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THE WHITE HOUSE
WASHINGTON

Attached is the agenda, and the papers, for the Friday Economic Policy Board Executive Committee Meeting.

You will note that consideration of the Esch-Kemp bill has been moved from Thursday to Friday.

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

JULY 16, 1976
8:30 a.m.
ROOSEVELT ROOM

AGENDA

1. Report on Status of Esch-Kemp Bill	Gorog	Jobs
2. Proposed Mandatory Oil Import Program Changes and Alternative Options	Zarb	given
3. A Strategy for Determining the Effects of Federal Regulatory Activities	MacAvoy/Schmults	

THE WHITE HOUSE

WASHINGTON

July 14, 1976

MEMORANDUM FOR: THE ECONOMIC POLICY BOARD

FROM: Paul MacAvoy PM
Edward Schmults (For the DCRG)

SUBJECT: A Strategy for Determining the Effects of Federal Regulatory Activities

For the past two years, public attention and concern has become more focused on federal regulatory activities. The Administration has initiated a broad program of legislative and administrative reform. Congress has initiated several special studies of regulatory activities, has held a wide variety of oversight and legislative hearings and has enacted three major regulatory reform bills within the last year.

Each initiative has made the public aware of a specific regulatory problem. But it has become increasingly apparent that there is a significant lack of knowledge on the effects of Government's regulatory functions on sectors of the economy and on consumers. Even the most basic budget and program information pertaining to regulatory functions is not collected, aggregated, and presented in a useable fashion. The data that does exist is fragmentary and not comparable over any sustained period of time. In addition, most agencies fail to provide a systematic accounting of private sector costs that result from federal requirements.

Proposed First Steps

A number of steps could be taken over the next several months aimed at improving our understanding of regulatory impacts. We are seeking EPB concurrence on proceeding with the following efforts.

1. Defining and Measuring Federal Regulatory Activities in the Budget.

   The objective is a clearer understanding of what programs within the Federal Government are regulatory, how these programs work, the costs of administering them, their financing, and how they are enforced. The product would be a Special Report on Federal Regulatory Activities, which presents budget and program information in a useful way and analyzes selected issues. In addition to budgetary issues, the Report would give in-depth treatment to selected cross-cutting issues (e.g., enforcement techniques in the regulatory agencies, why we rely on public enforcement in some areas and private enforcement in others). The Report could be available shortly after the 1978 Budget is submitted.

2. Improving Economic Analysis for Decision-Making.

   We must devote more efforts to improving the use of rigorous economic analysis for decision-making--starting with the Inflation Impact Statement evaluation to be completed by OMB and CWPS this fall. See outline and timetable at Tab A. This evaluation will deal with the quality of analysis and problems encountered in evaluating prospective changes in policies as a result of legislation or of rulemaking. It will also consider how agencies use economic analysis in their regulatory process. We might also want to propose to consider related problems such as procedures for revising old rules and regulations.

   A decision paper on the future directions of IIS will be available for DCRG and EPB review by the end of November. A Presidential decision will be sought shortly thereafter.

3. Analyzing the Economy-Wide Costs of Federal Regulatory Activities.

   Some major costs of regulation turn on interactions among various sectors and activities. For example, increased capital spending required by environmental regulation tends to increase interest rates and certain prices and these changes in turn indirectly affect other parts of the economy. Furthermore, distortions produced by regulation in one sector tend to cause distortions in other sectors.

There is a considerable amount of work now underway in the agencies on measuring the costs of regulation--particularly in environmental, health, safety and energy regulation. These efforts will be much more useful if they are brought together to contribute to the task of describing the overall effects of regulation.

Two sorts of additional work are needed. First, it is necessary to gradually build up a set of measures on the direct effects of regulation on various sectors of the economy. Second, it is necessary to establish a consistent procedure for showing how the direct effects on regulation affect the economy as a whole. The latter task requires the use of a model which exhibits how various sectors of the economy interact and how employment, GNP, inflation and other relevant aggregate variables are determined. Such models exist and have been used within the Government to study the effects of particular regulation, but such effects have not been coordinated or put on an established basis.

These efforts, aimed at building a picture of the aggregate impact of regulation on the economy, would be highlighted in a chapter of the 1977 Economic Report to the President.

4. Encouraging Other Research and Analytical Activities.

Related to these analytical efforts, more attention needs to be given to the methodologies and problems being encountered in various industry-level studies now underway in the agencies. These studies are intended not only to increase public awareness of the cost of regulation in the aggregate but also to determine significant areas of actual or potential conflicts between regulations.

There is also a need to link these in-house efforts to research activities outside the Government, determine what division of effort should be made between the Government and the academic community, and begin to better order our overall priorities for economic research in this area.

To this end, we should work toward a national research conference on longer-term efforts to evaluate the impact of regulation on the economy. We would envision holding such a conference in the fall.

Conclusion

We think that this four part effort taken together will contribute to increasing public understanding of the effects of Government regulation. It should also help to improve the Government's capabilities for analyzing regulatory activities and choosing the best regulatory approaches in the future.

Attachment

A

Preliminary Outline of IIS Program Evaluation

I. Background

President Ford, in an October 8, 1974 speech to the Congress, stated his intention that agencies be required to analyze the cost implications of their major actions to help reduce federally-induced inflationary pressures on the economy. Consequently, Executive Order 11821 was issued on November 27, 1974 to require agencies to more carefully consider the economic effects of their regulatory and legislative proposals by preparing Inflation Impact Statements (IIS). OMB Circular A-107, issued January 28, 1975, further implemented the Executive Order by requiring agencies to establish criteria for identifying major proposals and to establish procedures for evaluating these proposals. In addition to these Executive Branch requirements, there has been growing congressional interest in creating legislation requiring economic analyses of regulatory impacts (as evidenced by the approximately 25 bills requiring some type of economic impact analysis submitted last winter).

The objective of the IIS program is to improve the quality of federal regulatory and legislative decisions by increasing the agencies' understanding of their economic consequences. The Executive Order expires on December 31, 1976 unless renewed prior to that time. Thus, CWPS and OMB have commenced an evaluation of the IIS program, expecting to report its findings to the EPB by November 15. The evaluation will try to determine if the IIS approach or another alternative is the best way of achieving that objective. In addition to exploring the program in depth with the 10 or so agencies substantively involved in the IIS effort and others only tangentially involved, several other sources will be consulted. Inquiry will be made through a notice in the Federal Register for comments on the effectiveness of the IIS program and suggestions for improving regulatory decision-making. In addition, consultations with Members of Congress will provide their perspective on this issue. Heads of the independent agencies will be asked to provide comments on their own experience in analyzing the economic effects of their decision-making. Also, a conference of interested public and private experts may be convened to elicit their views on the future direction of this effort. When the final draft of the evaluation is completed, it will be circulated to agency officials so that their comments can accompany the final report to the EPB.

II. <u>Preliminary Outline of Evaluation Procedure</u>

A. Review of analytical quality

1. Identify and review analyses that have been performed (identifying those which would have been done without IIS requirement and those submitted needlessly).

2. Have costs, benefits, and alternatives been appropriately analyzed?

3. What is agency in-house economic analytical capability?

B. Decision-making impact

1. Have decisions been improved by the analysis?

2. What improvements in agency decision-making regarding regulatory and legislative proposals have occurred?

3. Are there procedural weaknesses which negate decision-making impact?

C. Resource demands of IIS

1. What have been agency costs with respect to staff, consultants, regulatory delay?

2. What have been OMB/CWPS administrative costs?

D. Future Directions

1. If IIS terminated, what administrative alternatives would be advisable (including decision-maker's checklist, paperwork burden requirement, agency regulatory reform initiatives)?

2. If IIS continued, what changes would seem desirable?

3. Should the economic impact analysis be legislated? If so, what should be the key elements?

III. Timetable

A. Examine IIS activity in one or more selected agencies following elements of evaluation in Part I.

1. This examination would be useful in structuring the reviews of other agencies.

2. Prepare draft report on these agencies: August 15.

B. Examine IIS activity in other participating agencies: August 15 - September 15.

C. Draft of complete evaluation: Oct. 15.

D. Review by Directors of CWPS and OMB: Oct. 30.

E. EPB Review: Nov. 15.

F. Presidential Decision: Nov. 30.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461
JUL 14 1976

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR MEMBERS OF ECONOMIC POLICY BOARD

FROM: FRANK G. ZARB
ADMINISTRATOR

SUBJECT: PROPOSED MANDATORY OIL IMPORT PROGRAM CHANGES AND ALTERNATIVE OPTIONS

I. BACKGROUND

In April 1973 the Mandatory Oil Import Program (MOIP) was revised to replace the quota on oil imports with a system of fees - 21 cents on crude oil and 63 cents on products. These fees were to come into full effect in 1980 after a transition period in which existing preferences were to be phased out. The principal long-run purpose of the program as now constituted is to provide protection for domestic refiners so as to encourage the location of refining capacity within the United States. This protection is accomplished through the difference between the product and the crude fees and the allocation of fee-free crude allocations for a limited period to new refining capacity ("starter" allocations).

Since 1973 the sharp increase in world oil prices and the imposition of domestic price controls has fundamentally altered the economic environment for petroleum. Moreover numerous problems have arisen in the transition program:

Long-Run Program

-- New studies show that level of protection provided domestic refiners is too low to carry out the purpose of the program.

Transition Program

-- Creates competitive barriers to new entrants in distribution and marketing and prevents utilities and other end users from directly meeting their requirements.

-- Continues geographical discriminations which are inequitable in impact and which may be legally vulnerable.

-- In combination with crude oil price controls, is beginning to create an excessive competitive advantage for domestic refiners (who may be totally dependent on imported crude oil) vis-a-vis product importers. Refiners are now receiving through entitlements under price controls protection of $1.80-3.00 per barrel (compared to 42-56 cents envisioned in MOIP).

-- Has resulted in an enormously complex administrative program.

These problems in part led to the President's directive in January 1975 that FEA evaluate the program and report to him recommended changes.

II. FEA PROPOSED RECOMMENDATION

To assist in making a recommendation to the President, FEA is requesting public comment on the following possible changes in the program:

-- An increase in the product fee from $0.63 to $1.05 per barrel to provide domestic refiners with effective protection from $0.84-1.00.

-- Suspension of product fees during the period of crude price controls and acceleration of the application of uniform product fees from 1980 to the end of controls, May 1979.

-- Application of uniform crude fees except for "starter" allocations.

-- Elimination of tariff rebate from fees, i.e., separation of tariffs and the oil import program.

These changes would result immediately in the uniform application of the crude and product fees, and would solve the problems (entry barriers, geographical discrimination, excessive competitive advantages and regulatory rigor mortis) outlined above. Before any final recommendation is submitted to the President, appropriate interagency review would be conducted.

The proposed changes would result in a very slight reduction in imported product prices through 1979. Initially the average price reduction would be less than a penny per barrel of imported product (because of the exemptions and the tariff rebate virtually no product fees are being currently collected). This is more than offset by the increase in imported crude prices due to the uniform application of the crude fee. The changes would be opposed by parties who now have a temporary competitive advantage due to their privileged position in the transition program, e.g., deepwater terminal operators, and would be favored by those now discriminated against, e.g., utilities.

Because the increase in crude fees would outweigh any loss of product fees, the changes would result in an increase in revenues in FY 1977 (about $160 million) and FY 1978. In FY 1979 collections will be less during the first seven months, but higher after the expiration of price controls and should on balance result in a net increase in revenues. More precise revenue estimates for FY 1978-79 are being prepared.

III. ALTERNATIVE OPTIONS

(1) No Action

PROS:

-- Preserves status quo and avoids the possible controversy caused by a general revision of MOIP.

-- Provides maximum incentives for domestic refining capacity.

CONS:

-- Continues both barriers to new market entry and geographical discrimination.

-- Imposes an unjustified burden on consumers disproportionately dependent on imported products, e.g., New England consumers.

-- Continued problems would have to be dealt with on an ad hoc basis, increasing program's complexity and dislocating existing interests almost as much as general revision.

(2) <u>Immediate Imposition of a Uniform 21 Cent Crude Fee and 63 Cent (or $1.05) Product Fee</u>

PROS:

-- Eliminates geographical and other competitive inequities.

-- Simplifies administration of the program.

CONS:

-- Greatly increases competitive disadvantage of product importers vis-a-vis crude importers.

-- Significantly increases prices in District I, especially New England.

(3) <u>Impose Uniform Product and Crude Fees at Same Levels (63 Cents or $1.05 per Barrel)</u>. At the expiration of controls, the long-run program as modified in Part II would come into place.

PROS:

-- Eliminates competitive inequities and geographical discriminations.

-- Lessens competitive disadvantage of product importers vis-a-vis crude importers.

-- Significantly increases Federal revenues.

CONS:

-- Results in substantial crude and product price increases.

-- Might be considered by Congress to breach the agreement to suspend supplemental fees when EPCA was passed and thus jeopardize future energy actions dependent on Congressional review.

(4) Product Entitlements Combined With Option 2
Competitive relations between refiners and product importers could be adjusted by awarding product importers entitlement benefits equal in value to the level of the product fee in order to lower imported product prices.

PROS:

-- All the advantages of option 3 above, but would lessen competitive disadvantage as much as FEA's proposed change.

CONS:

-- Would significantly increase complexity of two regulatory programs, MOIP and entitlements program. Fine tuning to adjust interaction between the two would be very difficult.

-- Would create strong regional opposition from non-importing regions (West and Middle West) which would be forced to subsidize the importing regions (East Coast).

(5) Product Entitlements and Complete Suspension of MOIP
At the expiration of crude oil controls, the long-run program, as modified in Part II, would come into place.

PROS:

-- Totally eliminates a complex regulatory program and all the problems which require revisions in that program.

-- Would provide correct competitive relationship between product importers and crude oil importers.

CONS:

-- Would create regional antagonism due to transfer of money to East Coast.

-- Would reduce Federal revenues.

-- Special competitive advantages for new refining capacity (relied on by many) could not legally be implemented through the entitlements program and thus must be eliminated.

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

July 15, 1976

LWS

Attendees: Messrs. Seidman, Lynn, Greenspan, Richardson, Usery, Dixon, Rogers, Gorog, Zarb, Cannon, Porter, Lilley, Parsky, Knauer, Duval

1. CWPS Analysis of Recent Wage Settlements

The Executive Committee reviewed a memorandum, prepared by the Council on Wage and Price Stability, on "Major Collective Bargaining Settlements in 1976." The discussion focused on the Council staff's analysis of the 1976 master freight agreement, the GE agreement, and the posture the Administration should take with regard to the impact of these agreements on inflation as well as reviewing pending and upcoming labor contract negotiations.

Decisions

The staff of the Council on Wage and Price Stability will recompute the figures in their analysis of the 1976 master freight agreement to reflect the points raised in the discussion.

The Department of Labor will prepare a set of questions and answers on recent wage settlements for review by the Executive Committee.

Executive Committee members were requested to provide Mr. Seidman's office no later than c.o.b. Friday, July 16, with their comments and recommendations regarding the approach the Administration should take on wage negotiations and settlements to be incorporated into a paper for Executive Committee consideration and review with the President.

2. Expropriation Policy

The Executive Committee reviewed a memorandum, prepared by the Treasury, on "Redirecting USG Expropriation Policy."

Decisions

The Executive Committee requested the CIEP Expropriations Group to: (1) identify and analyze U.S. Government economic interests affected by actual or potential expropriation disputes in important areas such as petroleum, potash, boxite, etc.; (2) examine possible changes or improvements in policies or operations to assure that U.S. Government economic interests are adequately taken into account, including examination of improving the existing "early warning system" and better formal coordination of key policy decisions; (3) formulate recommended guidelines to enable the U.S. Government to more effectively protect its own economic and other interests in particular cases; and (4) to explore possible multilateral actions which might be taken to further U.S. and other investing country interests in expropriation cases.

The CIEP Expropriation Group was requested to submit a preliminary report to the EPB Executive Committee by August 20 and to submit a final report by September 20.