THE PRESIDENT HAS SEEN G.F.

THE WHITE HOUSE

WASHINGTON

March 25, 1975

ECONOMIC AND ENERGY MEETING
March 26, 1975
11:00 a.m.
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To review the current status of the tax bill.

B. To review possible relief measures for the U.S. tanker industry.

C. To review the energy program negotiations with the Congress.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Weekly Report briefly outlining Executive Committee activities during the past week and major upcoming agenda items is attached at Tab B.

The Economic Policy Board will hold its monthly meeting on Wednesday, March 26, at 1:00 p.m.

A memorandum on U.S. tanker industry problems and possible relief measures is attached at Tab C.

B. Participants: ~~The Vice President~~, William E. Simon, L. William Seidman, Alan Greenspan, James T. Lynn, John T. Dunlop, Arthur F. Burns, Frank G. Zarb, Donald Rumsfeld, Robert T. Hartmann, Frederick Dent, Richard Dunham, Brent Scowcroft.

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Current Status of the Tax Bill

Secretary Simon will review the current status of the tax bill and a proposed Administration position if the bill has emerged from the Conference Committee.

B. U.S. Tanker Industry Problems

William Seidman will review the current situation in the U.S. tanker industry and possible relief measures to aid the industry. See Tab C.

C. Energy Program Negotiations

Frank Zarb will review the strategy for the energy program negotiations with congressional leaders.

A

3/24/75

WEEKLY ECONOMIC FACT SHEET

Employment and Income

-- February unemployment rate was 8.2%, unchanged from January, but total employment declined by more than 1/2 million. Trend of insured unemployment has been up in recent weeks.

-- Personal income edged up in February because of increases in veterans' benefits and unemployment insurance benefits. Payrolls edged down for the fourth month in a row. *

Production And Orders

-- February industrial production dropped 3.0%. Since October, it has dropped 11.6%.

-- New orders received by manufacturers of durable goods rose 2 percent in February after 5 straight monthly decreases.*

Prices

-- February WPI fell 0.8% as a sharp drop in farm prices more than offset a rise of 1/2 of 1% in industrials.

-- February CPI rose 0.6 percent, the fourth monthly slowdown in a row.*

Money And Financial

-- Growth in money supply over the most recent four week period showed substantial increase following several months of sluggish growth.

-- Corporate profits fell sharply in the fourth quarter of 1974. *

International

-- The balance on current account and long-term capital showed a deficit of almost $6 billion in the fourth quarter of 1974 as compared to a deficit of almost $4 billion in the third quarter. *

Key Sectors Of The Economy

-- Housing starts edged down in February from the very low January rate. Increased availability of mortgage funds should bring about a turnaround in housing starts this Spring. *

* Figures released last week.

March 24, 1975

Weekly Economic Review

Since mid-February when the regular unemployment survey was conducted, the weekly insured unemployment figures have moved higher. Unless the labor force declines again in the March survey, an increase of a half a percentage point or more should be expected in the unemployment rate for the month of March (April 4 release date). Although the rate of layoffs has been falling the unemployment rate is likely to hover in the 9 percent area (plus or minus) well into the summer.

The February turnaround in new orders for durable goods is a favorable development even though this is a very erratic series and one should not attach too much significance to a single month's developments. The February figures are roughly consistent with reports from purchasing agents that the deterioration in February was much less pronounced than the month before. On the basis of past experience changes in new orders tend to be followed by changes in shipments with a lag of roughly one to two calendar quarters.

Severe cutbacks in inventories continues to depress industrial production although the downward pressure from this source has probably reached its peak. The automobile industry has pared stocks sufficiently to reverse in March the sharp production decline that has been underway since last November. Provided sales hold up a similar process should become evident in other industries over the next several months as burdensome stocks are reduced.

The February CPI provided further evidence of a clearcut improvement in the rate of inflation at the consumer level. From November to February the CPI rose at a seasonally adjusted annual rate of 8.1 percent. Over the preceding year the CPI had risen by 12 percent. Provided we do not have bad luck on crops, prospects for continued disinflation over the coming year look promising but we should not expect dramatic results. Although inflation has subsided the rate of price increase for nonfood commodities, however, has worsened slightly during the past 2 months and the service prices continued to advance at quite high rates.

------ ------ -

Housing starts should start to rise over the next few months. Financial conditions in mortgage markets began to improve last fall and past relationships suggest a lag of 3 to 6 months between an improvement in financial conditions and a rise in starts. A large overhang of unsold homes has been holding back the recovery. Reports from builders over the past month or two show increased interest in home buying on the part of consumers.

B

March 25, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by EPB During Week of March 17

1. Review of the tax cut bill.

2. Review of relief measures for U.S. Tanker Industry.

3. Pan Am/TWA Route Swap memorandum approved for submission to the President.

4. Review of negotiating instructions on Law of the Sea.

5. Review of meeting with financial consultants on conditions and prospects in the financial markets.

6. Preliminary review of national economic planning proposals.

Status Reports Reviewed

1. Task Force on International Commodity Agreements
   Outline of study approved. The Task Force is on schedule for a final report on April 30 in order to provide adequate time to finalize an Administration position for May 27 OECD meeting.

2. Food Deputies Group
   CPI-food index rose only 0.1 percent in February. Planted acreage expected to be 0.5 percent above 1974. House passed emergency farm bill 259 to 162.

3. Interagency Fertilizer Task Force
   Supply-demand situation has improved significantly although it remains tight. Executive Committee decided it was unnecessary to reinstitute fertilizer monitoring program or to recommend use of the Defense Production Act to accelerate construction of ammonia plants.

4. Council on Wage and Price Stability
   Current price monitoring of steel, aluminum, metal can, rubber tire, chemicals, and farm-retail price spreads. Study of postal wages and meetings with plumbers and plumbing contractors in San Francisco Bay area. Discussions with NHSTA on auto safety and tire grading.

Major Upcoming Agenda Items

1. Review of budget outlook and possible increased funding for existing programs.

2. Administration position on Federal Reserve legislation.

3. Proposal to advance General Revenue Sharing payment.

4. Generalized Special Preferences and OPEC.

C

THE WHITE HOUSE

WASHINGTON

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: U.S. Tanker Industry Problems

Due to decreased oil movements and rapid growth in tanker capacity, both the worldwide and U.S. tanker industries are in a depressed condition. As indicated in a meeting with the President on March 7, both labor and management representatives from the ship construction and ship operations industry believe that government action to assist the industry is necessary. These representatives proposed that the Administration require oil importers to use American vessels first. The industry representatives further recommended that an exemption from oil import fees be allowed to importers using U.S.-built, U.S.-flag tankers.

The Economic Policy Board has examined the problems facing the U.S. tanker industry, and has considered several options for responding to the problem. These options, and the positions of the interested agencies, are discussed below.

General Considerations Regarding The Options

Options 1(a), 2 and 3, are intended to be implemented by executive order. There must be a sound legal basis for such implementation. Although other legal authorities have been mentioned, it is the President's authority under Section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862) that is most frequently referred to as a possible statutory basis for Executive action on options 1-3. A number of agencies have indicated that they doubt that Section 232 is an adequate authority for imposing a "Use American Vessels First" policy or a partial import fee exemption. Accordingly, any final decision on any of these three options should be based on a legal determination by the Justice Department.

Prior to a final decision, it should be definitely established that implementation of any of the options involving action would be acceptable to the tanker industry and the maritime unions as a substitute for enactment of oil cargo preference legislation. Assurances should be obtained from these interests that further efforts to pursue cargo preference legislation will not be undertaken.

Option 1(a): Require Use of American Vessels First, By Executive Order

This option, which is similar to oil cargo preference enacted by the Congress in late 1974, would require oil importers, as a condition in granting an import license, to use U.S.-flag vessels, provided such vessels are available at fair and reasonable rates. These fair and reasonable rates would cover the cost, including cost of capital, of ships built in the United States and registered under the U.S.-flag.

The limited cargo preference provided under this option may be less undesirable than the cargo preference bill passed by the 93rd Congress, and reintroduced this year, for the following reasons:

- It would apply only to existing ships under 25 years of age and to ships already under contract for construction as of its effective date. Thus it would not entail the legislation's disadvantages of providing support for the oldest, most inefficient ships, and of encouraging the construction of unneeded tankers, with concomitant inflationary pressures on the shipyards and potential conflict with Navy shipbuilding programs.

- It may be possible to make the preference temporary, for two years or so, although it may be very difficult to terminate the preference once it is initiated.

This option, however, has several of the same problems as the vetoed oil cargo preference legislation:

- It would increase the cost of oil to consumers by a total of over $300 million a year.

- It would undoubtedly result in protests by certain foreign nations as contrary to the principle of free trade, and in violation of treaties of commerce. The Commerce Department believes that the objections may be counteracted somewhat by the recent actual and defacto cargo preference actions by some foreign countries, including the OPEC nations.

. It would reduce or remove incentives to the tanker industry to improve their productivity, because of a lack of effective competition.

Option 1(b): Agree to Accept Legislation Requiring Use of American Vessels First

This option would be the same as option 1(a), except that it would avoid problems of using existing authorities, and give Congress the initiative. It may be very difficult to contrain such legislation to limit it only to certain existing tankers.

Option 2: Temporary Partial Exemption From Oil Import License Fees

Partial exemptions from oil import license fees would be granted to importers who use U.S.-flag tankers constructed in the United States. The amount of fee exemption would be equal to the difference between the fair and reasonable charter rates for U.S.-flag tankers, constructed in the United States, and world rates. The fee exemption amounts would be adjusted periodically to reflect changes in U.S. costs and in world rates. When world rates reached levels that were reasonably compensatory, the fee exemption would expire.

It is not certain that importers would use U.S. tankers under this option, but the fee exemption should make the cost of U.S. flag tankers at least equal to foreign flag tankers. If the fee exemption results in the use of U.S. tankers, it would cost about $300 million a year in lost revenues.

This option would not increase the cost of oil to consumers, but it would have many of the other undesirable features of oil cargo preference. It would subsidize inefficient ships, and it would likely provoke strong objections from foreign nations.

FEA opposes exemption from the import fee for the benefit of any industry. It feels that an exemption in this case would establish an undesirable precedent. If the import fee were raised to $2.00 a barrel, however, partial exemptions from the incremental dollar for the tanker industry, may not be objectionable.

Option 3: Use American Vessels First, With A Temporary Partial Remission of Oil Import License Fees

This option was presented by the industry to the President on March 7. Oil importers would be required, as a condition in granting an import license, to use U.S.-flag vessels prior to using foreign vessels, provided U.S. vessels are available at fair and reasonable rates. These fair and reasonable rates would cover the cost, including the cost of capital, of ships built in the United States and registered under the U.S.-flag. The industry further recommended an exemption from import fees to importers using U.S. built U.S.-flag tankers.

Although not included in the industry proposal, it is recommended that this option only be considered as applying to existing tankers under 25 years of age and those contracted for construction as of the effective date. Fee exemptions should be limited to amounts equal to the added cost of U.S. tankers. The measure should be reviewed after two years and lifted whenever world rates return to compensatory levels.

This option would cost about $300 million a year in lost revenues, but it may result in only a small increase in cost of oil imports. It otherwise has the same undesirable features of option 1 and 2.

Option 4(a): Rate Subsidy For U.S.-Flag Tankers in Foreign Trade

This option would provide federal subsidy payments to operators of U.S.-flag tankers employed in U.S. foreign commerce equal to the difference between competitive world charter rates and "fair and reasonable" U.S.-flag costs.

It should bring U.S. tankers that would otherwise remain in layup into operation even though charter rates for foreign-flag tankers continued to be significantly below their operating costs. It would be explicitly limited to tankers currently existing or on order and would not apply when world rates were sufficiently high to allow reasonable profits for U.S.-flag tankers.

This option would require legislation. It would cost about $300 million a year in direct appropriations. It would provide a subsidy to all U.S. flag ships employed in U.S. foreign commerce, even though the majority of those ships would continue to operate without a subsidy.

Option 4(b): Rate Subsidy For Selected U.S.-Flag Tankers in Foreign Trade

This option would be the same as 4(a) except the subsidy would be legislatively limited to only selected ships, e.g., no subsidy would be provided to tankers owned or operated by major oil companies.

It may be possible to focus the subsidy on the independent operators, which are the ones impacted by the current problems, although there may be difficult problems in discriminating against certain ship owners. This option could cost substantially less than option 4(a), depending on how selectively it were applied.

Option 5: Increase Government Preference Agricultural Cargoes

Increasing the share of U.S.-flag participation in carrying P.L. 480 cargoes to 75 percent from the current 50 percent might provide an additional 10 voyages for U.S. tankers by June 30, 1975. This would provide employment for some 400 merchant seamen. The added U.S. cost would be $5.4 million for these tanker shipments and $4.7 million for other cargoes. This total cost of $10.1 million would be borne principally by USDA and AID.

It may be difficult or impossible to implement this in FY 1975 because written agreements with foreign countries would require renegotiation in some cases. It is expected that there would be complaints by recipient countries which use their national flag ships to carry P.L. 480 cargoes.

Option 6: Take No Action

Failure to take effective action by the Administration may provoke labor troubles and upset the favorable labor-management relations that have been fostered during the past several years. A strike by seagoing labor, which might be supported by longshore labor, could have a serious impact on U.S. economy. The labor reaction to inaction by the Administration might also be directed against Soviet maritime activity and could result in a major set-back in U.S./U.S.S.R. commercial relations.

No action also may increase the chances of Congressional action on oil cargo preference legislation.

At this time, it is not clear that the problem in the industry warrants the cost of the options discussed above. Also, it is not clear that any of the options for action would avoid the potential union and Congressional actions.

Agency Positions

Commerce - Option 3.

Defense - Option 3.

Labor - Option 1(a) or 1(b), if the Administration could get enough in return in terms of commitments from unions and industry; otherwise, option 6.

State - Option 6, but should consider other options such as increased unemployment benefits for unemployed seamen.

Agriculture - Opposes option 5.

CEA - Option 6; CEA believes that the available facts do not support any action.

OMB - Option 6; if action is determined to be necessary, recommend option 4(b) to focus assistance on the independent operators.

Treasury - Opposes options 1, 2 and 3; favors option 4, if action is necessary.

CIEP - Option 4(b); opposes options 1, 2 and 3.

AID - Opposes option 5.

Decision

________	Option 1(a):	Require use of American vessels first, by executive order.
________	Option 1(b):	Agree to accept legislation requiring use of American vessels first.
________	Option 2:	Temporary partial exemption from oil import license fees.
________	Option 3:	Use American vessels first, with a partial remission of oil import license fees.
________	Option 4(a):	Rate subsidy for all U.S.-flag tankers.
________	Option 4(b):	Rate subsidy for selected U.S. flag tankers.
________	Option 5:	Increase government preference agricultural cargoes.
________	Option 6:	Take no action.

THE WHITE HOUSE

WASHINGTON

To: The President

From: L. William Seidman

The attached memorandum from Frank Zarb is for your information and preparation for the March 26 Economic and Energy Meeting. He requested that it not be circulated and thus was not included as part of the general briefing paper.

FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

March 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK G. ZARB

THRU: ROGERS C.B. MORTON

SUBJECT: NATIONAL ENERGY PROGRAM NEGOTIATIONS

Two weeks ago we reported to you that we were continuing our discussions with Al Ullman and John Dingell.

We have continued to meet with both Committee Chairmen, as well as staff, and have made only modest progress in recent days. I will meet with both Chairmen once more before recess and we will attempt during recess to work with their staffs in an effort to pull together a program which will reflect the maximum amount of compromise possible.

However, since both Chairmen are having difficulties with members of their committees, and since both are sensitive to criticism from their democratic colleagues, it is possible that we will not be able to reach agreement.

With your permission we intend to adhere to the following strategy:

1. Continue to work with both Chairmen and if areas of meaningful compromise appear we will submit them for your approval before making final commitments.

2. If an accommodation can be reached with both Ullman and Dingell we will support their efforts to get legislation onto the House floor and then support efforts to gain passage by the entire House.

3. We will simultaneously be working with Messrs. Jackson, Long, Pastore, and Magnuson to get a similar effort working on the Senate side.

4. If we are not successful in coming to an agreement we will resist attempts to report out legislation that is inconsistent with your energy goals and philosophy. Under these circumstances, neither Chairmen may be able to report out a bill, since there could be sufficient objection from our side and from dissident democrats.

5. If we do reach a point of no agreement we will recommend that you proceed to put on the second dollar tariff effective May 1 and that early in May we send up a reasonable program for deregulation of old oil. At that point in time the Congress could be sufficiently diffused, so that they may not be able to sustain legislation to remove your tariff authority and may not be able to muster sufficient strength to block a reasonable plan for decontrol. As a practical matter, many of the members at that point in time may be relieved to have the President implement a conservation program rather than have to come to grips with the problem themselves.

   We will then have to work with all appropriate committees to pick up legislation for the remainder of your program, including strategic reserves, mandatory conservation, and standby authority, etc.

There are currently 37 days left before May 1st, therefore, an early approval of this strategy is important. This memorandum has been reviewed and agreed to by Alan Greenspan, Bill Seidman, and Max Friedersdorf.

TAX REDUCTION BILL - H.R. 2166

The following is a summary of action taken by the House and Senate conferees by the 6:30p.m. adjournment on Tuesday, March 25. Conferees will meet again Wednesday at 9:00 a.m.

Generally, agreement was reached on the less controversial items while compromises have not yet been worked out on the additonal reductions for individuals (increase in standard deduction, $200 optional credit in lieu of personal exemption and rate reduction for low income taxpayers), new house purchase credit, $100 payment to certain program beneficiaries, taxation of foreign source income and percentage depletion of oil and gas.

Agreement reached on:

(1) Rebate on 1974 taxes - accepted House version. 10% of tax liability up to maximum of $200, minimum of $100. $200 maximum phased down as AGI rises from $20,000 to $30,000. Revenue loss - $8.1B.

(2) Earned income credit - accepted Senate version. Refundable credit of 10% of earned income up to $400. $400 phased out as income rises from $4,000 to $8,000. Available only to families with dependent children. Better known as the "work bonus". Revenue loss - $1.5B.

(3) Child care deduction - present law allowed an itemized deduction of up to $4,800 phased out for AGI above $18,000. The AGI level was raised to $35,000. Revenue loss - $9 M.

(4) Investment Tax Credit - increased the investment tax credit for all taxpayers to 10% on a 2 year temporary basis. Also to 11% if the additional 1% is contributed to an employee stock ownership plan (ESOP). Removed $100 million cap on utilities (affected ATT only). Increased the 50% limitation for public utilities to 100% for 1975 and 1976 and then phased back at 10% a year over a 5 year period until 1981 when the 50% holds. Normalization of the ITC benefit for public utilities. Increased the limit of used property as qualified investment from $50,000 to $100,000. Allows ITC for progress payments when property takes more than two years to construct. Revenue loss - $3.39B.

(5) Corporate surtax exemption and rate reduction - increased surtax exemption from $25,000 to $50,000 and decreased the rate on the first $25,000 from 22% to 20%. Rate on second $25,000 is 22%. Revenue loss - $1.55B.

(6) Accumulated Earnings Credit - accepted Senate version. Increases the amount of accumulated earnings credit from $100,000 to $150,000. Revenue loss negligible.

(7) Net Operating Loss (NOL) - dropped in conference. Would have allowed substitution of carryover years for carryback of NOL. Present law is 3 back and 5 forward. This amendment has been tabbed the "Chrysler Amendment".

(8) Federal welfare recipients employment incentive (WIN) tax credit - generally broadens the WIN credit for employers. Revenue loss - under $3 million.

(9) Excise tax on trucks, etc. - dropped in conference. Would have repealed 10% excise tax on trucks, buses, etc. and 8% tax on related parts.

(10) Tax credit for insulation and solar equipment - dropped in conference but will be included in energy bill.

(11) Tax exemption for homeowner's associations - dropped in conference.

(12) Pension plans relative to time when contribution deemed made - allows 1974 rule for 1975. Revenue loss - none.

(13) Emergency unemployment compensation benefits - agreed to Senate allowing 13 weeks additional benefits to those who have exhausted 52 weeks of benefits. Revenue loss - $200 million.

(14) Required dying of fuel heating oil - dropped in conference - consider in energy bill.

(15) Tax Free Rollover of home purchase - agreed to Senate. Time period for rollover extended from 1 year to 18 months for purposes of nonrecognition of gain. Time for construction of new residence extended from 18 to 24 months. Revenue loss - negligible.

Foreign income -

SUMMARY OF REVENUE EFFECTS

(As of 7:00 p.m. 3/25/75)

(billions)

Tax Rate Reductions	House	Senate	Net Change	Conference
Individuals				
(1) Rebate	8.1	9.7	+1.6	8.1
(2) Standard Ded.	5.2	-		
$200 Optional Credit	-	6.3	+3.4	
Tax Rate Reductions	-	2.3		
(3) Earned Income Credit	2.9	1.5	-1.4	1.5
(4) House Purchase Credit	-	1.1	+1.1	
(5) Child Care	-	1.7	+1.7	.090
(6) Home Insulation	-	0.7	+0.7	Dropped
Subtotal	16.2	23.3	+7.1	9.69
Business				
(1) ITC	2.4	4.3	+1.9	3.39
(2) Corp. Surtax Exempt.	1.2	1.2	-	1.55 (est)
(3) Tax Rate Reductions	-	0.7	+0.7	
(4) NOL	-	0.5	+0.5	Dropped
(5) Repeal Truck Excise Tax	-	0.7	+0.7	Dropped
Subtotal	3.6	7.4	+3.8	4.94
Increased Expenditures				
(1) $100 Payment to Certain Program Beneficiaries	-	3.4	+3.4	
(2) Emergency Unemployment Benefits	-	0.2	+0.2	0.2
Subtotal	-	3.6	+3.6	0.2

Tax Rate Reductions	House	Senate	Net Change	Conference
Tax Increases				
(1) Depletion	(2.2)	(1.7)	(-0.5)	
(2) Foreign Oil Taxation	-	(1.5)	(+1.5)	
(3) Deferral of Foreign income	-	(0.5)	(+0.5)	
	(2.2)	(3.7)	(+1.5)	

I. Total Net Revenue Loss Before Conference	17.6	30.6	+13.0

II. Total Net Revenue Loss After Conference of 3/25/75 — $24.22B

III. Reduction from Senate bill - $6.38B

ECONOMIC/ENERGY MEETING

Wednesday, March 26, 1975

11:00 A. M.

THE PRESIDENT HAS SEEN...