ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

January 12, 1976

1.	Proposals to Repeal the Excise Tax on Trucks, Trailers, and Buses	Treasury
2.	Food Deputies Report	MacAvoy
3.	Report on IMB meetings	Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

January 9, 1976

To: Executive Committee
Economic Policy Board

From: Charles M. Walker
Assistant Secretary for Tax Policy

Subject: Legislation proposing the exemption of truck-trailers from 10 percent manufacturer's excise tax

Attached find a staff memorandum, which provides additional information concerning this proposed legislation.

Attachment

Exemption of truck-trailers from 10 percent
manufacturers excise tax

I. The Treasury Department cannot offer any support for exemption of truck trailers from excise tax (the same is true of trucks and truck parts):

1. The President's 1975 highway program announced on July 3, 1975 involves indefinite retention of all taxes going into the Highway Trust Fund--except that 3/4 of the gasoline tax would be transferred to the general fund. Under current law the Fund would end in 1977. Trucks, truck-trailers and truck parts are one source of revenue for the Trust Fund. The complicated aspects of the gasoline tax shift need not concern us at this point.

2. On December 11, 1975, the Ways and Means Committee agreed to extend from September 30, 1977 to September 30, 1979 the Highway Trust Fund and the taxes used to finance the fund.

II. Even if these political acts had not taken place, we could not support repeal as long as the Federal Government has a large and significant highway aid program because:

1. Heavy trucks and truck-trailers even now are contributing less than their share of highway costs as determined by cost allocation studies of the Department of Transportation.

2. User charges cannot be turned off and on for fiscal policy purposes. Fiscal policy has to be limited to general revenue taxes and expenditures.

III. Leaving I and II aside, repeal of the tax on truck-trailers (and trucks) will not have any significant aid in pulling the industry out of the present slump. Trucks and truck trailers are bought for business reasons. When freight hauling falls off, truck and trailer purchases fall off to a greater degree because there is an excess of equipment. Furthermore, in the present instance, truck and truck-trailer purchases were exceedingly large in 1974 because purchasers stocked up to avoid cost increases arising from new brake standards required at the beginning of 1975.

Once freight loadings fall off, truckers are not going to go out and purchase new vehicles until the combination of wear and tear requires replacements. To buy ahead of needs merely because a tax reduction leads to a reduced price (the reduction to purchasers would be about 7 percent in the present case because the 10 percent tax is imposed on the manufacturer's price, not the price paid by the retail customer) would be foolish. Depreciation and interest costs are too heavy to buy equipment to let it stand idle.

The attached table shows that manufacturers' truck-trailer shipments jumped 87 percent from 1971 to 1974 while the index of the volume of freight carried by Class I and II carriers of general freight grew only 25 percent. 1/ (The freight index actually reached its peak in November 1973 while trailer shipments reached the peak in August and October 1974). In October of 1975 the freight index was down 21 percent from its high of November 1973. In the first months of 1975 truck trailer shipments were down 64 percent from 1974.

Truckers obviously have considerable excess capacity as a result of the build-up of purchases in 1973 and 1974, greatly in excess of the growth of freight shipments. Now that freight shipments are down,

1/ The actual growth was slightly more, maybe 30 percent. A change in the method of computing the index beginning in January 1974 destroyed comparability with earlier years.

truck-trailer manufacturers are just going to have to sweat it out as the economy expands. In any case, it is going to be a long time before they get back to anywhere near the 1974 level of production.

Attachment

Comparison of manufacturers shipments of truck-trailers and intercity

freight tonnage of Class I and II common motor carriers of general

freight, 1971-1975

Month	Manufacturers shipments of truck-trailers (units)					Index of freight tonnage of common carriers of general freig				
	1971	1972	1973	1974	1975	1971	1972	1973	1974 1/	1975
							(1967=100)			
January			11,502	15,240	6,581			153.1	168.4	127.3
February			13,410	15,273	5,727			160.1	167.2	128.9
March			14,384	16,854	5,737			166.0	166.4	122.2
April			13,938	15,564	5,871			162.5	159.1	125.2
May			14,268	15,905	6,412			163.4	157.6	123.0
June			13,696	16,339	5,542			162.2	158.5	128.3
July			12,906	14,856	5,233			159.6	154.8	131.2
August			12,997	17,538	4,977			159.3	149.8	138.5
September			12,915	16,521	5,212			162.6	153.2	140.1
October			15,585	17,216				167.7	152.1	137.5
November			14,839	15,950				174.6	144.6	
December			14,201	14,006				170.1	135.4	
Year	102,139	130,029	143,310	191,262		124.5	136.4	163.4	155.6	
			1st. 9 mos.	144,090	51,292					

Office of the Secretary of the Treasury
Office of Tax Analysis

January 6, 1976

Source: Survey of Current Business and American Trucking Association.

1/ Definition of tonnage changed January 1, 1974 from billed tonnage to actual tonnage carried.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

DEC 10 1975

MEMORANDUM TO: The Honorable
L. William Seidman
Assistant to the President
for Economic Affairs

FROM: Charles M. Walker CMW
Assistant Secretary (Tax Policy)

SUBJECT: Proposals to Repeal the Excise Tax on
Trucks, Trailers, and Buses

Attached is a staff analysis of the Rinfret-Boston Associates' brief for repeal of the excise tax on trucks, trailers, and buses. I am also attaching a letter which my Deputy Assistant Secretary wrote on this subject in response to a communication from Mr. Calvin, President of the Truck Trailer Manufacturers Association. We have repeatedly made the case that the overall economic climate rather than the excise tax is responsible for the decline in truck manufacturing output and employment.

I would only add two points to this. One is that the recent change in fuel costs may have been a major contributing factor to the recent decline in motor vehicle production. The other is that the industry concern arises in part because of the extra costs associated with the new brake standards required as of March of this year and that if relief is to be afforded it may be preferable to reevaluate the regulatory requirements rather than repealing the excise tax. The justification for such relief could be stated in terms of timing, that is, that recession, fuel cost changes, and increased regulatory costs are too much to absorb in a short period of time.

We would still maintain, however, that the user charge system should be retained as an important mechanism for financing our highway system.

Attachments

November 24, 1975

Rinfret-Boston Associates
brief for repeal of the excise
taxes on trucks and truck parts

I. Present law

Trucks, truck tractors, truck trailers and semitrailers, and buses are taxed at 10 percent of the manufacturer's selling price.

Parts and accessories for trucks are taxed at 8 percent of the manufacturer's selling price.

Trucks of not over 10,000 pounds gross vehicle weight (light duty trucks) and trailers and semitrailers of not over 10,000 pounds gross vehicle weight suitable for use with light duty trucks are exempt.

The revenues from the taxes accrue to the Highway Trust Fund, but this transfer of revenues is to be discontinued as of October 1, 1977 and the tax rates are to revert to 5 percent in both cases.

Revenues for fiscal 1976 have not yet been reestimated for the new budget, but they will be in the order of $650 million ($500 million for trucks and buses; $150 million for parts and accessories).

II. President's 1975 highway program

The President's 1975 highway program contemplates making the Highway Trust Fund permanent, rather than dissolving it after 1977, while at the same time using the Fund only to finance completion and improvement of the Interatate Highway System. Other Federal transportation aid now furnished from the Trust Fund would be financed from the general fund of the Treasury. These changes in highway financing would involve making permanent all present highway user charges (all but 2 minor items of which are now scheduled to be reduced or repealed in 1977). All user charges now used to finance the Trust Fund would continue to be so used except for 3 cents of the 4 cent gasoline tax which would revert to the general fund. One cent of the 3 cents would be rescinded in any State which raised its gasoline tax by 1 cent a gallon or more.

Revenues for the reconstructed Trust Fund would be about $3.2 billion at fiscal 1976 levels.

III. Rinfret-Boston arguments for repeal of truck taxes

1. The truck and truck parts taxes constituted 12 percent of Highway Trust Fund receipts in fiscal 1975.
2. The taxes fall most heavily on a small number of truck purchases because of the 10,000 pound exemption.
3. Truck operations in areas served by alternate means of transportation are at a competitive disadvantage because of the taxes.
4. Removal of the taxes will stimulate demand for the vehicles (and truck manufacturing employment) which has been drastically reduced by the recession plus the anticipatory buying of vehicles to avoid extra costs associated with new brake standards required as of March 1, 1975.

5. The excise taxes negate any stimulative effect of the investment credit for the truck transportation industry.

IV. Comments

The brief very carefully avoids mentioning why the highway user charges exist, nor does it analyze the effect repeal would have on highway financing, has no evaluation of the effect of repeal on truck sales, and is incorrect as to the relationship of the truck taxes and the investment credit.

1. Since motorists and truckers directly benefit from Federal highway aid, it is considered desirable that they should pay for the highways in user charges. Otherwise, there will be a misallocation of resources to highways (too much or too little) compared to other transportation media. There also is a similar user charge system in effect for the airways (but not the waterways). The highway user charge system is not perfect, however. Contrary to the Rinfret assertions and implications, heavy trucks do not "pay" as much as cost allocation studies show they should, and light duty trucks do pay their allocable share. Furthermore, truckers are favored over railroads in that there are no property taxes assessed against highways, while the railroads pay taxes on their right of way and tracks. Thus, truckers are not at a "disadvantage" when competing with railroads.

2. Repeal of the truck and truck parts taxes would reduce receipts of the restructured Highway Trust Fund proposed by the President by 20 percent. This would require restriction of work on the Interstate System which has been of tremendous value to heavy trucks and intercity buses. But it should also be noted that the tire industry is pushing for repeal of the tire tax, which at $750 million represents another 23 percent of the revenues proposed for the revised Trust Fund.

3. Truck output fluctuates more during a business cycle than output in general because trucks are a capital item. Repeal of the tax, even though it represents about 7 percent of the purchaser's cost of a truck, is not going to have any noticeable effect in offsetting the effect of the cycle on sales. A trucker who has excess capacity is not going to buy an unneeded truck or trailer because prices have been reduced. Truck production will only recover when output in general has expanded. In the long-run, of course, repeal of the taxes would lower trucking costs and give truckers a further competitive advantage over railroads.

4. The excise tax does not offset the stimulative effect of the investment credit. Just the opposite. Since the excise tax was in effect long before the investment credit, the latter helps offset the effect of the excise tax.

In any case, relating the two measures is unjustified. The investment credit lowers the cost of eligible business investment for all industries. The excise tax reflects part of the cost of providing facilities for the trucking industry and helps equalize the competitive position of competing transportation media.

V. Conclusion

The taxes on manufacturers' sale of trucks and truck parts should not be repealed. The taxes are an integral part of the highway user charge system. And user taxes cannot be revised as part of a countercyclical fiscal policy. To do so destroys the objective of a user charge system of allocating costs of specific goods and services to those parties which directly benefit from the expenditures.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

OCT 31 1975

Dear Mr. Calvin:

Your letter of October 2 to Vice President Rockefeller was referred to the Treasury Department, since it is a follow-up to your letter of July 29 which was answered on August 29 by my predecessor, Mr. George S. Tolley.

Our position on repeal of the tax on truck trailers, etc. has not changed since the earlier reply. As Mr. Tolley indicated, we believe that increased general business activity will provide the really effective stimulus to demand for transportation equipment. We realize, of course, that the production of truck trailers has declined significantly, but production of capital goods always declines more than the output of consumer goods during a recession. The converse is true during the upward part of the business cycle, although capital goods production often begins to recover later than the economy in general. The large increase in gross national product during the third quarter of this year indicates that recovery is well on its way, and the output of capital goods subsequently should follow the normal pattern of recovery.

Sincerely yours,

David F. Bradford
Deputy Assistant Secretary

Mr. Charles J. Calvin
President
Truck Trailer Manufacturers
Association
2430 Pennsylvania Avenue, N. W.
Washington, D. C. 20037

MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING
January 7, 1976

Attendees: Messrs. Seidman, Lynn, Greenspan, Gardner, Dunn, Robinson, Baker, Zarb, Cannon, Malkiel, Penner, Porter

1. Implementation of Tax Cuts in 1976

The Executive Committee briefly reviewed a memorandum prepared by the Department of the Treasury on "Implementation of Tax Cuts in 1976." The memorandum reported a substantial reduction in the number of returns with "hypothetical" tax increases under the President's permanent tax reduction proposal.

Decision

Treasury will prepare new tables showing a comparison of tax reductions under the President's proposal and tax reductions from a simple magnification of the recently enacted temporary tax reduction. Treasury will also explore a possible revision in the rate schedules for individuals filing single returns with incomes over $10,000 that would eliminate the "hypothetical" tax increase.

2. Monthly Review of the Economic Outlook

Mr. Malkiel presented the monthly review of the economic outlook prepared by Troika II. The discussion focused on whether the projected increase in real growth represents an appropriate target and on the most appropriate mix of fiscal and monetary policies to achieve the desired level of real growth.

THE WHITE HOUSE

WASHINGTON

January 9, 1976

FOR ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE MEMBERS

The attached Food Deputies Report will be discussed at the Monday, EPB Executive Committee meeting.

The attached letter to Mayor Landrieu re Countercylical will be discussed Tuesday.

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 9, 1975

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR ECONOMIC POLICY BOARD - EXECUTIVE COMMITTEE

FROM: Paul W. MacAvoy

SUBJECT: Food Deputies Report No. 35

WORLD GRAIN SITUATION

This memorandum summarizes and discusses current estimates of world supply consumption and trade of grains and recent changes in these estimates. The basic data are presented in Table 1.

1. Supply

The grain supply picture for 1975/76 is now reasonably well determined, with USDA and private trade sources in essential agreement on the situation. Production in 1975/76 is now projected at 921.7 million metric tons, practically unchanged from a year earlier. This estimate incorporates the recent reduction of the Soviet grain crop to 137 million metric tons, and is consequently about 1.8 percent lower than the preceding (October 31) USDA estimate. Because beginning stocks are about 8 percent lower in 1975/76 than those coming out of the record 1973/74 season, total supply for 1975/76 is estimated to be 8.3 million metric tons (0.8 percent) lower than a year earlier. The only major instances where weather could yet make a difference is with respect to feed grains in Argentina and South Africa. But even if feed grain production should be reduced in these countries as much as 20 percent, world grain supplies would decline by only one-half of 1 percent.

World rice production in 1975/76 is projected at 347 million metric tons, 20 million tons (6 percent) above last year's level which, unlike the case of grains, was already a record crop. The rice estimate has increased 2 percent since October. The large supply is attributable to the past several years of high producer prices, an excellent Asian monsoon, and some increased use of high-

1776-1976

Table 1. World Supply-Demand Balance of Grains and Rice

	1974/75 1/	1975/76 2/
	(millions of metric tons)	
	Total Grains (Wheat, Rye and Feed Grains)	
Supply:		
Beginning stocks	110.6	101.9
Production	921.3	921.7
Total supply	1031.9	1023.6
Demand:		
Consumption 3/	930.0	924.2
Ending stock 3/	101.9	99.4
Total demand	1031.9	1023.6
Trade 4/	125.9	140.4
	Rice	
Supply:		
Beginning stocks	10.4	10.5
Production	326.8	346.9
Total supply	337.2	357.4
Demand:		
Disappearance 5/	325.7	343.7
Ending stocks 3/	10.5	13.7
Total demand	336.2	357.4
Trade	7.5	7.2

1/ Year beginning July 1.

2/ USDA projection as of Dec. 19.

3/ Aggregate of differing local marketing years.

4/ Excludes trade within the EC.

5/ Includes ending stocks of several important producers whose stocks are unknown.

yielding varieties.

2. Demand and Price

The reduction of estimated world grain supplies since October has not increased world and U. S. grain prices. The reason is probably the trade's expectation that the additional Soviet shortfall will not be translated to world demand

There is disagreement on whether Soviet import capacity is nearer 2 million (USDA estimate) or 3 million (CIA estimate) metric tons per month. If capacity is indeed close to 30 million tons for the 15 month July 1975 through September 1976 period, it will constrain the Soviets from adding more than 3 to 4 million tons to the estimated 26 to 27 million tons they have already purchased. Thus the additional shortfall since October may not add to price. On the other hand, if capacity is 3 million per month then the Soviets could buy much more. A large increase could firm up prices.

With essentially fixed supplies, world price movements in the next several months will depend on such changes in demand. If feed use increases faster than expected in response to recent lower grain prices, the demands would increase. Some private sources predict feed grain use higher than currently projected by USDA. If increased feeding materializes together with a drought-reduced Argentine crop, feed grain prices would be likely to increase, although no run-up approaching that of last summer appears in the offing.1/ In contrast to feed grains, wheat demand is not likely to be subject to near-term unexpected increases and the large rice supply should help prevent sharp price increases. Food demand increases with economic recovery are likely in the industrial countries, but because the income elasticity of demand for food, especially food grains, is low demand increases may not be large.

1/ USDA's currently projected consumption of grain would leave world ending stocks at 99.4 million for 1975/76, down 1.5 million metric tons from a year earlier. However, projected ending stocks outside the Soviet Union are up by about 3.5 million tons. These aggregate stock figures are not as meaningful as those for a single crop in a single country because different areas and crops have different harvest seasons. Consequently, there is no date at which world stocks are reduced to anywhere near these levels. Moreover, for many small countries and for the U.S.S.R. and P.R.C., reliable data on stocks do not exist. Therefore, projected ending stocks may not be a good "bottom line" figure for judging the tightness of supplies.

Dear Mayor Landrieu:

As OMB Director Lynn and I agreed when we met at the White House with mayors from around the Nation on July 10, the Administration has carefully reassessed its policy position with respect to the countercyclical assistance proposals now pending before the Congress. As Chairman of the Economic Policy Board, I would like to report to you on that reassessment.

Our evaluation has led us to conclude that we should continue to oppose countercyclical assistance. While we realize that the funds that would be provided to local and State governments meeting the criteria set forth in the proposed legislation would be of substantial benefit to many of them in responding to difficult fiscal situations which they face, we believe that the program's benefits are outweighed by other considerations that pertain to both the impact of the proposal on the national economy and the merits of the way the program is designed to operate.

It is our view that specific Federal actions directed toward achieving economic recovery and mitigating the effects of unemployment provide a better approach toward correcting the fiscal difficulties faced by State and local governments because these actions would ameliorate the underlying reasons for the problems that exist. Federal initiatives, such as extended unemployment compensation and tax reduction, are much more effective in achieving economic recovery than would be setting up a broad, automatic intergovernmental assistance program.

Enactment of countercyclical assistance as a new spending program, in addition to those resources already committed in our attempt to return to economic stability, will still further add to the serious Federal deficits we face this year and next year. At the same time, because changes in the rate of unemployment tend to lag several quarters behind changes in the level of economic activity, use of the unemployment rate as a spending trigger for the program would extend economic stimulation beyond the early stage of recovery, thereby generating or accelerating inflationary pressures.

It is our conclusion the intergovernmental assistance proposals pending in Congress do not deal with the problem they are intended to address as equitably or efficiently as they should. There is always a wide variation in the revenue and expenditure outlook facing individual State and local governments, and the local unemployment rate does not necessarily reflect a jurisdiction's fiscal outlook. Even today, many localities are able to maintain full municipal services without finding it necessary to raise taxes. Under the proposals, however, such local governments would be entitled to receive Federal grants. State-local governments historically have tended to accumulate budgetary reserves in good years to allow them to maintain expenditures (without major tax increases) in bad years. If they no longer need to be as provident because of Federal countercyclical aid, they will raise expenditures in good as well as bad years. The net effect of these programs could, therefore, be an expansion of State and local government spending without much effect on the stability of such spending.

Even with regard to those governments that would need aid to maintain services, sufficient distinction is not made between communities on the basis of either tax effort or tax structure. A State or city with a low income level that taxed its own citizens heavily to maintain services would not get a higher level of benefits than would a wealthier jurisdiction that put forth a relatively lower tax effort.

Other aspects of the countercyclical assistance legislation before Congress also trouble us. For example, the measures would add one more uncontrollable program to the Budget, reducing both the President's and Congress' flexibility. The President is committed to restraining the growth of Federal spending and has advocated a Federal budget of $395 billion for fiscal year 1977. This is a crucial first step toward balancing the budget in three years. With regard to State and local budgetary planning, countercyclical grants would, in many instances, be built into local government-based programs and would place such programs in deficit status when the grants were phased out, to the extent that local revenues did not increase as employment increased.

We are sympathetic to the plight of State and local governments faced with fiscal crisis because of unemployment and recession. We recognize that governments have had to cut services being provided to their citizens and to increase tax burdens in order to respond to conditions that they are facing. At the same time, we do not believe that countercyclical assistance, which could represent nearly $2 billion in new Federal spending on top of the about $60 billion now going annually into grants-in-aid to State and local governments, is a desirable approach to resolve these problems. The funds that would be distributed to individual communities would certainly be of benefit to them. However, because funds would be distributed widely, the proposal would probably not make a critical difference to the fiscal survival of any of them. In contrast, viewing things from the Federal perspective, it is our conclusion that adding to deficit spending could have a very adverse impact on the economic recovery necessary for all segments of our economy, including local governments, to again prosper.

The Administration has already announced its vigorous support for the extension of the General Revenue Sharing program. We believe that this program, which currently provides over $6 billion a year to State and local governments, is effective in providing a reasonable level of general fiscal assistance to governments throughout the Nation. When considered along with categorical and block grants presently going to State and local governments, we feel that the total amount of Federal aid committed under existing programs, more than $60 billion during this fiscal year, is the maximum that we can responsibly provide, given the economic and fiscal conditions we face.

Sincerely yours,

William E. Simon
Chairman
Economic Policy Board

The Honorable
Moon Landrieu
President
Conference of Mayors
1620 I Street, N.W.
Washington, D.C. 20006