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ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE MEETING

AGENDA  
8:30 a.m.  
Roosevelt Room

January 19, 1976

1. Administration position on H.R. 5247      OMB  
Local Public Works Capital Development  
and Investment Act of 1975
2. Financial Condition of Major U.S. Cities      Treasury



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

JAN 11 1976

MEMORANDUM TO: ECONOMIC POLICY BOARD  
FROM: Calvin J. Collier  
SUBJECT: Local Public Works Capital Development and Investment  
Act of 1975 (H.R. 5247)

This memorandum is to provide a description of the provisions contained in H.R. 5247, and a summary of past Administration positions regarding the proposed programs.

Status

On December 8, the Conference Committee completed action on a compromise bill. The House previously had passed an accelerated public works bill which authorized \$5 billion for a grant program to be administered by the Department of Commerce (EDA). The Senate had passed a substantially different bill totalling over \$6 billion, which included authorization for extending EDA's Job Opportunities program, additional authorizations for EDA's other programs, authorizations for a "counter-cyclical revenue sharing" program, and a change in the allocation formula for EPA waste treatment grants.

The Senate passed the Conference Bill on December 17, by voice vote. The House delayed taking final action last session, but is expected to pass it quickly upon its return. The House expects a veto, and did not want to send a bill down that might be pocket vetoed.

Summary of Bill

The bill includes three titles.

Title I is essentially the original House bill for accelerated public works, with the authorization level cut in half to \$2.5 billion.

Title II is to authorize and direct the Secretary of the Treasury to make revenue sharing payments to state and local governments "to make state and local government budget-related actions more consistent with Federal efforts to stimulate national economic recovery." The total amount of the payments would depend on the national unemployment rate. The Senate estimated the cost at \$1.5 billion for the five quarters beginning April 1976.



Title III picks up several parts of the Senate version, including an authorization for an additional \$1.4 billion for EPA's wastewater treatment grants program; an extension and modification of the Job Opportunities program; an authorization for EDA to provide interest subsidies to businesses receiving commercial loans; and an amendment to the EDA Act to, in effect, make EDA an urban renewal agency. The total amount authorized is over \$6 billion.

### Analysis of the Three Titles

#### Title I

##### Description.

- . Secretary of Commerce is authorized to make grants to any State or local government for construction, renovation or repair of local public works. The Federal share shall be 100% of the cost.
- . May also make grants to cover the State or local share of the cost of any other Federally assisted project; such grants shall make the Federal share 100%.
- . At least 70% of the funds are to go to areas having unemployment rates in excess of the national unemployment rate, but not less than one-half of 1% or more than 10% shall go to any one State. Priority shall be given to projects of local governments.
- . The Secretary must make a final determination on each application for assistance within 60 days of receipt, or the request is automatically approved.
- . The authorization of \$2.5 billion is for the period ending September 30, 1977.

##### Comments

The Administration opposed this Title when it was being considered by the House. The primary points against the Title are:

- . Outlays from the program would increase the 1977 deficit by an estimated \$1 billion and the 1978 deficit by about \$1.2 billion.
- . The program would have its peak impact in late 1977 or early 1978, when it is likely to be stimulating inflation.



- . The requirement for a 100% Federal share reduces or removes State and local government incentives to conduct a careful project review or to consider the priority of a proposed project against other local priorities. The 60 day limit on Federal review also would minimize the Federal ability to screen proposals.

## Title II

### Description

- . Would provide for countercyclical aid to State and local governments when the national rate of unemployment exceeded 6% during the 5-quarter period beginning April 1, 1976.
- . Would authorize appropriation of \$125 million per quarter at the 6% level plus \$62.5 million per quarter for each half percentage point by which unemployment exceeds 6%. For example, if the national rate of unemployment remained at 8% for a full year, an appropriation of \$1.5 billion would be authorized for that year.
- . One-third of the funds would be reserved for States and two-thirds for local governments. Distribution to a jurisdiction would be based on the relative excess of unemployment (over a base), multiplied by taxes raised by that jurisdiction. Distribution would terminate when the rate of unemployment fell below 6%.
- . Undistributed amounts would provide a Contingency Fund for emergency support grants to States and local governments in severe fiscal difficulties.
- . Use of grants would be restricted to maintenance of basic services. Applications, reports, and assurances of nondiscrimination, conformance with Davis-Bacon and economization would be required.

### Comments

The Administration has opposed this type of aid as proposed in S. 1359 (Muskie, Humphrey, and Brock), a bill almost identical to this title. Differences are as follows: S. 1359 would have authorized the program for 12 quarters, while this title limits it to 5 quarters. Minimum distribution under S. 1359 would have been \$1,000; under this title, \$250.



The Administration's opposition has been based on a preference for taking specific Federal actions directed toward achieving economic recovery and mitigating the effects of unemployment. Other reasons for the opposition were:

- . Extension of unemployment compensation and tax reduction are more effective means of achieving economic recovery.
- . Federal deficits, which are already serious, would be increased. This title would increase outlays by \$375 million in 1976, \$375 million in the transition quarter, and \$1,125 million in 1977, if the national rate of unemployment remained at 8%.
- . Using the unemployment rate as a trigger could extend economic stimulation beyond the early stage of recovery, thereby generating inflationary pressures.
- . Countercyclical aid would encourage improvident behavior on the part of State and local governments by making it unnecessary for them to accumulate budgetary reserves in good years to enable them to maintain services in bad years. They would be encouraged to raise expenditures in good as well as bad years.
- . The distribution formula does not adequately differentiate between communities on the basis of tax effort or tax structure.
- . This program would increase uncontrollability of the Federal budget.

### Title III

#### Description

- . Increases authorization for EDA's loan programs by \$125 million, primarily to permit EDA to pay to private borrowers an amount sufficient to reduce up to four percentage points the interest paid by borrowers on commercial loans which are guaranteed by EDA. EDA's authority to make new commitments for interest subsidy would expire on December 31, 1976.
- . Amends EDA Act to provide that any city with a population of 50,000 or more, with an economic development plan, shall be eligible for EDA assistance. Assistance may be





used by the cities to make grants or loans, and the city may use loan repayments for further redevelopment work. \$100 million is authorized for 1976 and the transition quarter.

- . Extends authorization for the Job Opportunities program through September 30, 1976, and authorizes \$500 million. It also makes several changes in the Job Opportunities authority including:
  - 70% of the funds must go to areas with unemployment rates above the national average, but not more than 15% may go to any one State; and
  - Priority will be given to proposals initiated by State or local governments (rather than Federal agencies).

These changes have the effect of removing almost all real differences between this program and the Title I accelerated public works program.

- . Authorizes an additional \$1.4 billion for EPA's wastewater treatment grants. The purpose of the increase is to provide additional funding for about 33 States which would have received more funding under a Senate proposal to revise the grant formula. The Conference substitute would prevent any reduction in the allotment for any State.

#### Comments

The Administration has consistently opposed the Job Opportunities bill as being a costly means of creating temporary jobs as well as being administratively unwieldy. The changes would not improve the program and would likely increase the pork barrel nature of the allocations.

The Administration also has opposed increases for the EPA wastewater treatment program.

The interest subsidy provision would result in grants to private firms. The demand for such assistance is likely to be great and it would be very difficult to allocate the subsidies to those firms which would have the greatest impact on reducing unemployment.



The amendment to make cities over 50,000 eligible for EDA assistance could get EDA into a major new and costly urban development role. It would be a step in reestablishing categorical grant programs for urban development.





1/16/76

ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, January 19, 1976

1. Administration position on H.R. 5247,  
Local Public Works Capital Development  
and Investment Act of 1975 OMB
2. Financial Condition of Major U.S. Cities Treasury

Tuesday, January 20, 1976

No EPB Executive Committee meeting

Wednesday, January 21, 1976

No EPB Executive Committee meeting

Thursday, January 22, 1976

1. Strategy considerations for tax and  
spending limitation effort Gorog

Friday, January 23, 1976

No EPB Executive Committee meeting