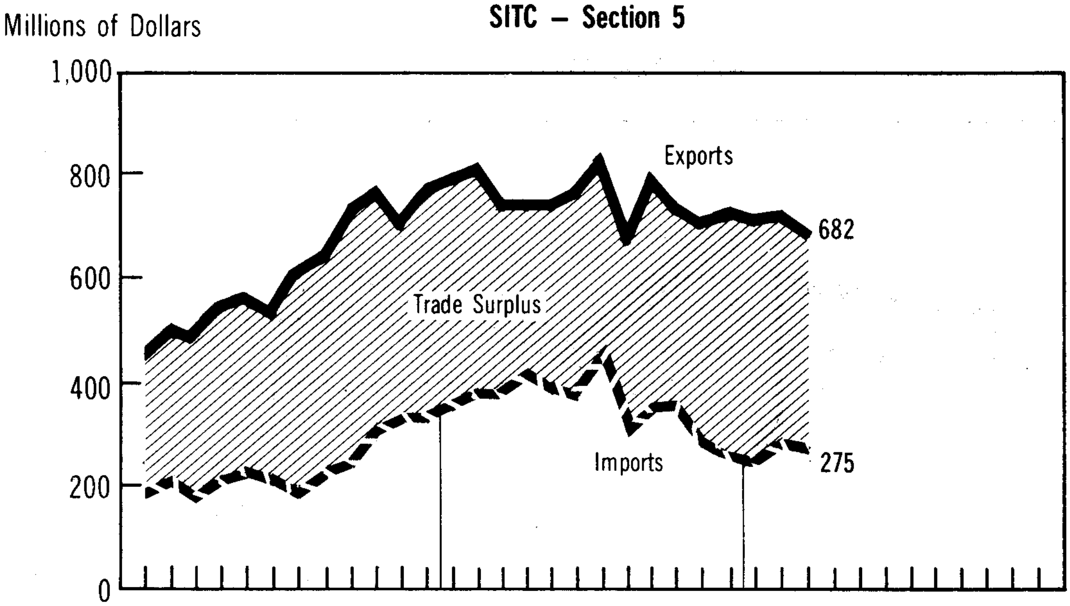
Source: U.S. Bureau of Mines



Source: Bureau of the Census

CHEMICALS

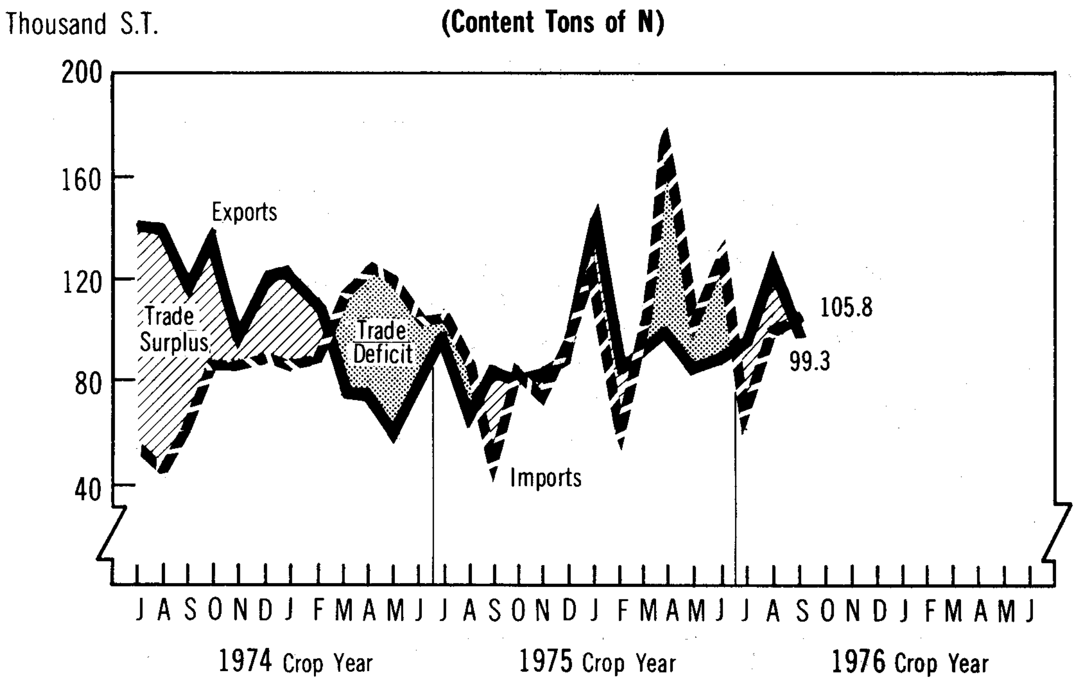
SITC – Section 5



Source: Bureau of the Census

NITROGENOUS FERTILIZERS

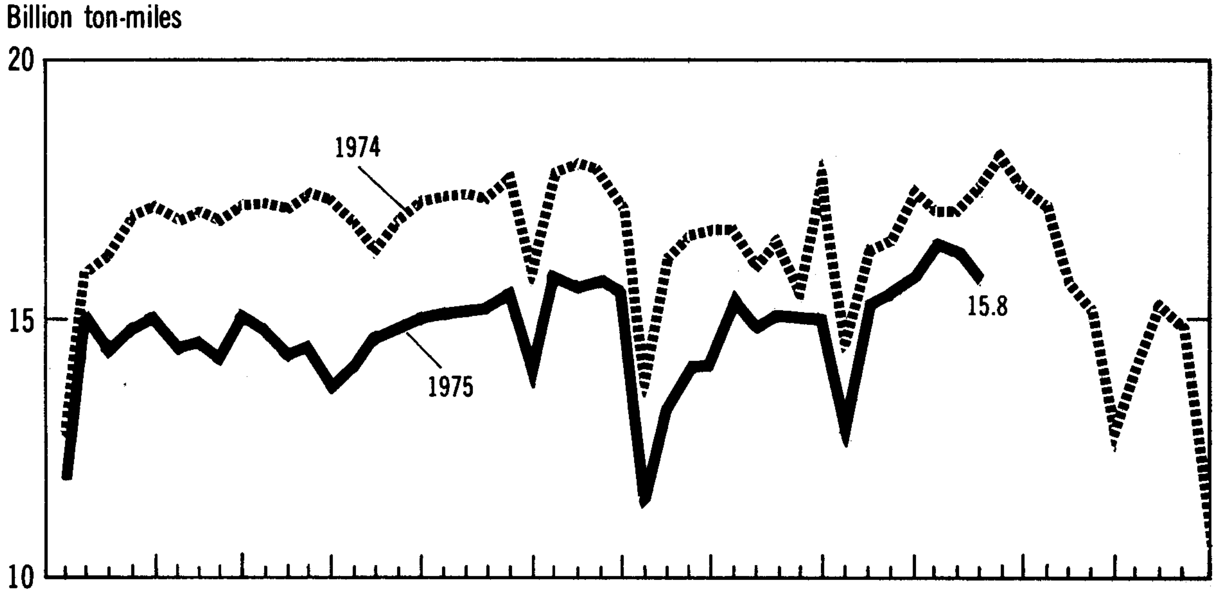
(Content Tons of N)



Source: Bureau of the Census

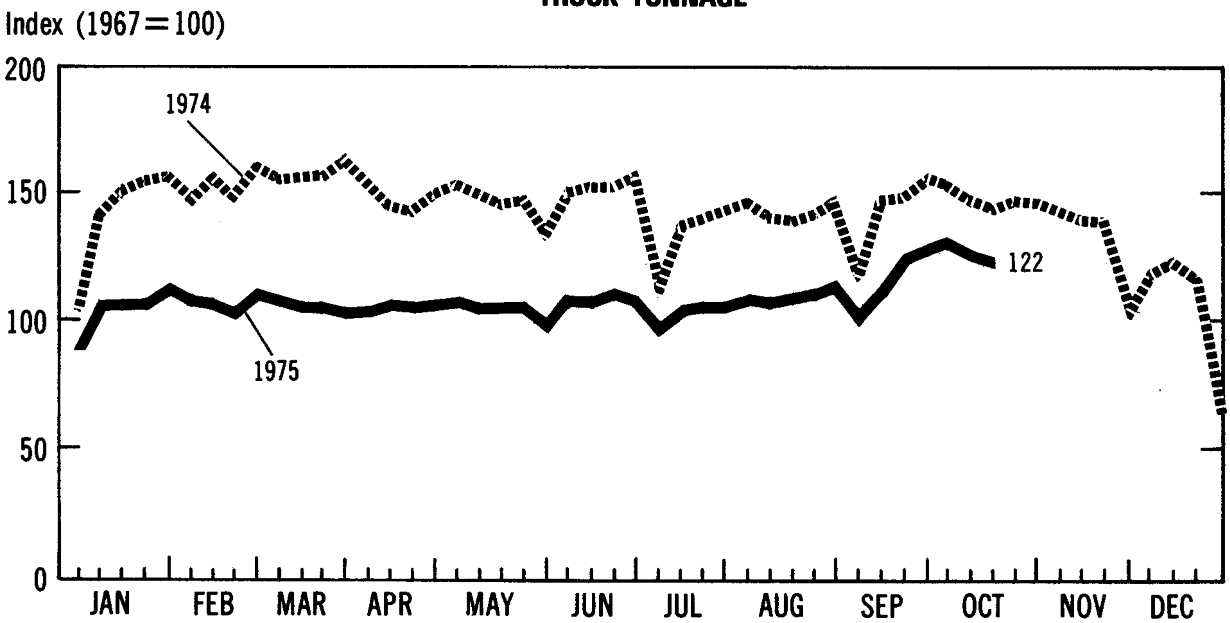
FREIGHT MOVEMENT

CLASS 1 RAILROADS



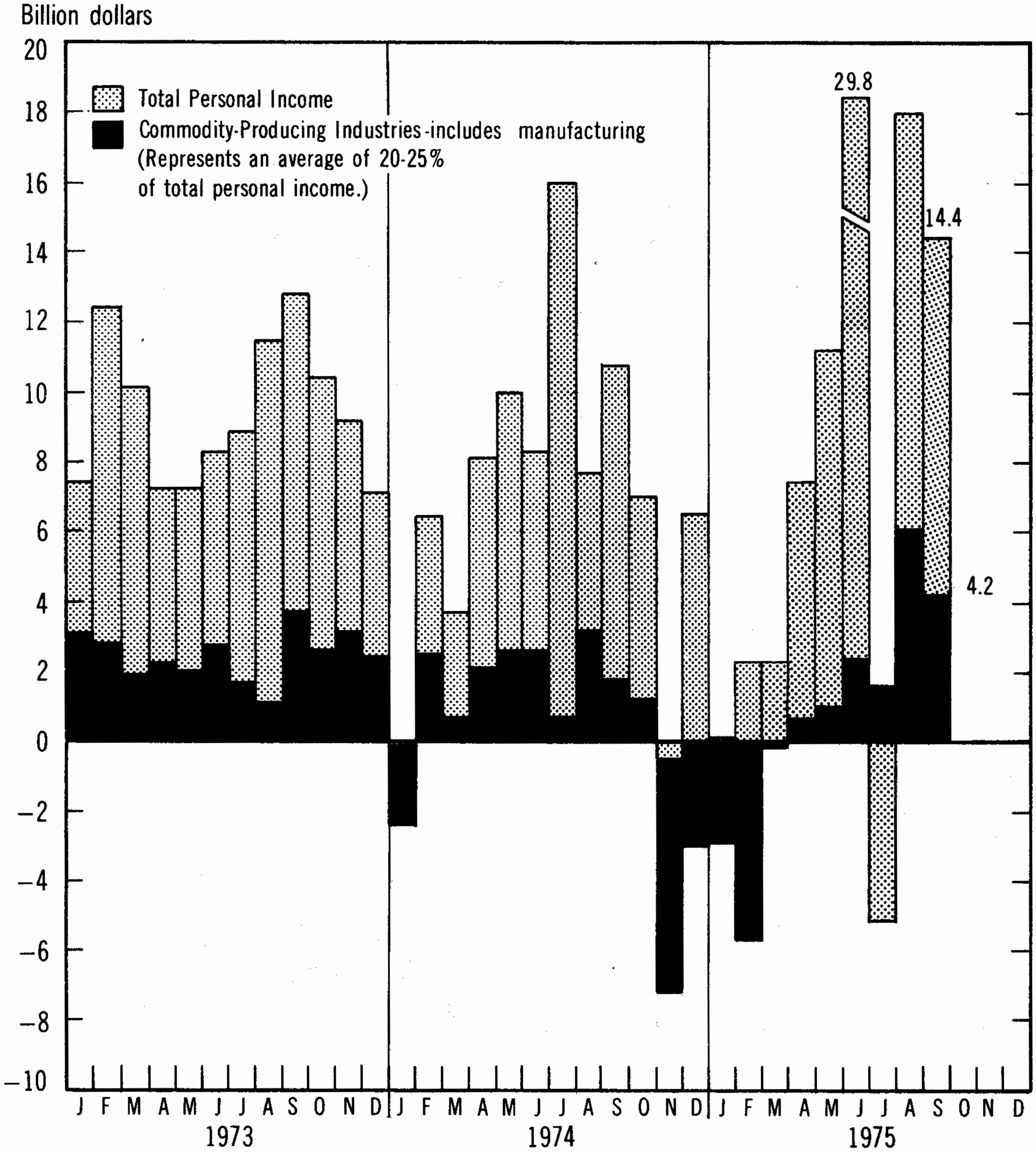
Source: Association of American Railroads

TRUCK TONNAGE



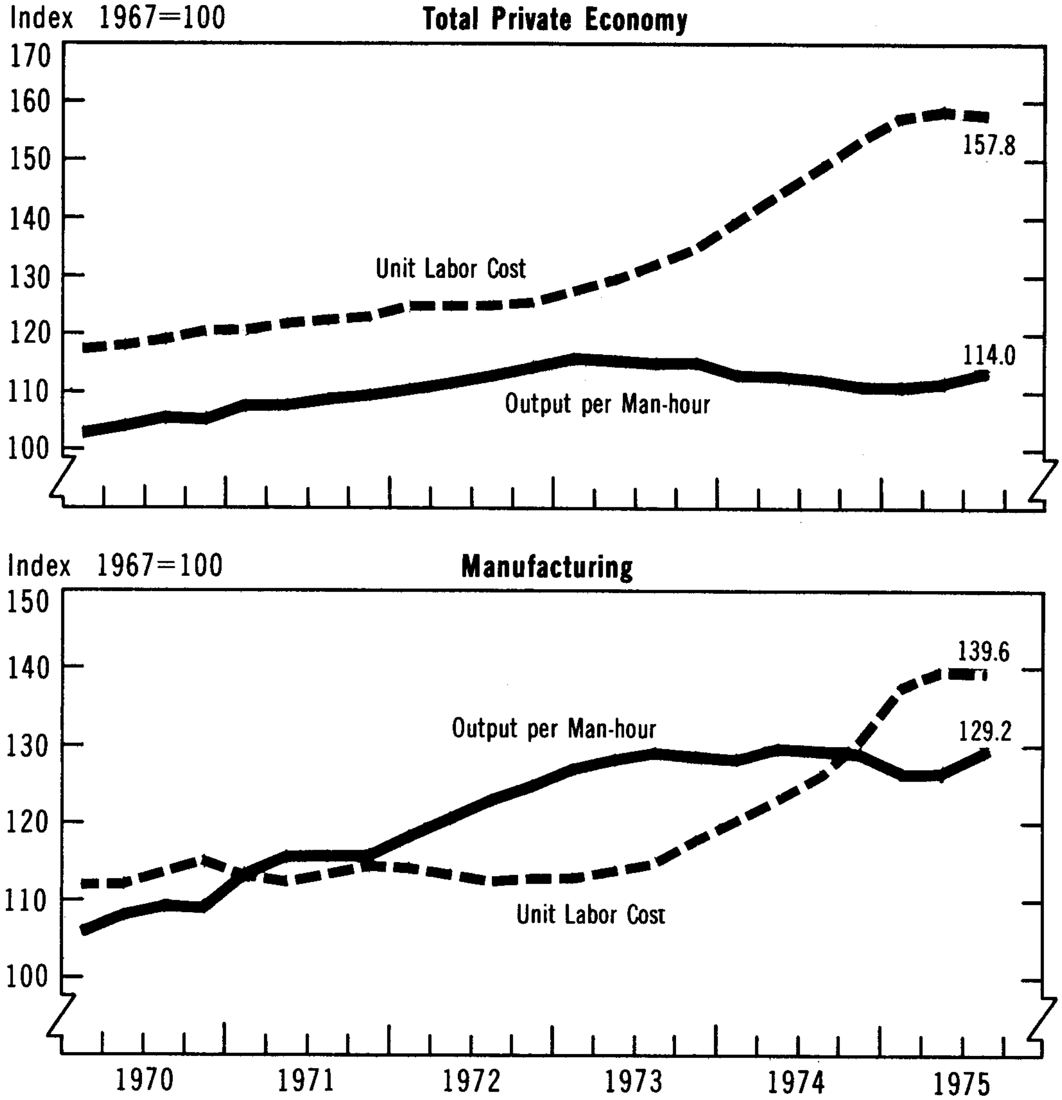
Source: American Trucking Associations

MONTHLY CHANGES IN PERSONAL INCOME



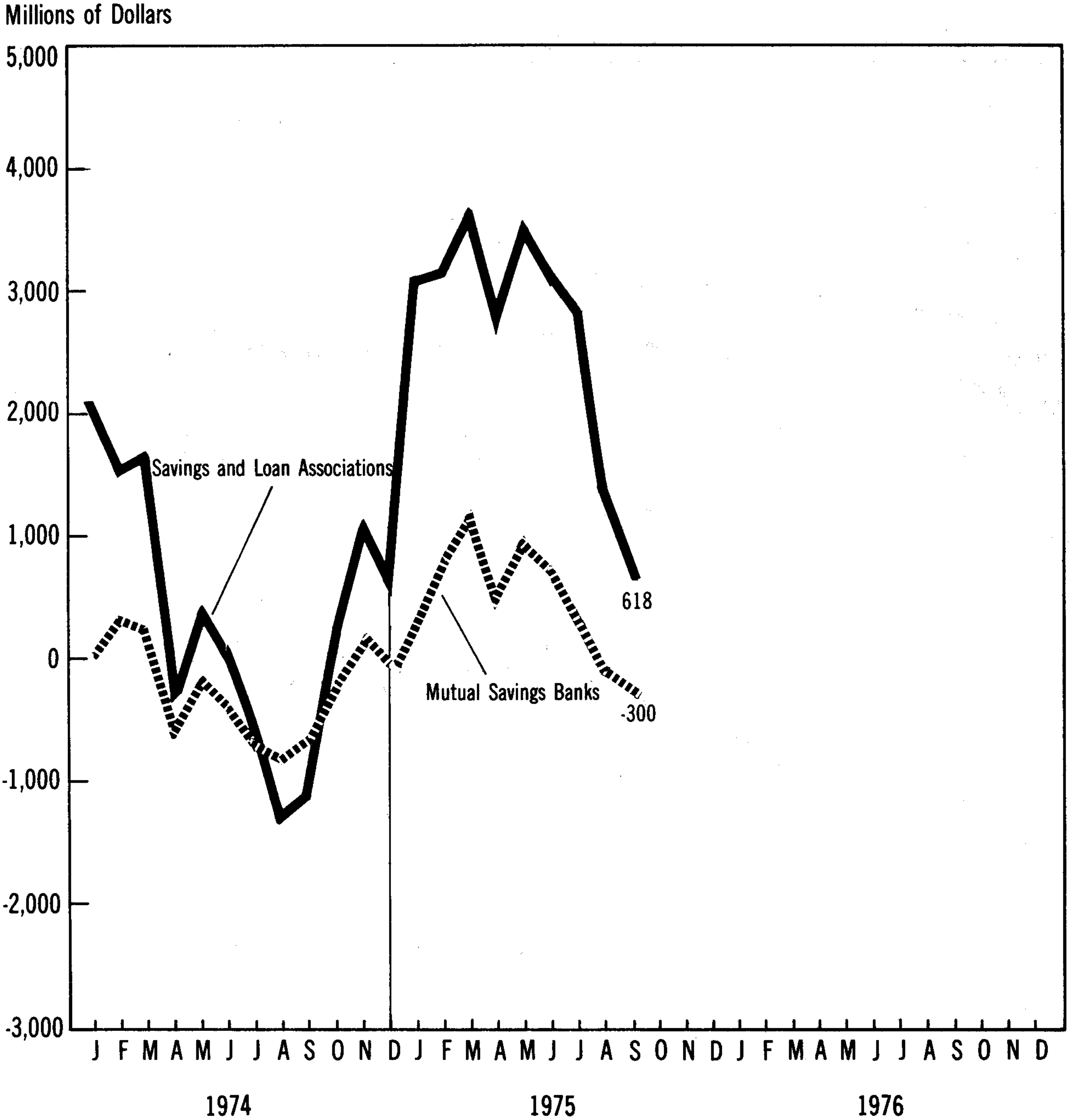
Source: Bureau of Economic Analysis

Productivity and Unit Labor Costs
(Seasonally Adjusted)



Source: Bureau of Labor Statistics.

SAVINGS FLOWS IN THRIFT INSTITUTIONS



Source: National Association of Mutual Savings Banks and Federal Home Loan Bank Board

Developing Issues

DEVELOPING ISSUES

PROBLEMS FACE SOLID WASTE RECOVERY SYSTEMS

- Recent publicity has focused on growing number of solid waste recovery projects, most of which are considered demonstration or experimental.

- These plants, primarily municipally operated, generate several different types of end product. Most frequently, solid waste is converted into gas which is used as boiler fuel or for heating and air conditioning. Metals and glass may also be recovered. Fuel generated is carried by pipeline and must be used in close proximity to the processing plant.

- A Baltimore facility, built by Monsanto, will pyrolize 1,000 tons per day of waste when fully operational. American Can is constructing a 900 ton per day facility in Milwaukee. Facilities in Massachusetts and Connecticut will convert waste collected on regional basis.

- Municipalities see recovery systems as easing landfill problems, and as potential alternate energy sources. Contracts now being negotiated fix a price of $12.40 to $13.00 per ton to local governments for processing the solid waste.

CURRENT

- The industry remains cautious in assessing prospects for future development of solid waste recovery. Full utilization of Baltimore plant will be delayed while state air pollution standards are met by installing an electrostatic precipitator.

- Industry sources also foresee need for Federal construction grants to stimulate new construction. One major manufacturer has indicated that it may not go beyond its present construction commitments.

- Municipalities have shown little enthusiasm for negotiating long term contracts with manufacturers to operate the facilities. Also, state and local bond issues for future facilities are expected to face close legislative scrutiny.

PROPOSED TRUCKING REGULATORY REFORM ACT

° Backhaul in the food industry is the practice of using normally empty trucks returning from runs that transport manufacturers goods to wholesalers and/or retailers warehouses.

° The National Commission on Productivity estimates that full use of backhaul could result in annual savings in food distribution costs of $100 million. Fuel savings, based on Census Bureau figures, could be up to 250 million gallons annually.

° Full use of backhaul has been limited by Federal Trade Commission's interpretation of the Robinson-Patman Act.

° A recent FTC letter to the Council on Wage and Price Stability indicated that there is no administrative remedy for increasing backhaul. Any improvement would have to be in the form of legislative changes by Congress.

CURRENT ° The Ford Administration's soon to be proposed Trucking Regulatory Reform Act is last of three proposals designed to reduce federal controls on rail, airline, and truck industries, and also permit broad free market competition.

° This proposal would reduce waste of energy involved in both superfluous highway travel and presently required empty hauling.

° American Trucking Association is lobbying to defeat the measure before it is sent to Congress.

Labor Developments

LABOR DEVELOPMENTS

PRODUCTIVITY AND UNIT LABOR COSTS

CURRENT

- Output per man-hour in total private economy rose in third quarter 1975 at a 9.5 percent annual rate, as reported by BLS. In manufacturing, output per man-hour increased at an annual rate of 8.9 percent in same period.
- As result of slower rate of increase in compensation per hour and the larger increase in productivity, unit labor costs in third quarter declined 2.4 percent in the private economy and 0.8 percent in manufacturing sector. (See chart in Business Indicators.)
- This was first decline in unit labor costs in private economy since second quarter 1972 and largest decline since third quarter 1965. In manufacturing, this was the first decline in unit labor costs since first quarter 1973.

STRIKES
(Source: Federal Mediation and Conciliation Service)

- During week ending October 22, approximately 105,400 employees were involved in 345 strikes throughout the United States.
- Eighteen work stoppages were in the major and/or significant category where 1,000 or more employees were in the bargaining unit.
- During approximately same year-ago period (October 16, 1974), there were 300 work stoppages, involving 102,100 employees. Twenty-three of these work stoppages were in the major and/or significant category.

NEW AND SETTLED MAJOR STRIKES
(Source: Federal Mediation and Conciliation Service)

- New: Brown & Sharpe Mfg. Co., and the IAM
  North Kensington, Rhode Island
  1,598 employees; began 10/22/75

  Elevator Industries Assn., and the IBEW
  New York, New York
  1,200 employees; began 10/27/75

° Settled: Ready Mix Concrete Co.
and the Teamsters
New York, New York
1,500 employees; 10/3/75 through 10/15/75

Mead Corporation and the
Paper Workers
Chillicothe, Ohio
2,440 employees; 8/12/75 through 10/27/75

Mechanical Contractors Assn. of D. C.
and Pipe Fitters
Washington, D. C., 9/3/75 through 10/28/75

Excavating Industry Contractors and
the Teamsters
Metropolitan New York and vicinity
1,200 employees; 10/3/75 through 10/22/75

° Tentative agreement has been reached, subject to membership ratification:

Union Electric Power Co. of
Missouri and IBEW
St. Louis, Missouri
4,189 employees; began 7/12/75;
tentative agreement reached 10/24/75

CANADIAN PAPER INDUSTRY:
Strike Escalates in Eastern Canada as British Columbia Mills Re-open Under 90-Day Cooling-Off Period

CURRENT ° Canadian Paperworkers Union extended its strike action to Canada's Atlantic Provinces with announcement that within next two weeks eight pulp and paper mills in Nova Scotia, Newfoundland, and New Brunswick will be shut down. (Includes five newsprint facilities with combined production capacity of 1.3 million tons or 13 percent ot total Canadian newsprint capacity.)

° With eight additional newsprint mills in Quebec shut down over past two weeks, estimated 46 percent of total Canadian newsprint capacity was down as of October 24. This level of idled capacity takes into account British Columbia's five newspring mills that re-opened October 11 as result of provincial government back-to-work order that specifies a 90-day cooling-off period.

° Despite new strike action that may idle 60 percent of Canadian newsprint capacity in two weeks, U.S. newsprint inventories continue at a high level with more than adequate domestic supplies forecast through remainder of 1975.

PERSONAL INCOME IN SEPTEMBER INCREASES

CURRENT

- ° Personal income increased by $14.4 billion in September to a seasonally adjusted rate of $1,270.3 billion. This increase compares to August gain of $17 billion (revised from $18 billion).
- ° Personal income from wages in commodity-producing industries has been a coincident indicator of overall national economic trend over the past two years. (See chart in Business Indicators). In September personal income from commodity-producing industries increased by $4.2 billion.
- ° While September increase from commodity-producing industries is substantial, it is a decline from the sharp climb of $5 billion (revised from $6.1 billion) in August.
- ° Personal income generated from manufacturing was a principal factor in rise in personal income commodity-producing industries. Income from manufacturing rose by $3.4 billion in September, compared to $4.5 billion in August.
- ° Rise in income generated from manufacturing was attributed to gains in employment and higher average hourly earnings and was broadly based throughout manufacturing.

FOREGOING RESTRICTIONS MAY BE REMOVED
90 DAYS AFTER PUBLICATION