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12/21/74

MEETING WITH
SENATE REPUBLICAN GROUP

Saturday, December 21, 1974

12:30 P.M.

THE PRESIDENT HAS SEEN. *dy*

THE WHITE HOUSE

Levits

Oil -

- 1) mandatory consumption
- 2) productivity

Fannin

Energy -

raising of federal
costs fund.

Legislative Team - work.
bills to be submitted.

Stephens

foreign investment in
energy business.

energy impact statement.

THE WHITE HOUSE

Carter

Taxes -

pay as you go.

elderly

low income

tax reform.

encourage investment
investment tax credit

by
Ford -

THE WHITE HOUSE

WASHINGTON

MEETING WITH REPUBLICAN SENATORS

12:30 P.M. (15-30 minutes maximum)
Saturday, December 21, 1974
The Cabinet Room
Thru: Max Friedersdorf *M.F.*
From: Patrick E. O'Donnell *P.E.O.*

I. PURPOSE

To meet with ad hoc group of the Senate Republican Conference that prepared Economic Policy Statement and Initiatives.

II. BACKGROUND, PARTICIPANTS, PRESS PLAN

A. Background:

In the form of an "Economic Policy Statement and Initiatives" (Tab A), the Republican Conference of the United States Senate has endorsed specific proposals to supplement and reinforce the President's economic program.

Senator John Tower, as spokesman for seven Republican Senators who prepared the policy statement, has requested a meeting with the President to discuss its contents and get his reaction.

B. Participants:

The President
Senator John Tower (R-Tex.)
Senator Jacob Javits (R-N.Y.)
Senator Paul Fannin (R-Ariz.)
Senator Carl Curtis (R-Neb.)
Senator Ted Stevens (R-Alaska)
Secretary William Simon
L. William Seidman
Alan Greenspan
Patrick E. O'Donnell (Staff)

Note: Senator Charles Percy and Senator Howard Baker are members of the Committee but unable to attend the meeting.

- C. Press Plan: David Kennerly photo only.

III. TALKING POINTS

A. Introduction

I have reviewed the Economic Policy Statement and Initiatives of the Senate Republican Conference and am pleased both by the large areas of fundamental agreement with my economic program and with your thoughtful, specific suggestions. We seem to be in agreement on the need for responsible fiscal policy, tax reform, wage and price stability while opposing wage-price controls, anti-trust policy, and housing.

What I would like to explore in greater detail are your specific recommendations dealing with jobs and employment assistance, energy, food, and productivity.

B. Jobs and Employment Assistance

The new unemployment assistance, jobs legislation you have passed goes a long way toward meeting your recommendations and those I made to you on October 8.

There are 510,000 training slots available under CETA Title I; furthermore, there are 170,000 public service jobs available under CETA Title II and the new law will create an additional 100,000 public service jobs; in total 780,000 training and job slots.

The big job now is to get State and local governments moving in filling these slots. That is the Executive's job and I assure you I intend to push hard.

The existing unemployment assistance program is, of course, one of our best automatic stabilizers. When unemployment rises, so do benefits. The addition of the new program, providing extended benefits and new coverage, will increase the automatic response to unemployment. For example, we estimate that if unemployment averages 6.5% during 1975, \$15.5 billion will flow out from the bolstered U.I. program; if the average rate is 7%, the flow will be \$16.8 billion. So there will be an automatic stimulus, if unemployment moves up.

You recommend a job-stimulating tax credit similar to the one I suggested in October. Here our problem is to get the Congress to move. I'm counting on you to bring that about.

You also recommend a supplemental EDA program. Frankly, I am skeptical about the value of this approach, but I pledge to you I will take a hard look at the authority you have provided in the new legislation.

You suggest we establish a new system, -- labor-productivity budgeting -- showing the "jobs impact" of all operating proposals. I have asked Roy Ash to take a look at this one to see what can be done.

We will also take a look at existing programs to see if there is any prospect of speeding up activity without a big sacrifice in efficiency.

C. Energy

We agree that an attack on wasteful energy consumption while simultaneously increasing energy production is needed. I am interested in exploring:

1. What specific mandatory conservation authority you are interested in enacting to reduce energy consumption.
2. Your ideas regarding a tax on excessive energy consumption.
3. Your ideas regarding incentives to encourage the purchase of U.S.-produced automobiles with greater fuel efficiency.

D. Food

As you are aware, in my October 8th message to the Congress I expressed my desire to implement a policy of maximum food production. Included in this program was legislation designed to remove acreage restrictions on rice and peanuts, and a directive to the Secretary of Agriculture to insure that adequate supplies of fertilizer and fuel are available to American farmers. I would be delighted to hear any suggestions you may have on additional ways in which we can ensure that America's food-producing capacity is maximized.

E. Productivity

On December 12 the first meeting of the reconstituted National Commission on Productivity and Work Quality

was held. I attended a part of the meeting and expressed to the members my commitment to the goal of increasing productivity in both the public and private sectors. I am interested in your ideas of how the Productivity Commission can best achieve this objective.

*See Addendum
net page*

Addendum:

Senator Javits tried to reach the President by phone yesterday and was unable to get through. He wants to discuss the Emergency Unemployment Compensation Act (HR 17597) which is on its way to the White House, and he will no doubt try to approach the subject with you today.

Suggest you thank the Senator for his interest and assure him you will review the bill carefully before taking action.

ECONOMIC POLICY STATEMENT AND INITIATIVES
UNITED STATES SENATE REPUBLICAN CONFERENCE

The urgent needs of an economy marked by severe economic strains require urgent consideration and action. Therefore, the Republican Conference of the United States Senate endorses the following specific proposals to supplement and reinforce the President's economic program. These represent our effort to respond quickly and responsibly to the President's request to supplement his economic program, and should receive immediate attention by the Congress and the Executive Branch. While we do suggest certain strong steps to ease the burden imposed on those least able to sustain the current hardships, we hasten to note that no remedy will be painless. To the contrary, it will require a sacrifice on the part of all Americans. We recommend immediate action in the following areas:

Recommendation I JOBS AND EMPLOYMENT ASSISTANCE

Increased employment and unemployment assistance through public service jobs and an emergency jobs program, job-impact determinations on all recisions and proposals in the Federal Budget, a job stimulating tax credit, and increases in unemployment compensation.

Recommendation II ENERGY

An aggressive attack on wasteful energy consumption while simultaneously increasing energy production.

Recommendation III FOOD

Food production at maximum levels should be encouraged through free market channels so that we may meet present needs domestically, demands for U.S. products abroad, and obligations in cases of famine or humanitarian requirements at home and abroad.

Recommendation IV PRODUCTIVITY

Stimulation of productivity by revamping the U.S. Productivity Commission.

Details of the foregoing and a statement of General Economic Policies follow.

RECOMMENDATION I

JOBS AND EMPLOYMENT ASSISTANCE

We consider a vigorous short-term program for the expansion of job opportunities in private enterprise and the provision of additional jobs in the public sector--coupled also with extended unemployment compensation benefits--an immediate objective of the highest priority. We recommend the following four-point jobs program:

1. Public Service Jobs--New Legislation to provide for an estimated 500,000 transitional jobs during calendar year 1975 in such vital public service fields as education, environmental quality, health care, energy conservation and community improvement. The job funds should be allocated on a regional or areas basis, utilizing state and local government prime sponsors designated under the Comprehensive Employment and Training Act of 1973. These funds are designed to provide jobs and in many cases will replace welfare payments.

2. Emergency Jobs Program--We propose within the framework of the successful EDA program of grants and loans to public and private bodies, a one year, \$1 billion emergency fund to stimulate job opportunities in areas experiencing highest levels of unemployment. Funds would be available to supplement ongoing Federal projects selected for their job effectiveness through a review process, and provide initial loan and grant funds for job-creating activities.

3. Job-Stimulating Tax Credit--To foster the creation of new job opportunities in the private sector, we urge a job-stimulating and job-training human investment tax credit, similar to the Administration's proposed modification of the investment tax credit.

4. Expanded Unemployment Benefits--Finally, a temporary program of federally-financed income replacement payments for unemployed workers should be established. We recommend reenactment of the Emergency Unemployment Compensation Act of 1971, making it effective this January; modification of the existing Federal-State Extended Unemployment Compensation Program to make it apply nationally in January; and a supplemental program of up to 26 weeks of benefits for unemployed workers in high unemployment areas who are ineligible under the existing unemployment insurance system.

In addition, we suggest two technical changes in procedures:

1. Labor-Productive Budgeting--We ask the Executive Branch to develop promptly, in cooperation with the Appropriations Committees of Congress, a labor-intensive index as an analytical tool to accompany all budget proposals. This index would relate jobs involved to funds to be expended and would apply to all budgetary measures proposed by the Executive Branch (including amendments, recisions and deferrals). Such measuring of "jobs impact" would portray the employment effect of each proposed action in the context of the current economy.

*2. New Federal Program Priorities--We urge the President to direct each federal agency operating a grant-in-aid program to inventory and report within 30 days all pending projects, identifying those which can be quickly implemented, are labor-intensive, and are in areas of high unemployment. Opportunities for high-labor, energy-saving, productive projects abound in projects already available under existing authority for highways, mass transit, waste treatment, water resources, public buildings, community development and the regular economic development programs.

RECOMMENDATION II

ENERGY

Because of the critical economic role that energy plays, both within our own country and in our relations with other nations, a comprehensive domestic and international approach to meeting energy problems in a realistic and workable manner is needed. Domestically we must pursue an aggressive attack on wasteful energy consumption while simultaneously increasing energy production.

We support the following action programs:

Energy Conservation Measures

- Enactment of strict mandatory conservation authority capable of significantly reducing consumption;
- Encourage prompt Congressional consideration of a tax on excessive energy consumption, including the possibility of a variable rate tax based on BTUs, and explore positive incentives to encourage the purchase of U.S. produced automobiles with greater fuel efficiency;
- Expand federal programs related to increasing the efficiency of energy uses;
- Require that an impact study on energy consumption of planned federal programs be prepared, published and reviewed prior to program implementations;
- Initiate federal examination of utility rate structures, including peak load pricing, and other energy pricing policies with a view toward eliminating pricing inequities and inefficiencies in energy use;
- Take positive steps to bring about bona fide enforcement by the States of the 55 mile per hour speed limit;
- Formulate mandatory standards for insulation of new buildings, explore a program of tax incentives for improved insulation of existing structures, and promulgate mandatory temperature standards in all buildings federally financed or constructed;

- Reduce oil imports by at least one million barrels per day during 1975 with an intermediate term goal of a two million barrels per day reduction; and
- Closely monitor foreign investment in U.S. energy exploration, production and development.

Actions to Increase Domestic Energy Production

- Expand outer continental shelf exploration and development with adequate environmental safeguards;
- Lift such constraints as limit exploration and production of natural gas and other fossil fuels, with appropriate competitive safeguards;
- Implement on a crash basis new programs to develop alternative energy sources such as nuclear power, coal liquefaction and gasification, syncrude, solar and geothermal;
- Support prompt approval and construction of facilities to transport Alaska natural gas to the lower forty-eight states;
- Support international energy efforts to assure stable sources of foreign oil at reasonable prices;
- Promptly inventory recoverable energy reserves on federal lands; and
- Enact a windfall profits tax with a credit for reasonable capital investment for domestic exploration, development and delivery of new energy supplies to assure that windfall profits generated by recent enormous increases in the prices of energy are promptly redirected toward increased domestic energy production.

RECOMMENDATION III

FOOD

Food costs are an important aspect of the current inflation and have presented serious problems for most consumers.

Food production at maximum levels should be encouraged through free market channels so that we may meet domestic needs, demands for U.S. products abroad, and requirements in cases of famine or humanitarian requirements at home and abroad.

We must support those policies which provide adequate incentives to the farmer for production within the United States of our needed food supplies and recognize the current real distress of certain segments of food production such as livestock and dairy farmers. Solutions to these problems would be a major force in assuring ample supplies at reasonable prices.

We recognize the vital importance of agricultural exports to farm income and our balance of payments in enabling us to pay for oil and other vital imports. Exports should continue to be monitored to assure an equitable balance between our domestic supply needs, the need for markets for agricultural products, and the need to maximize our export earnings and provide assistance abroad where needed.

For the benefit of the consumer and the producer we favor intensified study of off-farm costs that go into the final price of food. We also favor expanded consumer services to the buyer on what constitutes a nutritious diet at a reasonable price to help the consumer pick the best nutritional value for his dollar, and on market practices generally.

GENERAL ECONOMIC POLICIES

We have made four specific proposals to supplement and reinforce the President's economic package. Nevertheless, there are other important economic policies which we believe should be pursued to maintain the forward thrust of American economy. In order to achieve the broader objectives that we seek we encourage the following:

Monetary Policy should pursue an orderly and moderate growth in monetary aggregates as an important means of relieving inflationary pressures brought on by an overly expansive monetary policy and of avoiding excessively high interest rates which eventually and inevitably follow in its wake. Monetary policy has been forced to bear an undue burden of restraining our inflationary tendencies because other fiscal restraints have not been exercised. We would hope that monetary policy could be appropriately eased as other fiscal measures become effective.

Fiscal and Tax Policy should continue to seek to bring the budget under control and to avoid unjustified and continuing deficits, which are a major source of inflationary pressure and credit market tensions. To enable us to bring the Federal budget closer to balance, reduce its inflationary effect, and, on a progressive basis where possible, pay as we go for anti-recessionary measures, every effort should be made to identify appropriate areas of taxation and other sources of revenue. A responsible fiscal policy will represent an earnest of good faith on behalf of the Federal Government to ameliorate our current inflationary tendencies.

Tax reform should be dealt with as a high priority by the new Congress with a view to an equitable, comprehensive reform in all taxes, most importantly social security taxes, tax relief for the elderly and for low and moderate income taxpayers, in an inflationary period. Tax reform to avoid escape of fair tax payments, increase investment, augment capital formation and spur the economy is necessary to increase employment at this time.

Trade should be stimulated through immediate enactment this year of the Trade Reform Act without extraneous amendments to enable the President to negotiate with respect to restrictive tariff and nontariff barriers to foreign trade and thus to enhance the flow of trade with all our trading partners.

Capital Investment and Capital Formation are critically important to modernization, competition and productivity, and will not only help pull the economy out of recession but also moderate inflation. We should give prompt consideration to encourage new incentives for adequate savings flows and the necessary government incentives to provide the required infusions of capital to troubled industries; and to provide for small business which cannot, under present conditions and on fair terms, either borrow money or raise equity capital from other sources.

Wage and Price Stability should continue to be sought through the discipline of the marketplace and the fiscal policies herein endorsed. Congress and the Executive share the responsibility to make the marketplace work more effectively and efficiently, but we expressly reject the concept of delegation of discretionary wage-price control authority to the Executive Branch at any time. Should the Congress determine it is necessary to impose controls, the Congress should bear the responsibility for specifying and implementing them when and where needed.

Regulatory Review of existing Federal regulatory agencies should be undertaken by Congress to improve current practices. Practices or agencies which unnecessarily restrict competition, cause undue red-tape and result in inflationary pressures should be eliminated.

Anti-trust Policy should continue to receive emphasis as a means of improving the functioning of the marketplace and removing anti-competitive practices. Congress should re-examine the significant changes which have occurred since our anti-trust statutes were conceived three-quarters of a century ago, with emphasis on the manner in which the Federal Government (1) identifies anti-competitive influences, (2) initiates anti-trust prosecution of instances of economic restraint, and (3) defines the legal relief available to effect adequate competition for all sectors of the economy.

Housing is recognized as one of the weakest sectors of our economy today, and one of the most vulnerable. We pledge ourselves to its significant improvement. Both private and public housing should, however, soon begin to experience recovery due to reduction in inflationary pressures and mortgage interest rates, to the roughly \$20 billion in Federal assistance recently made available, and to the increased availability of building materials. We strongly urge the full utilization of these programs.