The original documents are located in Box 60, folder "1976/07/13 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA

8:30 a.m.
July 13, 1976

Roosevelt Room

1.	Report of Task Force on Small Business	Kobelinski
2.	S. 2613	Kobelinski
3.	Proposed Revision of the Mandatory Oil Import Program	Zarb

THE WHITE HOUSE

WASHINGTON

July 9, 1976

MEMORANDUM FOR ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEMBERS

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: S. 2613

A paper, prepared by the Small Business Administration, describing the principal provisions of S. 2613 and outlining the advantages and disadvantages of the bill, is attached. It is scheduled for discussion at the Tuesday, July 13 Executive Committee meeting.

U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

July 9, 1976

Honorable William L. Seidman
Executive Director
Economic Policy Board
The White House
Washington, D.C. 20500

Dear Bill:

We are pleased to provide the enclosed information requested by your memorandum of June 30, 1976, with respect to S. 2613, a bill "to amend the Small Business Investment Act of 1958, to change the title and duties of the Associate Administrator for Finance and Investment of the Small Business Administration, and for other purposes."

The passage of S. 2498 and further studies of the situation have affected the original Administration position on some elements of this bill, as noted in the enclosure. If OMB gives us a position on Monday I can report this to you when we meet Tuesday morning.

Sincerely,

Mitch

Mitchell P. Kobelinski
Administrator

Enclosures

COMMENTS ON THE PROVISIONS OF S. 2613

I. SECTION 1(a)

Section 303(c) provides that "preferred securities" may be purchased by SBA only from incorporated MESBICs, while debentures of any MESBIC (presumably incorporated or unincorporated) may be purchased or guaranteed. This is a technical amendment and would be necessary only if legislation is enacted authorizing the licensing of non-corporate MESBICs. SBA would support such legislation.

II. SECTION 1(a)

Section 303(c)(1)(ii) proposes that on liquidation or redemption of the preferred stock, the MESBIC will pay par value plus any unpaid dividends (3 percent cumulative preferred), to the extent retained earnings shall permit. This would eliminate SBA's discretionary right to require a MESBIC, before it makes any distribution to private stockholders, to pay the Government the difference between preferred dividends actually paid and what would have been payable if the dividend rate on the preferred stock would have equaled the interest rate for debentures specified in Section 303(b) of the Act - the Government's own cost of money.

ADVANTAGES

The advantages of this amendment are as follows: This contingent but legal requirement to pay SBA at some future date some unknown amount has proven to be a detriment to potential and existing investors in MESBICs and detracts, for some, from the concept underlying SBA's role as a preferred shareholder in a "specialized" SBIC. Further, this amendment would allow the early years of MESBIC operations to be undertaken without the drain of large fixed interest expense. It would enable MESBIC managers to provide management assistance necessary for disadvantaged entrepreneurs without charging fees which could endanger feasible operations of the small business. Also, the elimination of SBA's discretion in this area would relieve the MESBIC of problems relative to the creation of a contingent liability on its financial statements to reflect future payments owed SBA.

DISADVANTAGES

However, the proposed amendment could enable shareholders of MESBICs to make large distributions to themselves from "winners" in their portfolios, while precluding the Government from receiving the cost of money which made it possible. Further, MESBICs were intended to operate as self sufficient entities. If they cannot economically provide assistance without a charge, then an appropriate charge should be billed the small concern or the disadvantaged entrepreneur should be directed to the applicable SBA office where such services are available.

SBA POSITION

SBA now supports the proposed amendment. OMB previously opposed it. Our previous testimony before the Senate indicated we would study the situation and provide a position. Our request to take a support position is now before OMB.

III. SECTION 1(a)

Section 303(c)(1)(iv)(A), (B), and (C) increase the amount of preferred stock SBA may purchase from a MESBIC from 100 percent to 200 percent of its private capital, as follows: (1) MESBICs licensed before October 31, 1971, which have private capital of less than $300,000 may be matched 2 x 1 for the additional injections of private capital after October 31, 1971, (2) MESBICs having private capital between $300,000, to $500,000 may be matched 2 x 1 for the private capital in excess of $300,000, and (3) MESBICs having private capital of $500,000 or more may be matched 2 x 1 for its entire private capital.

ADVANTAGES

This additional leverage in the form of preferred stock rather than debenture should attract additional private funds into the MESBIC Industry and thus increase the potential source of much needed venture financing for the "disadvantaged" small business community. MESBICs would be given the ability and flexibility to provide a greater share of its financing in the form of equity investments since less cash flow would be required by the MESBICs for repayment of indebtedness. Further, lower overhead resulting from reduced cost of money would enable a MESBIC to provide necessary management and technical assistance for disadvantaged small concerns.

DISADVANTAGES

Low cost money for the MESBICs may, however, be a disincentive toward investing the Government's funds in small business. Allowable investments of such funds in riskless Government obligations or CDs provide a considerably greater return to the MESBIC than the cost of such funds received from sale of preferred stock. Further, budgetary restraints may preclude the rationale for providing yet another layer of financing to MESBICs without at least a return to the Government of the cost of money to it.

SBA POSITION

SBA supports these amendments in view of the enactment into law of S. 2498, which provided for an additional layer of leverage. Under direction of OMB, SBA had originally testified against the leverage changes. Our request to take a support position is now before OMB.

IV. SECTION 1(a)

Section 303(c)(4) provides that as a condition to obtaining more than 300 percent leverage (Increased from 200 percent contained in present Act), SBA may require that a MESBIC maintain a reasonable and appropriate percentage of its total funds available for investment in small concerns invested or legally committed in Venture Capital.

This proposed change simply reflects the existing policy of making the last layer of leverage available for licensees involved in significant equity or equity-type financing.

SBA POSITION

SBA supports this amendment.

V. SECTION 1(b)

The amendment to Section 317 would eliminate the requirement that a MESBIC reimburse SBA for the 3 percent interest subsidy authorized by Section 317 on debentures purchased by SBA, before any distributions to others are made.

ADVANTAGES

The benefits of this amendment are that the provision of a true subsidy during the first five years of the term of the debentures would be of invaluable assistance to a MESBIC in its early years to enable it to cover some start-up costs and to provide lower cost management advice and assistance to disadvantaged small concerns. They also provide additional incentives for formation of or an additional injection of private capital in MESBICs and thus provide additional funds for disadvantaged small concerns.

DISADVANTAGES

On the other hand, it would appear that MESBICs would draw down first on funds available from the sale of preferred stock to SBA. Therefore, by the time the MESBIC has invested its private capital, proceeds from preferred stock sales and proceeds from the sale of its debenture, there should be sufficient return on investments to cover overhead costs, as well as any deferred interest differential on the debenture sold to the Government. Again, the integrity of the program and budgetary restraints may require that the Government recover the cost of money expended in its lending programs.

SBA POSITION

Our testimony before the Senate indicated we would study the situation and provide a position. After doing so, SBA has determined that it opposes the amendment for the reasons stated above and as it would appear to create an unnecessary additional cost to the Government. OMB has expressed its opposition to this amendment.

July 9, 1976

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, July 12, 1976

No EPB Executive Committee Meeting

Tuesday, July 13, 1976

1.	Report of Task Force on Small Business	Kobelinski
2.	S. 2613	Kobelinski
3.	Report on Status of Esch-Kemp Bill	Gorog

Wednesday, July 14, 1976 EPB/ERC Executive Committee

1.	Report on Iran Invesment in Occidental	Parsky
2.	Report on Clean Air Act Amendments	Gorog
3.	Natural Gas Curtailments	Dunham
4.	EPCA Implementation	Zarb
5.	Presidential Energy Briefing	Zarb

Thursday, July 15, 1976 PRINCIPALS ONLY

1.	CWPS Analysis of Recent Wage Settlements	CWPS
2.	Expropriation Policy	Treasury

Friday, July 16, 1976

1.	Strategy for Assessing the Cost of Federal Regulation	MacAvoy

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

JULY 9, 1976

ATTENDEES: Messrs. Seidman, Greenspan, Richardson, Dixon Cannon, Zarb, MacAvoy, Darman, Parsky, Katz, Porter, Perritt, Penner, Arena, Hormats, Duval, Reichley

1. Report on Commodities Policy Coordinating Committee

CPCC reported on the tentative schedule of UNCTAD, OECD and CIEC meetings relating to commodities issues. The discussion focused on the need to prepare a completed options paper on the Common Fund, a paper defining more precisely the parameters of the proposed International Resources Bank, and the need to prepare an assessment of our performance in implementing our multilateral aid commitments.

Decision

The Executive Committee requested the CPCC to prepare an options paper on the U.S. position on the Common Fund and a paper clarifying the parameters of the IRB for consideration the week of August 2.

The Executive Committee requested the Department of State to take the lead in preparing an assessment of our performance in implementing our multilateral aid commitments for consideration the week of August 2.

THE WHITE HOUSE

WASHINGTON

July 9, 1976

MEMORANDUM FOR ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEMBERS

FROM: L. WILLIAM SEIDMAN

SUBJECT: Report of Task Force on Small Business

The attached material was prepared by the EPB Task Force on Small Business and will be discussed at the Tuesday, July 13, 1976 Executive Committee meeting.

Attachment

STUDY OF "MAKE-OR-BUY"

GOVERNMENT PROCUREMENT PRACTICES

"A-76"

JUNE 1976

FEDERAL GOVERNMENT "MAKE-OR-BUY" PROCUREMENT PRACTICES*

I PRESENT POLICY: EXECUTIVE BRANCH OMB CIRCULAR A-76, REVISED AUG 30, 1967[1] STATES:

- GENERAL POLICY OF FEDERAL GOVERNMENT TO RELY ON THE PRIVATE ENTERPRISE SYSTEM TO SUPPLY ITS NEEDS
- A-76 COVERS ALL "NEW STARTS" OF GOVERNMENT COMMERCIAL OR INDUSTRIAL ACTIVITY, WHERE CAPITAL INVESTMENT OF $25,000 OR MORE OR ADDITIONAL ANNUAL COSTS OF PRODUCTION OF $50,000 OR MORE IS REQUIRED; OR, WHERE REACTIVATION, EXPANSION OF PROJECTS OF $50,000 OR MORE CAPACITY INVESTMENT OR ADDITIONAL COSTS OF PRODUCTION OF $100,000 OR MORE ARE REQUIRED
    - GOVERNMENT COMMERCIAL OR INDUSTRIAL ACTIVITY: ONE OPERATED AND MANAGED BY AN EXEC. AGENCY TO PROVIDE A PRODUCT OR SERVICE OBTAINABLE FROM A PRIVATE SOURCE
- SPECIFIED EXCEPTIONS TO POLICY
    - AVOID DISRUPTION OR SIGNIFICANT DELAY
    - AVAILABLE FROM ANOTHER FEDERAL AGENCY
    - COMMERCIAL PROCUREMENT HIGHER COST
    - NOT AVAILABLE OR CANNOT BE DEVELOPED IN TIME

1/ Attachment 1

* "Make"-Government retains activity in-house; or, "Buy"-Industry supplies government's needs through procurement process

II. CURRENT ISSUES

- o POLICY IS SILENT ON R&D (FY '77-$23.5B Budget)
  - -- 1967 - 60% INDUSTRY SHARE OF $14 BILLION FEDERAL R&D[2]
  - -- 1974 - 47% INDUSTRY SHARE OF $17 BILLION FEDERAL R&D[2]
  - -- 1975
    - - $3B R&D RETAINED IN-HOUSE FOR R&D OF PRIVATE SECTOR PRODUCTS[3]
    - - TRANSPORTATION AND ENERGY R&D - 50% PERFORMED IN-HOUSE[3]
- o POLICY IS SILENT ON "CAPTURED CONTRACTORS"[*]
  - -- IS THEIR FUNDING A MAKE OR A BUY DECISION?
- o PROCEDURAL ISSUES RELATIVE TO DETERMINATION OF GOVERNMENT IN-HOUSE COSTS VS. PRIVATE SECTOR PRICES
- o POLICY FOR COMMERCIAL/INDUSTRIAL GOODS AND SERVICES INEFFECTIVELY IMPLEMENTED:
  - -- DOD-$6.3B ANNUAL EXPENDITURES (1975)
    - - 82% IN-HOUSE[4]
  - -- OMB SURVEY (1971)
    - - 18,618 IN-HOUSE ACTIVITIES: ANNUAL COSTS, $7B; INVEST. COSTS, $10B[5]

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2. Government Competition with Industry; AIA/EIA, page 8
3. Bureau of Domestic Commerce Survey
4. Op Cit (2), page 9
5. Congressional Record, H 1929, Mar. 15, 1976, Congressman Kemp

* Captured Contractors are Federally Funded R&D Centers (FFRDC's). Two major types-Gov't Owned, Company Operated (GOCO); Federally Contracted Research Centers (FCRC's)

-- COMMISSION ON GOVERNMENT PROCUREMENT (1972)[6]

- 2,899 ACTIVITIES HAD NOT BEEN REVIEWED
- 15,000 ACTIVITIES REVIEWED, 99 DISCONTINUED
- 55 NEW STARTS, 44 APPROVED

6. Summary, Comm. on Gov't Proc., page 22

III. PUBLISHED RECOMMENDATIONS

- COMMISSION ON GOVERNMENT PROCUREMENT (1972)[7]
  - -- "PROVIDE THROUGH LEGISLATION THAT IT IS NATIONAL POLICY TO RELY ON PRIVATE ENTERPRISE..."
- CONGRESSMAN KEMP (R., N.Y.) HAS:[8]
  - -- ANNOUNCED INTENTION TO DRAFT LEGISLATION
  - -- DISAGREED WITH STATUTE (PL 93-400) ASSIGNING RESPONSIBILITY TO OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP) FOR REVISING MAKE-OR-BUY POLICY
- OFPP[9]
  - -- **NO LEGISLATION**
  - -- THRUST IS ON EFFECTIVE IMPLEMENTATION OF CURRENT POLICY
- INDUSTRY ASSOCIATIONS (AIA/EIA)[10]
  - -- CONGRESS SHOULD ESTABLISH THROUGH LEGISLATION THAT IT IS NATIONAL POLICY TO RELY ON THE PRIVATE SECTOR...
  - -- ENFORCEMENT MEASURES SHOULD BE PROVIDED

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7. Op Cit (6), page 32, Recommendation 22.
8. Op Cit (5)
9. Report to the Congress 1975, OFPP page 12
10. Op Cit (2), page 16

-- RETURN TO BASIC POLICY OF BULLETIN 55-4 (JAN. 15, 1955) AND REQUIRE FEDERAL AGENCIES TO RELY ON THE PRIVATE SECTOR EXCEPT FOR THOSE CASES WHERE:

a. SUCH RELIANCE WOULD DEMONSTRABLY DISRUPT OR SIGNIFICANTLY DELAY AN URGENT AGENCY PROGRAM

b. IN-HOUSE PERFORMANCE IS MANDATORY FOR THE NATIONAL SECURITY

c. THE PRODUCT OR SERVICE IS NOT AND CANNOT BE MADE AVAILABLE FROM A FEDERAL SOURCE

IV. RECENT ACTIVITIES:

- DISCUSSIONS: OFPP WITH BDC SEEKING A-76 IMPLEMENTATION SUPPORT
- BDC COMPLETED R&D SURVEY FOR TRANSPORTATION/ENERGY FEDERAL MISSIONS DOT AND ERDA AND DETERMINED PRIVATE/PUBLIC R&D DOLLAR ALLOCATIONS (EQUALLY SPLIT ON DOLLAR BASIS)
- BDC HAS DEVELOPED MAKE-OR-BUY/ECONOMIC IMPACT ANALYTICAL FRAMEWORK (REPORT TO BE ISSUED JULY 1976)

V. SUGGESTED RECOMMENDATIONS TO EPB

- A-76 BE MODIFIED TO SPECIFICALLY ENCOMPASS MAKE-OR-BUY POLICY FOR R&D
- A-76 BE MODIFIED TO SPECIFY FFRDC FUNDING AS A "MAKE" DECISION
- A-76 BE MODIFIED TO REQUIRE FFRDC'S INTERNAL MAKE-OR-BUY DECISION-MAKING TO BE GOVERNED BY FEDERAL POLICY AS ESTABLISHED
- DIRECT EACH AGENCY TO PUBLISH REGULATIONS IMPLEMENTING MAKE AND BUY POLICIES CALLING FOR AT LEAST ASSISTANT SECRETARY LEVEL APPROVAL OF "MAKE" DECISIONS
- EPB SHOULD ENDORSE AND DIRECT DOC'S SUPPORT TO OFPP IN SURVEY OF CURRENT POLICY IMPLEMENTATION

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

JUL 8 1976

MEMORANDUM FOR THE EXECUTIVE COMMITTEE
OF THE ECONOMIC POLICY BOARD

FROM: W. J. USERY, JR.
CHAIRMAN
SUBCOMMITTEE ON LABOR NEGOTIATIONS

W J Usery Jr.

SUBJECT: Tentative Contract Settlement Between the General Electric Company and the IUE and the UE

On June 28, a tentative settlement was reached between GE and the International Union of Electrical, Radio and Machine Workers (IUE) covering roughly 70,000 workers and the United Electrical, Radio and Machine Workers of America (UE) covering roughly 16,000 workers.

Wage Adjustment

Workers will receive a wage increase of 60 cents an hour effective June 28; 11 cents of that amount is a cost-of-living adjustment for the previous year. The average hourly wage of GE workers is currently approximately $5. In addition, they will receive 4% increases in each of the next two years.

Also, effective June 28 skilled workers will receive additional increases of up to 6 cents per hour depending on job classification.

Cost-of-Living Adjustment (COLA)

The COLA provides for an additional 1 cent an hour for each 0.3% increase in the Consumer Price Index. While there is no ceiling on the increases, when the CPI rises between 7% and 9%, additional adjustments would not be made. Over 9%, increases would continue at the same rate. Cost-of-living increases would be effective at the end of November in each year of the proposed contract. At 6% inflation, GE estimates that the COLA will add 4.8 cents per hour to wages over the life of the contract.

Vacation

The tentative agreement provided for a sixth week of vacation after 30 years, compared with five weeks after 25 years in the former agreement.

Pension

Pension contributions will increase to $8 to $12 a month per year of service depending on salary. The old contract paid $6.50 to $9.50 a month per year of service.

Westinghouse has contracts with four unions, representing about 53,500 workers, which will expire July 11. Traditionally, the company has settled on terms similar to those reached at GE.

THE WHITE HOUSE

WASHINGTON

FOR EPB EXECUTIVE COMMITTEE MEMBERS

The attached materials are for your information.

REPUBLICAN REPORT

U.S. SENATE REPUBLICAN POLICY COMMITTEE

John Tower, Chairman

WHERE ARE THE JOBS?

"We make these promises and then
we fail to keep them, and nobody
believes we will do anything that
we say."

-- Rep. Edward W. Pattison (D.-N.Y.)
after reconsidering the Humphrey-
Hawkins full employment bill.

Newsweek Magazine
May 31, 1976

REPUBLICAN REPORT

U.S. SENATE REPUBLICAN POLICY COMMITTEE

John Tower, Chairman

WHERE ARE THE JOBS?

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-- Rep. Edward W. Pattison (D.-N.Y.) after reconsidering the Humphrey-Hawkins full employment bill.

Newsweek Magazine
May 31, 1976

WHERE ARE THE JOBS?

As the economy confirmed President Ford's predicted recovery in 1976 -- production up, inflation down to levels approaching postwar norms -- unemployment declined to 7.3 percent (from an 8.9 percent high in May 1975). Most economists, says the New York Times, anticipate it will go down further, to around 6 percent, and stay at about that figure for the rest of this year and -- perhaps -- for years to come (May 1976).

Yet, for a divided Democratic Party, the jobless rate is godsent. At last, a blemish in a rosy economic picture.

Today some politicians -- among them Senator Hubert H. Humphrey -- are insisting: "The whole crowd [Administration economists?] should be fired. They have no answers to unemployment."

But the Senator adds: "I say, let's have full, maximum employment [defined as 3 percent or less unemployment] by 1980."

Economists choke.

Be it jargon or no, in April of this year a striking 85 percent of Americans ranked "finding jobs for the unemployed" a major Presidential priority (Harris). And yet, despite this, a full 94 percent of those interviewed felt "keeping inflation under control" to be the chief priority.

Indeed, 1976 is the year of the job gap ... and the year of policy dilemmas, of economic juggling. But before further statistics, a brief discussion of unemployment theory:

The Nature of Joblessness

The classic theory of capitalism -- or free enterprise -- rests on two venerable pillars: (1) private ownership of property, and (2) freedom of an individual to contract with others and to engage in economic activities of his choice for his own profit and well-being. Government, as most economic historians explain, originally was meant to play a relatively minor role in economic life: to maintain order, to prevent abuses, and to carry on activities private enterprise couldn't pursue with reasonable assurance of profit.

As with most systems, problems emerged. And as with most problems, a panacea followed: government tackled the economy.

Thus a theory, actually two of them, has attempted to explain persistently high unemployment ... and what government should do. The so-called Structuralist theory, as described by Peter B. Doeringer in the Public Interest (Winter 1975), cites the principal causes of unemployment as technological displacement, shifting patterns of industrial production, foreign competition, and similar features which disrupt matching of jobs and workers in the labor market. This theory argues for programs to adjust labor imbalances through training, an approach which produced the manpower legislation of the 1960's.

Then there are the Keynesians, who feel if government's (macro-economic) policies stimulate expansion (and market demand), the economy will absorb everyone. In other words, unemployment results when government monetary and fiscal policies fail to keep pace with labor-market situations.

In recent years, efforts to reduce unemployment by either method to anything near the 3 or 4 percent level have been, at best, misguided: And, for certain, disappointing.

Now the question: "Is there another approach to understanding unemployment?"

The Voluntary Poor: Another Theory

The popular picture of unemployment shows an army of six or so million trudging from door to door seeking work. In fact, reports the Wall Street Journal, this notion is foolish.

A recent Brookings study by Harvard economist Martin S. Feldstein finds that of unemployed who have lost jobs, a large proportion (47 percent in 1975) are not seeking new ones. These "non-seekers" usually are layoffs, protected by State unemployment benefits, who expect to be called back when business picks up. And of all unemployed, non-seekers account for at least 28 percent.

In the case of youth, where unemployment skyrocketed, Feldstein argues since jobs often are unattractive because of low pay or other negative characteristics, many youths -- backed by unemployment benefits -- choose an "in and out" working pattern, rather than sticking to steady jobs. Jobs, then, are available, but undesirable.

Thus, perhaps a large portion of the current jobless are voluntary; Feldstein maintains more than half the unemployed are "job searchers," those who have just entered the labor market or have quit to change jobs.

Long-Term Significance

The import of such findings, argues Peter Doeringer in the Public Interest, is "that [they] challenge the interventionist thinking that guided employment and training policy in the 1960's.

"From such data, it is but a short step to argue that responsibility for unemployment should be shifted from the public sphere to individuals. The failure of workers to take jobs, not inadequate aggregate demand or ineffective manpower policies [Structuralist or Keynesian theory], becomes the root of unemployment."

His argument concludes that past government policy erred by meddling with employment incentives through welfare, unemployment compensation and minimum wages.

The outcome of Feldstein's study, as reviewed by the Wall Street Journal (March 1976), infers the quickest way to reduce unemployment is through policies shortening jobless periods. The solution, then, would be a political environment promoting creation of <u>attractive</u> jobs by private managers and entrepreneurs. "This means no further government interference with prices and no more nonsense about so-called 'excess' profits. These 'excess' profits are the natural signal for managers to make vital reallocations of resources. And those reallocations preserve jobs and create new ones by improving total economic efficiency."

Thus, the new approach to unemployment means: (1) free flow of capital into uses offering high returns; (2) wide latitude for management in use of labor and resources; (3) reduced corporate taxation; and (4) reduced government benefits for those <u>choosing</u> not to work.

<u>Capital Formation: One Key to Improvement</u>

Feldstein concentrates on a <u>free flow of capital</u> to increase production. A capital good is any material economic good -- other than land -- used to produce wealth. Wealth includes material objects, external to man, inherently useful, and relatively scarce -- the result of jobs and production.

Thus a connection: less capital available for investment, less production and, in turn, less jobs. We are told the next ten years will require twice the capital investment of the past ten. That's a staggering \$4 1/2 trillion to be invested by the middle of the 1980's. An investment vital to continued economic growth, to keeping unemployment down.

Yet government is the obstacle in the capital fund-raising process. As the Federal Government borrows to cover its deficit, it competes with private borrowers who need funds to invest for future output ... for more jobs.

This year, 1976, Federal borrowing alone will run at least \$70 billion, or <u>28 percent of funds</u> raised in U.S. financial markets. Last year, the Federal Government became the largest single user of private credit for the first time since World War II. In 1975, Federal credit demands alone soared to \$83 billion out of a total annual fund-raising of only \$210 billion.

<u>Rating Unemployment</u>

Rating unemployment -- relative to size of the work force -- is tricky by any theory. For example, after a peak of 8.9 percent in May 1975, the jobless rate moved steadily downward to 7.3 in May 1976, dropping below the prediction of Alan Greenspan, Chairman of the President's Council of Economic Advisers.

Yet, during this reduction, the labor force ballooned at a phenomenal growth rate: 2.1 million from April 1975 to April 1976, for a total of 94.4 million, the largest in America's history. And, perhaps most important: teenagers and women have entered the labor force with staggering impact. Since 1955, the number of women holding jobs has increased 74 percent, teenagers 98 percent, but men only 19 percent.

Recent projections by the Labor Department (May 1976) indicate a growth of more than 17 million American jobs from 1974 to 1985. The increase will include 5.1 million clerical jobs, 3.6 million professional jobs, 1.9 million managerial positions and 900,000 sales jobs. Blue-collar positions will account for two of every ten openings, with service jobs accounting for about one in ten. The remaining seven? All white-collar.

In short, many unemployment theories and predictions, concludes Seymour Wolfheim, formerly of the Bureau of Labor Statistics, take "slight account of the fine print of employment statistics."

Beyond Theory: The Realities of Capitol Hill

But as a poet once said: "Throw theory into the fire; it only spoils life." Unemployment's annoying presence has plagued legislators for decades.

Political leaders have taken action; they've made mistakes. And unemployment is still around.

What They've Done

Government programs to help jobless are of two types: (1) those using Federal, State or local government as an employer to hire unemployed (public service-type programs), and (2) those utilizing Federal policy as an incentive for private firms to increase hiring.

Public Service Jobs

Public service employment has tremendous drawbacks: the current cost to the taxpayer to create one job totals about $8,400, not to mention strong political patronage surrounding job assignment. Federal funds also can become a substitute for State and local funding, rather than a true net addition to the number of jobs.

Yet the 1970-71 recession brought on a public service program as Congress passed the Emergency Employment Act (EEA) in 1971. Today, most major public service job programs are authorized under the Comprehensive Employment and Training Act (P.L. 93-203), as amended by Title I of the Emergency Jobs and Unemployment Assistance Act of 1974 (P.L. 93-567).

At the beginning of fiscal year 1976, total enrollment in all programs was about 300,000. And about 7 percent of Title I -- and almost all of Title II -- funds were used for employment; the rest funded job training.

Further Ideas and Proposals

Today, the main issue concerning public service employment is size. How many jobs should -- or can -- government directly fund?

The House Budget Committee recommends 450,000 public service jobs for next fiscal year.

The Senate Budget Committee recommends $500 million above the Administration budget. This would finance 360,000 jobs and a $600 million program for railroad rehabilitation projects.

The Joint Economic Committee recommends expansion to one million jobs (with 500,000 additional jobs when unemployment reaches 8 percent and another 500,000 for each percent of increase thereafter).

The Administration's budget proposes a $1.7 billion supplement for fiscal year 1976, and provides a <u>phase-out of all</u> but 40,000 jobs by the end of fiscal year 1977.

And the Emergency Employment Project Amendments of 1976 (H.R. 11453), as passed by the House, raise the current level to about 600,000 by the end of the fiscal year.

In any event, public service jobs are hardly a solution to 7.3 percent unemployment. Paul W. MacAvoy, a member of the President's Council of Economic Advisers, described Federal financing of State and local jobs:

"You fill a 12-gallon can with money, and out of a small hole in the other end drops a quarter." At least two of every three workers hired under public service employment, argues MacAvoy, displace other workers in the private sector, "and you will have to hire two Federal workers to watch and see that they don't displace the third one."

<u>The Tax Incentive Route to More Jobs</u>

The second approach to lessening unemployment utilizes Federal taxing authority to encourage increased hiring by firms.

Most tax incentive bills offer a <u>wage subsidy</u> to the employer. That is, for every worker hired under certain specifications, the employer is allowed a portion of wages paid as a credit against his corporate or individual income tax (the tax credit device, instead of a tax deduction, is used since wages already represent a business deduction against income).

The wage subsidy idea is now used in hiring welfare recipients. Under the 1971 Revenue Act, employers hiring individuals receiving (1) benefits under the AFDC program, and (2) training through the Work Incentive Program (WIN) receive a tax credit of 20 percent of gross wages paid to the worker.

In 1975 the Tax Reduction Act broadened requirements for the tax credit to include employment of any Federal welfare recipient, provided the employee works a minimum of 30 days.

Four other bills now (July 1976) before Congress -- providing a tax credit to stimulate hiring -- are summarized below:

<u>The Bentsen Bill (S. 2629)</u>

<u>Provisions</u>: Provides an employer's tax credit of 10 percent of wages paid to qualifying workers (up to $800 a year). Limited to 1976 and 1977.

<u>Qualifications</u>: Worker must be unemployed at least six weeks prior to being hired, and must remain hired 13 consecutive weeks or 30 weeks during a year.

<u>Restrictions</u>: Total of qualifying employees cannot be more than the net increase in employment over the level prevailing in the base year. Total amount of credit claimed cannot be greater than the net new investments made by the employer.

<u>Results</u>: Would add 300,000-500,000 private sector jobs per year. By the end of 1977, unemployment would theoretically be reduced by one percent.

Cost: Would cost U.S. Treasury $500-600 million in revenues (much of the cost would return to the Treasury as income and employment taxes, and reduced unemployment insurance benefits).

Problems: Difficult to separate new workers hired because of tax credit from those who would have been hired anyway.

The Brock Bill (S. 2382)

Provisions: Provides a tax credit of 11.7 or 14.9 percent (depending on qualifications) for newly hired employees (up to seven per taxpayer). Bill appeals to small businesses.

Qualifications: The higher rate applies to individuals never before employed for more than three months on a substantially full-time basis. The lower rate offsets the cost of training an inexperienced worker.

Results: Saves roughly $3.00 in unemployment and Federal social welfare costs for every dollar lost to the Treasury.

The Esch Bill (H.R. 10160)

Provisions: (Section of bill providing tax credit.) Links a tax credit with employer expenditures for training. Training includes wages and expenses for organized training programs, including donations of services and equipment. Credit amounts to 25 percent of training expenses (including wages) up to $2,500 per employee.

Qualifications: Person must be unemployed for 15 weeks of the 52 weeks preceding his employment -- or -- individual's income for the preceding 52 weeks must be below the poverty standard used by the Bureau of Standards.

Restrictions: No employee can participate in the program for more than 18 months in any five-year period.

The Thurmond Bill (S. 2007)

Provisions: Focuses on aid to small businesses. Provides a tax credit of 50 percent of wages paid to employees (maximum of two new employees per employer.) Credit applies through December 31, 1976.

Restrictions: Limits credit per employer to $20,000. Provides a "recapture" of the tax credit if an employee is terminated (except for voluntary quit, disability, or discharge for cause).

Legacy of Federal Programs

Perhaps the problem of establishing any program, of deciding alternatives -- as a recent CRS study indicates -- is not the process, but negative side effects (more inflation, higher interest rates, reduced investment, or lower productivity). In short, is the cure as damaging as the disease? Which introduces the biggest question today: can we successfully legislate full employment?

Humphrey-Hawkins: Glad Tidings in November

In a year of split political parties and Presidential vetoes toppling over-spending bills, America yearns for a bearer of glad tidings. A special talisman.

And, as with Walt Whitman, "Behold, I do not give lectures or a little charity,/ When I give I give myself":

Enter Senator Hubert Horatio Humphrey, who knows the plight of seven to nine million Americans scrambling for jobs ... who has seen the misery, and takes part credit for the brainchild of responsible economizing: The Full Employment and Balanced Growth Act (H.R. 50 and S. 50).

But, alas, foolish economists ridicule his efforts.

Arthur Okun, for instance, former Democratic chairman of the Council of Economic Advisers, calls the Senator's bill "beautiful poetry."

When asked if he endorsed the bill, Harvard's Otto Eckstein, the Democratic Council of Economic Advisers veteran, replied: "No. I don't have to. I'm not running for President."

And columnist Nicholas von Hoffman added:

"Impeachment or chaos surely lie in wait for the chief executive unlucky enough to oversee the Humphrey-Hawkins Full Employment Act ... [Senator Humphrey] doesn't understand that the Senate is a legislative body. He thinks it's a wishing well."

Yet maybe the economists are biased. Consider the bill's provisions:

The Humphrey-Hawkins bill would establish "the right of all Americans able, willing, and seeking work to opportunities for useful paid employment at fair rates of compensation."

The 50-page bill seeks full adult employment at a 3-percent rate by 1980. The Senate version defines "adult" as anyone 18 or over -- different from the "unemployment" definition of "adult" as anyone 16 or older -- which changes the goal for overall jobless upward to between 3.5 and 3.8 percent. Senator Humphrey estimates after 24 months the bill's net cost would total $8-16 billion, or $23-24 billion gross cost to American taxpayers.

Now the snag: If the 3-percent goal cannot be achieved through traditional monetary and fiscal policies, the Federal Government would sponsor job programs to establish this rate, with government acting as an "employer of last resort" to maintain this rate. Wages for government-sponsored jobs would reflect prevailing private sector wage rates.

The Problem With Inflation

Most economists agree an overall unemployment rate between 4.8 and 5 percent is a realistic full-employment goal. The H-H bill sets a goal of 3 (or 3.8) percent, yet the U.S. has never achieved a 3.5 unemployment rate over a sustained period except during wartime.

Senator Humphrey says such talk is foolish. "They have nothing better to offer."

Sar Levitan of George Washington University says achievement of the 3-percent rate would require phenomenal growth rates in GNP. "You'd have to keep real GNP growing at least 7.5 percent a year through 1980, and we've never grown so fast for so long a period."

Almost all economists agree on the outgrowth of full-employment legislation: rapid, perhaps double-digit, inflation.

Charles Schultze of the Brookings Institute, and formerly President Johnson's Budget Director, pointed out to the Senate Committee on Public Welfare that the way the bill defines "prevailing" wage, a person could turn down a private sector job and still be eligible for a "last resort" job paying a higher wage.

Schultze observes a $2.50 per hour unskilled laborer could quit his private sector job and, a few weeks later, draw a "last resort" job paying

$3.50 or $4.00 per hour. "Wage rates would rise sharply and prices would follow," continues Schultze. "The size of the government's job programs would grow rapidly. ... The direct and indirect effects of this on the inflationary problem would be very serious."

Other Democrats also disagree.

Alice M. Rivlin, director of the Congressional Budget Office, adds: "If unemployment were to be held at the 3.5 percent rate indefinitely, the simulations show a growing inflationary impact."

Even John Kenneth Galbraith, expected to highly praise the bill, insists on standby wage controls (today, a dirty word to most economists) to blunt inflationary pressures before unemployment comes down.

Sponsors of S. 50 quickly point to the bill's anti-inflation section, including provisions insuring (?) adequate supplies of scarce commodities (food and energy), strengthened anti-trust laws, methods to increase private sector productivity, and provisions for government action to promote price stability (wage-price controls).

Yet Alice Rivlin of CBO responds: "There is much less focus in the bill on these anti-inflation suggestions than on the unemployment goal; there is <u>no target set for inflation</u> as there is for unemployment."

Not surprising, then, that economists like Michael Wachter of the University of Pennsylvania -- one of Governor Jimmy Carter's economic advisers -- estimates the full-employment program could cause inflation of 15 percent or more. (Wachter fears Carter's support of the bill could become "an albatross for Jimmy, assuming he's nominated.") Business Week: May 1976.

<u>So Why Full Employment?</u>

Thus, the election approaches. Suddenly, jobs are an issue as a party unifier.

President Ford denounced the Humphrey-Hawkins bill as a "vast election-year boondoggle."

A top Majority Congressional staffer responded: "Let him veto it and show how callous he is. That's its only purpose." And the "New Member Caucus" of freshman Democrats adds: The H-H bill is "almost an ideal bill to bolt on."

So this year, our election year, we decide our intermediate term economic future. The full-employment bill came, boasting courageous goals, and every month its proud provisions change as economists complain of idiocy. Who knows what form the H-H bill will take by November? Perhaps as New York freshman Congressman Edward Pattison (once for the bill; now voting nay) said: "We make these promises and then we fail to keep them, and nobody believes we will do anything that we say."

November will tell.