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THE WHITE HOUSE

WASHINGTON

March 31, 1976

MEETING WITH ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

April 1, 1976

3:30 p.m.

Cabinet Room

From: L. William Seidman

fwS

I. PURPOSE

- A. To review the current economic outlook and the most recent Troika forecast.
- B. To review the New York City and New York State financial situation.
- C. To review the current status of the labor situation in the trucking industry.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

- A. Background: The Economic Policy Board Report is attached at Tab A.

The EPB Executive Committee recently reviewed the quarterly update of the economic forecast -- the first full scale update since the forecast presented in the FY 1977 Budget. A memorandum summarizing recent economic developments and the principal elements of the new forecast is attached at Tab B. Burt Malkiel will make a more detailed presentation on the outlook at this meeting.

The Department of the Treasury is continuing to closely monitor the financial situation in New York City and State. A memorandum providing a brief update on New York City is attached at Tab C.

Secretary Usery is in Chicago meeting with management and union representatives of the trucking industry seeking to resolve their differences before a threat-



ened strike by the teamsters tonight at midnight. Secretary Usery will return to Washington on Thursday and will provide you with a report on the outcome of the negotiations and discuss contingency plans for any possible government actions that may be necessary.

- B. Participants: William E. Simon, L. William Seidman, James T. Lynn, Elliot L. Richardson, W.J. Usery, Jr., James M. Cannon, Rogers C.B. Morton, Arthur F. Burns, Burton G. Malkiel.
- C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Review of the Current Economic Outlook

Burt Malkiel will review the current economic outlook and the most recent Troika forecast.

B. New York City Situation

Secretary Simon will review the New York City and New York State financial situation.

C. Labor Situation

Secretary Usery will review the current status of the labor situation in the trucking industry.



ECONOMIC POLICY BOARD REPORT

Issues Considered by the EPB During March

1. JEC Report on the Economic Report of the President
Reviewed the JEC report focusing on analysis of the unemployment problem. CEA will prepare a position paper on unemployment differentiating the various elements of the employment problem and outlining the Administration's proposals to address these elements.
2. Review of Current Economic Outlook
Discussed the Troika update of the economic forecast focusing 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.
3. Gift and Estate Taxes
Approved options paper on gift and estate taxes dealing with interspousal transfers and the gift tax exemption and rates for submission to the President.
4. Administration Position on Omnibus Antitrust Legislation
Discussed Title II provisions which would broaden the Justice Department's Civil Investigation Demand (CID) authority and approved submission of an options paper on the issue to the President.
5. International Monetary Situation
Reviewed recent developments in the international monetary situation with emphasis on the problems of the Italians and the British. Treasury, in consultation with CEA, will prepare an options memorandum outlining potential courses of action that the U.S. government might take to address the situation.
6. New York Financial Situation
Reviewed the New York financial condition focusing on the City University, the current status of the bankruptcy legislation, the New York City Transit negotiations, and the likelihood of New York City pulling out of the Social Security program.



7. Financial Reform Legislation

Approved a legislative strategy in which the Administration will work with the House Banking Committee Republicans to develop a substitute for the House Committee bill which would consist of the Senate-passed Financial Institution Act with minor amendments. Treasury will chair an interagency task force to prepare an options paper on the mortgage interest tax credit.

8. Amendment to the Aviation Act

Approved support for a proposed DOT amendment to the Aviation Act which would permit the CAB to contract with commuter carriers to provide essential replacement services to small communities at a minimal cost while phasing out the existing CAB subsidy program.

9. Administration Policy on the Use of Government Sponsored Loans in Leveraged Leases

Approved the OMB policy of prohibiting the use of government assisted loans as debt capital in leveraged leases, except for the MARAD shipbuilding program which will continue to use this method.

10. Pension Plans and the Unemployment Retirement Income Security Act of 1974 (ERISA)

Reviewed Department of Labor projected studies to evaluate the impact of ERISA. OMB will work with the Department of Labor in structuring a comprehensive evaluation plan, including assessment of the macro-economic effects of ERISA on financial markets and investment behavior.

11. Task Force on Banking Regulation

Requested the Task Force to prepare a report on alternatives for improved banking regulation, including the proposals of the Federal Reserve Board.

12. Divestiture

Reviewed paper on congressional divestiture proposals and approved creation of an assistant secretary level Task Force on Divestiture, including representatives of the Departments of Treasury, Commerce and State and the FEA, to develop a factual base regarding the degree of competition in the oil industry, to analyze the impact of implementing specific proposals now pending in the Congress, and to assess the economic impact of divestiture on capital markets and investment.



13. Improving Agency Regulations

Reviewed a task force proposal for improving agency regulations, concluding that (1) the scope of the task force's inquiry should be broad in nature and (2) the Export Control Administration, the Environmental Protection Agency, and OSHA should be considered as possibilities for initial task force reviews.

Task Force Status Reports

1. EPB/NSC Commodities Policy Coordinating Committee (CPCC)

- CPCC is undertaking a study of possible means for financing international buffer stocks, including analysis of possible new facilities such as an international lending institution for resources.
- U.S. has agreed to participate in a copper producer-consumer forum and has held consultations with representatives of the U.S. domestic copper industry.
- CPCC has developed a comprehensive approach for U.S. policy on commodities for review the week of April 5.

2. Monthly Status Report on Trade Policy

- Approved recommendation that the Administration seek a year's extension of the Jackson-Vanik waiver which expires on July 4, 1976.
- Approved forwarding to the President a memorandum on the trade policy outlook for the next 6 months.
- Department of Commerce will report trade figures on a CIF basis as well as a FAS basis.

Major Upcoming Agenda Items

1. Tax Policy Strategy
2. Report of Labor Negotiations Committee
3. Profile of the Unemployed



4. International Monetary Situation
5. Small Business Initiatives
6. Product Liability Insurance
7. Codes of Conduct and the MNCs
8. Presidential Commission on Employment and Unemployment Statistics
9. Report of Subcommittee on Economic Statistics
10. Report of Fertilizer Task Force



COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

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

March 31, 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Monthly Report on Economic Conditions

Economic developments during the last month have been very favorable. The Consumer Price Index (CPI) rose only 0.1 percent in February and has now risen at only a 4.4 percent annual rate over the past three months. The Wholesale Price Index (WPI) declined in February and has increased at an annual rate of only 2.9 percent over the past six months. The improved performance of both the WPI and the CPI is partly due to declines in food and energy prices, however. During the three months ending in February, food prices in the CPI declined at an annual rate of 2.6 percent and energy prices declined at an annual rate of 6.3 percent while all other items rose at an annual rate of 8.3 percent. The energy price declines were partly due to the rollback features of the new energy bill. The service component has risen at an annual rate of 10.4 percent during the last three months. The WPI has shown a similar pattern during the past three months with nonenergy industrial prices rising at an annual rate of about 8 percent. Fortunately, food and fuel prices are likely to continue to keep the price indices from increasing much over the next month or two. Nevertheless, unless nonfood and nonenergy price increases moderate in the coming months, the CPI could show sizeable increases as food and energy prices stabilize or begin to rise later in the year. Thus, while the news on the price front has been good, we should guard against an overly optimistic appraisal of our success against inflation.

The unemployment rate declined to 7.6 percent in February, 0.7 percentage points below the December level. While this news is very encouraging, there are two factors that suggest the magnitude of the decline may be somewhat overstated. First, month to month changes in employment are subject to sampling error. The household survey, which is the basis for the published unemployment rates, is based on a sample of less than 50,000 workers. It has shown an increase of



almost one million nonagricultural jobs in the last two months. The payroll survey, which is based on a sample of over 30 million workers, has shown a smaller increase just over 500,000 jobs during the same period. Second, the seasonal factors used to adjust 1976 data are influenced in part by the 1975 unemployment pattern. To the extent that the seasonal adjustment procedure attributes part of the large increase in the unemployment rate in early 1975 to seasonal rather than cyclical effects, the unemployment rate in early 1976 may be slightly understated. Beginning in the summer this effect will be reversed and the unemployment rate may then be slightly overstated.

Industrial production rose 0.5 percent in February following three consecutive monthly increases of 0.8 percent. The index has now increased for 10 consecutive months. Personal income and real hourly earnings also increased. We expect an increase in real GNP of about 6 percent at an annual rate in the first quarter. Housing starts increased sharply in February after declining in January. Most of this fluctuation reflects colder than average weather in January and warmer than average weather in February, however. Apart from monthly fluctuations, the picture is still of moderate recovery in housing with multifamily construction lagging behind the increase in single family units.

Troika has just completed a forecast through the end of 1977 based upon the Administration's fiscal program. Because recent data has tended to confirm the optimistic December forecast, there are few large changes in the forecast. Real growth which was projected in the 6-6-1/2 percent range for 1976, in December, is still projected in the same range although the likelihood of achieving the upper end of the range or even exceeding it has increased. Inflation is projected at about 5-1/2 percent in 1976, somewhat lower than was forecast in December. In part, this reflects the favorable price developments over the past several months. It is also based on the assumption that management and labor will reach reasonable settlements in the large labor contracts up for negotiation in 1976. Very large wage increases, should they occur, would put pressure on costs and lead to larger than forecast price increases. The unemployment forecast remains in the 7-7-1/2 percent range for the end of 1976. Projections of the unemployment rate are subject to greater than usual uncertainties



because of the factors mentioned earlier. Continued improvement seems certain but the large declines of the past two months are not expected to continue and even a brief temporary rise in the unemployment rate at some time during the year is a possibility. Nonetheless the chances of being near the low end of the range by year-end have definitely improved.

A significant increase in capital spending now seems likely in 1977. While the latest Commerce Department survey shows little increase in planned real capital spending in 1976, profits are increasing sharply and production is rising. In addition, interest rates have not yet begun to rise. While some cyclical increase in interest rates is expected, interest rates are not expected to reach levels that would retard the level of investment in 1977.

Burton Malkiel
Burton G. Malkiel





THE SECRETARY OF THE TREASURY

WASHINGTON 20220

MAR 31 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Update on New York City

On Thursday, April 1, I will be testifying before Senate Banking at oversight hearings on the New York City loan program. Particularly in view of the release last week of Mayor Beame's plan to cut \$862 million from the budget in fiscal years 1977 and 1978, my testimony will be extremely complimentary and optimistic. I will, however, discuss other possible actions, including further cuts, needed to restore New York City's long term economic viability.

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In earlier reports to you, I indicated that while New York City was on schedule for this fiscal year, we were quite concerned about their failure to announce a specific budget reduction program for the following two years. I also noted my belief that no program appeared feasible unless it directly addressed one or more of the following four major areas: welfare, fringe benefits, the City University or the courts and corrections system.

The Beame plan meets both concerns. First, it outlines a comprehensive series of cuts which, if fully implemented, will result in a budget surplus of \$76 million in fiscal 1978. Second, it calls for the elimination of all city funding for the University and the courts and corrections system by fiscal 1978. A good indication of the careful and conservative nature of the plan is that it also proposes alternative cuts which can be accomplished by unilateral City action in the event that New York State refuses to take on the expense of running the university or the courts and corrections program.

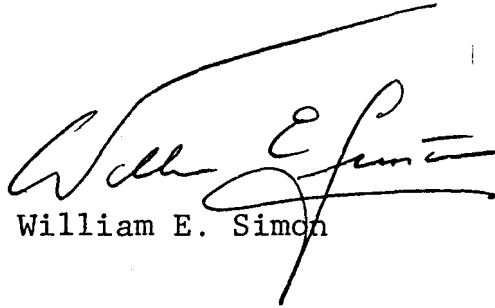
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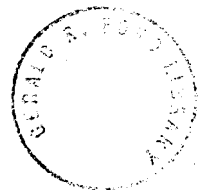
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THE SECRETARY OF THE TREASURY

WASHINGTON 20220

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New York State

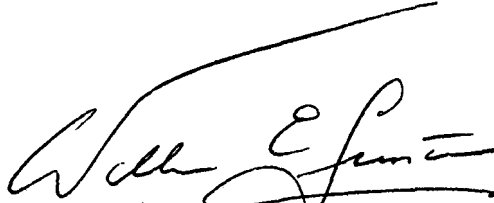
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*1. 260. 3000
Apr 20 - first payment*



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William E. Simon



file

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

March 30, 1976

Attendees: Messrs. Simon, Lynn, Richardson, Robinson, Dent, Cannon,
Gorog, MacAvoy, Malkiel, Perritt, Parsky, Greenwald,
Darman, Porter, Hormats, Leach, Rooney, Chiswick

1. Testimony on Proximire Bribery Bill

The Executive Committee discussed a series of requests from Senator Proximire to several senior Administration officials to testify at hearings he is holding on his recently proposed bribery legislation scheduled for April 5, 6 and 8. There was general agreement on the need to coordinate Administration testimony for these hearings.

Decision

Secretary Richardson will take responsibility for coordinating Administration testimony for these hearings in conjunction with the OMB clearance process.

2. Conference on International Economic Cooperation

The Executive Committee discussed issues related to the Conference on International Economic Cooperation (CIEC) and the UNCTAD IV meetings in Nairobi May 3 through 28. Under Secretary Robinson reported that he was encouraged with the work of the four commissions established by the CIEC and that our approach to improving relations between the developed and developing world faces a major test in the upcoming UNCTAD IV session. He reported that he will chair an interagency coordinating meeting this Wednesday to work on preparations for UNCTAD IV. He also indicated that a congressional group of 24 members--12 from the House and 12 from the Senate--will be involved in preplanning for UNCTAD IV and will be invited to attend the meetings as part of the U.S. delegation. The discussion focused on the technical and financial aspects of a U.S. initiative for an International Resources Bank (IRB). The proposed IRB would provide expropriation insurance for private investment as well as a mechanism for buffer stock financing by individual countries.

