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**ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE MEETING**

**AGENDA**

**March 26, 1976 - 8:30 a.m.  
Roosevelt Room**

- 1. Proposed Amendments to the Aviation Act** **OMB**
- 2. Administration Policy on the Use of Government  
Sponsored Loans in Leveraged Leases** **OMB**
- 3. Task Force proposal for improving agency  
regulations** **Schmults**

THE WHITE HOUSE  
WASHINGTON

March 24, 1976

TO EPB EXECUTIVE COMMITTEE MEMBERS

The attached paper will be discussed at the Friday,  
March 26, 1976, Executive Committee meeting.



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

MAR 24 1976

MEMORANDUM FOR: ECONOMIC POLICY BOARD  
FROM: PAUL H. O'NEILL *Ohn*  
SUBJECT: Proposed Amendment to the Aviation Act

Last October, the President sent to Congress the Aviation Act of 1975 which calls for the reform and modernization of Civil Aeronautics Board (CAB) regulation of the airline industry. Both the Senate and the House have scheduled hearings in early April.

In preparation for these hearings, the Department of Transportation has discussed the bill with a number of interested parties, including Congressional staff, representatives of the air carriers, and the communities they serve. A major concern that has been raised repeatedly in these discussions is the fear that small communities will lose service as a result of our bill.

DOT has done extensive research in this area and believes strongly that the issue is much more emotional than real. Their research indicates that in the past, when a small community has lost service from a certificated airline, commuter carriers have generally come in to provide replacement services. They estimate that the risk of losing all air service will be limited to about 30 points and that based on past trends in commuter service, this estimate is probably high.

On the other hand, DOT is convinced that the loss of service issue, albeit unfounded, will be a major issue in the upcoming Congressional debate. They believe, as do other members of the Domestic Council Review Group on Regulatory Reform, that unless action is taken to allay small communities' fears, we stand little chance of getting an air bill enacted this year. Accordingly, DOT has developed a proposed amendment to the Administration's bill which would permit the Civil Aeronautics Board to contract with commuter carriers to provide essential replacement services to small communities at minimal cost.

The budget impact of the proposed amendment is expected to be very small. In the short run, it will have little or no effect on the existing subsidy program. In the long run, the proposed payments to commuter carriers would inherently be more efficient. For example, by abandoning unprofitable points under the liberalized provisions of the Administration's bill, local service carriers will improve their financial positions and reduce their own need for subsidy. Also, subsidizing commuter carriers which are operationally more efficient than the larger local service aircraft would be less costly. Funding for the proposed program would be accomplished within the existing "payments to air carriers" account in the CAB's budget.

The proposed amendment has been through the normal OMB legislative clearance process. Except for minor technical changes in legislative language, all agencies agreed with the proposed amendment. However, prior to giving DOT final approval, the proposal is submitted for EPB consideration.

## DOT SUBSIDY PROPOSAL

Section 406(c) is redesignated section 406(c)(1) and is further amended to add the following sentence:

An air carrier is not eligible to receive payments pursuant to clause (e) of subsection (b) of this section unless that carrier was actually receiving payments pursuant to that clause on June 30, 1975.

Renumber proposed section 401(j)(4) of the Aviation Act of 1975 as section 401(j)(5) and insert the following as 401(j)(4):

4(a) The Board shall ensure that each point receiving interstate scheduled air transportation on January 1, 1976 by an air carrier holding a certificate of public convenience and necessity issued pursuant to section 401(d)(1) of the Act and named in such certificate shall receive essential air transportation until January 1, 1986 in accordance with the following conditions:

- (1) Within 180 days of the enactment of this paragraph, the Board shall determine by rulemaking general definitions of "essential service", including maximum and minimum levels of such service and procedures to be used with respect to this paragraph.

(ii) Any community referred to in this paragraph may apply to the Board for assistance if that community believes it will not receive essential air transportation without assistance pursuant to this paragraph. Within a reasonable time of application the Board shall determine what is "essential" air transportation for the purpose of this paragraph for the applicant, after considering the general definition of essential air transportation, the needs of the community, the availability and practicality of alternative means of transportation to the community, the frequency of service and type of equipment economically appropriate to the routes, the cost of such service, and the integration of such service with the air transportation system. In determining essential air transportation the Board shall consult with the community, the State and the Secretary of Transportation.

(iii). If the Board determines that an applicant will not receive essential air transportation the Board shall enter into a service agreement for a period no longer than three years with an air carrier to provide essential service pursuant to this paragraph. In any negotiation pursuant to this section no preference shall be given to a carrier because of prior service under this paragraph.



- (iv) The service agreement shall specify the maximum rates, type of service, frequency, schedules and equipment to be used in providing the service.
- (v) Agreements entered into pursuant to this paragraph shall be in accordance with the provisions of the Federal Property and Administrative Services Act of 1949, as amended, except those provisions of such Act the Board determines are not consistent with the purposes of this paragraph. No increase in an agreement price may be made for the benefit of an air carrier, except for increases in costs attributable to governmental action. The Board shall require in each agreement reasonable assurance of reimbursement in the event of default by the air carrier, including reimbursement for the cost of obtaining another air carrier to provide the air service which the defaulting carrier undertook to provide.
- (vi) The Board shall pay the costs of the agreements entered into pursuant to this paragraph except as indicated in clause (vii) below.

(vii) No less than annually, the Board shall determine the average daily enplanements of points receiving assistance pursuant to this paragraph. If the Board determines that any point has not enplaned on average more than five passengers per day in the preceding six months period, the Board may not, after two years from the date of such determination, pay more than 50 percent of the agreement cost of providing service pursuant to this paragraph. If the Board does not receive sufficient assurance that the remaining agreement costs will be supplied by any person (including State or local governments) other than the Board, the Board's obligation to provide service under this paragraph shall cease.

(viii) Air transportation provided pursuant to this paragraph shall be subsidized only as provided in this paragraph, and shall not be eligible for mail subsidy payments pursuant to section 406(b)(3).

(b) The Board may provide air service required by this paragraph with any air carrier the Board finds to be fit, willing and able to perform the service. The Board may not require such carrier to obtain a certificate of public convenience and necessity from the Board as a condition of providing such service.

(c) The Board shall not inhibit the provision of non-subsidized services nor shall the Board extend, negotiate or renew contracts for service to communities where essential air transportation will otherwise be available.

(d) Scheduled air service provided pursuant to this paragraph may be discontinued by the Board prior to 1985 only in exceptional circumstances if continued operation is not practical or the need for the service has declined to the point that continued operation is not in the public interest.

(e) It is the objective of this paragraph to phase out all payments pursuant to clause (3) of subsection (b) of section 406 by January 1, 1986. By December 31, 1981, the Secretary of Transportation shall report to Congress on the progress in meeting this objective, with recommendations for appropriate legislative action if needed.

~~(f) § \_\_\_\_\_ is authorized for~~  
~~fiscal years \_\_\_\_\_ for the purposes of this paragraph.~~

~~EYES ONLY~~

MINUTES OF THE  
ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE MEETING

March 24, 1976

Attendees: Messrs. Simon, Seidman, Greenspan, Robinson, Baker,  
Dunn, O'Neill, Malkiel, Penner, Jones, Gorog, Porter,  
Hughes, Perritt

1. Review of Current Economic Outlook

Troika II presented an update of the economic forecast and an assessment of the current economic outlook. The discussion focused on an analysis of the most recent unemployment, industrial production, WPI, CPI, retail sales, personal income and housing statistics as well as the forecast for real GNP, the GNP deflator, unemployment, business fixed investment, and the outlook for net exports.

Decision

The Executive Committee approved preparation of a memorandum to the President summarizing the analysis of the current economic situation and the forecast to serve as the basis for a discussion of the economy with the President.

~~EYES ONLY~~

RBP

March 19, 1976

ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, March 22, 1976

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|---|----------|
| 1. Monthly Status Report on Trade Policy      | STR      |
| 2. New York City Financial Condition          | Treasury |
| 3. Report of Task Force on Banking Regulation | Treasury |

Tuesday, March 23, 1976

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| 1. Administration Policy on the Use of Government Sponsored Loans in Leveraged Leases | OMB      |
| 2. Task Force Proposal for Improving Agency Regulations                               | Schmults |
| 3. Report on International Monetary Situation   | Treasury |

Wednesday, March 24, 1976 - Principals Only

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| 1. Review of the Current Economic Outlook | Troika II |
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~~X~~ Thursday, March 25, 1976

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| 1. Meeting of Council on Wage and Price Stability |  |
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Friday, March 26, 1976

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| 1. Report of Labor Negotiations Committee                                  | Labor   |
| 2. Pension Plans and the Employment Retirement Income Security Act of 1974 | Labor   |
| 3. Small Business  | Seidman |

