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THE WHITE HOUSE
WASHINGTON

January 2, 1976

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JIM CONNOR
SUBJECT: Discussion of Unemployment in the State
of the Union Message

This is to confirm that the President has reviewed your memorandum of December 31, 1975 on the above subject and approved Option B (Supplement Option A by proposing in addition one or more new initiatives specifically designed to reduce unemployment) under Issue #1 "What should be the general approach in discussing unemployment in the State of the Union Message?"

No decision was taken on Issue #2.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

December 31, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *fwS*

SUBJECT: Discussion of Unemployment in the State of
the Union Message

The Economic Policy Board Executive Committee has discussed at length the approach and substance of your discussion of unemployment in the State of the Union Message. This memorandum outlines the current unemployment forecast, describes the current programs in place to alleviate and reduce unemployment, and suggests alternative approaches and possible initiatives for the State of the Union Message.

The economic forecast, which you approved, that will be published in the Budget projects the following calendar year average unemployment rates:

1975	8.5 percent
1976	7.7 percent
1977	6.9 percent
1978	6.4 percent
1979	5.8 percent
1980	5.2 percent

Since the 1930's the Federal Government has established and maintained a number of programs, referred to by economists as automatic stabilizers, to cushion the impact of unemployment on those laid off their jobs and to stimulate economic activity during a recession.

A large number of programs currently exist to provide job training and employment. A detailed list and a description of such manpower programs, prepared by OMB, is attached at Tab A.

Moreover, in the wake of the economic downturn during the fourth quarter of 1974 you successfully proposed several new initiatives including a tax reduction, expanded public

service employment programs, broadening the eligibility for unemployment insurance payments, lengthening the number of weeks of unemployment insurance compensation, and releasing additional highway trust funds.

There are some encouraging indicators on the unemployment front. 1.4 million more people were at work in November than were employed last March and almost a full point has been shaved from the peak unemployment rate.

The general approach of the Administration to date has been to focus its outlays through existing, tried and tested programs coupled with tax reductions to stimulate economic activity and create jobs in the private sector. This approach is much less visible than an approach involving outlays for entirely new programs or for large public works efforts.

The Administration's relatively less visible approach than many of the programs suggested by Democrats in the Congress to deal with unemployment has contributed to a public perception that the Administration is less concerned than the Democratic Congress about unemployment. There is general consensus within the Economic Policy Board that, at a minimum, we should attempt to change this perception through a systematic and concerted effort to more fully explain the Administration's program to the public.

There is also general agreement that unemployment remains a difficult problem for public policy and that it is essential that the subject of unemployment be addressed in the State of the Union Message.

Issue #1: What should be the general approach in discussing unemployment in the State of the Union Message?

Option A: Reaffirm your commitment to reducing unemployment through existing programs. Announce increases in funding levels for unemployment-related programs in your 1977 Budget (i.e. CETA). Outline your proposal for additional tax cuts of \$10 billion in FY 1977 to help sustain the recovery. Indicate that a long-term solution to our unemployment problem requires adequate capital formation and urge Congress to respond to your capital formation proposals.

This approach is consistent with utilizing existing programs with primary reliance on individual and corporate tax reductions to stimulate private sector economic activity. It may prompt Democratic criticism that the Administration has failed to propose imaginative solutions to the unemployment problem.

Option B: Supplement Option A by proposing in addition one or more new initiatives specifically designed to reduce unemployment. (Several potential initiatives are outlined below.)

This approach makes more visible the Administration's effort to reduce unemployment and helps to alleviate the perception that the Administration is less concerned about unemployment than the Democratic Congress.

Issue #2: What, if any, additional unemployment initiatives should be proposed in the State of the Union Message?

Option A: Propose tax incentives (accelerated depreciation) for construction of plants and equipment in areas of high unemployment.

This proposal would allow rapid depreciation (5 years for equipment and 10 years for facilities) for companies who begin construction on projects after July 1, 1976 but before July 1, 1977, complete them within 36 months, and increase total company employment. An unemployment trigger level would establish area criteria to qualify for this incentive.

The objectives of the proposal include stimulating construction and capital formation, providing employment opportunities in the most severely impacted areas, and revitalizing industry in urban areas.

Pro:

- o Designed to both stimulate capital formation and reduce unemployment in the hard-hit construction industry.
- o Has minimal risk cost impact. If the program fails to attract additional investment it does not entail revenue losses. If the program succeeds in attracting additional investment it generates increased taxes and reduced unemployment compensation outlays.

- o Does not require a new administrative structure to administer.

Con:

- o Reduces economic efficiency through distortion of the allocation of economic resources.
- o May be considered as a pro-business approach to reducing unemployment.
- o Perpetuates use of the tax system to accomplish social goals and increases the complexity of the tax laws.

Revenue Cost Estimate:

1977	\$400 million
1978	\$1.0 billion
1979	\$1.4 billion

Option B: Propose tax incentives (accelerated depreciation) for the construction of industrial environmental control and safety equipment and facilities.

This proposal would allow rapid depreciation for such facilities which are started between July 1, 1976 and July 1, 1977 and which are scheduled for completion within a 36 month period. The proposal would include a special automobile industry provision permitting tooling for auto emissions equipment to be expensed (declared as a current cost).

The objective of the proposal is to accelerate construction of EPA and OSHA mandated facilities, particularly in basic processing industries, and to improve cash flow to stimulate capital formation and investment.

Pro:

- o Designed to both stimulate capital formation and reduce unemployment in the hard-hit construction industry.
- o Accelerates progress toward improving environmental control and worker health and safety conditions.

Con:

- o Provides tax benefit for projects which would have been undertaken anyway without fulfilling the central objective of generating new construction.
- o May be perceived as an oblique approach to the task of reducing unemployment.
- o May be considered as a pro-business approach.
- o Increases the complexity of the tax laws.

Revenue Cost Estimate:

1977	\$1.2 billion
1978	\$1.2 billion
1979	\$1.2 billion

Option C: Propose an employment tax credit of \$200 per employee per month for all employers who make additions to their labor force above a base level of average employment in 1975.

As an alternative a percentage, e.g. 25 percent of base pay, in lieu of a flat dollar credit could be allowed as a tax credit. Although more complicated from an accounting standpoint, a percentage credit would remove any bias toward hiring lower paid personnel.

Pro:

- o Involves no additional budget outlays.
- o Does not require a new administrative structure to administer.
- o Focuses attention on stimulating employment in the private sector.

Con:

- o Entails extremely high revenue costs. Even with a baseline to calculate additional employees, the effect would be to provide a windfall benefit to em-

ployers for workers who would be rehired as a result of normal recovery from the recession. This approach is highly inefficient in achieving its objective since it is impossible to isolate the additional workers who would be hired as a result of the tax credit at the margin.

- o Would create severe inequities within industries. Firms that have dismissed a large number of employees who rehire them would benefit disproportionately. The program could result in most the least efficient firms who have been forced to lay off a relatively higher percentage of their work force.

Revenue Cost Estimate:

1977	\$4.6 billion
1978	\$8.6 billion
1979	\$12.8 billion

This revenue estimate assumes a lowering of the unemployment rate to 5 percent. The revenue cost has been netted after deducting estimated increased tax receipts generated through the additional economic activity. It does not reflect lower unemployment insurance costs.

Option D: Propose additional funding for CETA, Title I to support expanded work opportunities for youth to engage in a one-year Bicentennial Clean-Up America effort.

The objective of the program would be to provide added jobs for unemployed youth through the existing CETA, Title I program. (Current estimate for FY 1977, \$1.6 billion providing the equivalent of 467,000 full year opportunities for 1,280,000 participants.)

By focusing the additional funding on the work experience part of the CETA Title I program (the equivalent of the old Neighborhood Youth Corps Program) the cost per job could be held to approximately \$4,000 so that an additional 100,000 jobs would cost roughly \$400 million.

Pro:

- o Would provide a visible attack on an acknowledged problem -- high teenage unemployment.
- o The thrust of the program as a bicentennial Clean-Up America effort would make it easier to keep the program temporary and terminate it at the end of one year.

Con:

- o Impacts budget outlays rather than revenues as do the other unemployment initiatives and thus would require budget reductions elsewhere to maintain a \$395 billion spending limit in FY 1977.
- o It is doubtful that we could avoid the incremental funding addition to the CETA "base" in future years.

Budget Cost:

1977 \$500 million

Option E: Propose an employment tax credit effectively reducing the minimum wage to an employer to encourage hiring of workers between the ages of 18 and 22.

This proposal would provide an employment tax credit of \$1.00 per hour worked for new employees between the ages of 18 and 22 added to the work force during 1976 and 1977 who are hired at the minimum wage.

Pro:

- o Would encourage hiring of young workers, an age classification with a relatively high unemployment rate.
- o Is a relatively efficient means of targeting unemployment assistance.
- o Utilizes the tax system and thus does not entail expenditure outlays.

Con:

- o Would likely be opposed by organized labor.
- o Would misallocate resources by encouraging labor-

intensity.

Revenue Cost Estimate:

1977	\$500 million
1978	\$500 million
1979	\$500 million

Decisions

Issue #1: What should be the general approach in discussing unemployment in the State of the Union Message?

Option A _____ Reaffirm your commitment to reducing unemployment through existing programs.

Option B Supplement Option A by proposing in addition one or more new initiatives specifically designed to reduce unemployment.

Issue #2: What additional unemployment initiatives, if any, should be proposed in the State of the Union Message?

Option A _____ Propose tax incentives (accelerated depreciation) for construction of plants and equipment in areas of high unemployment.

Option B _____ Propose tax incentives (accelerated depreciation) for the construction of industrial environmental control and safety equipment and facilities.

Option C _____ Propose an employment tax credit of \$200 per employee per month for all employers who make additions to their labor force above a base level of average employment in 1975.

Option D _____ Propose additional funding for CETA, Title I to support expanded work opportunities for youth to engage in a one-year Bicentennial Clean-Up America effort.

Option E _____ Propose an employment tax credit effectively reducing the minimum wage to an employer to encourage hiring of workers between the ages of 18 and 22.

*original to Chong 12/15/75
per Porter
(copy to State Dept. at
Senior Staff meeting)*

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