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9:00 AM - EPB meeting  
Cabinet Room

Saturday, December 18, 1976

THE WHITE HOUSE

WASHINGTON

December 17, 1976

MEETING WITH THE ECONOMIC POLICY BOARD  
EXECUTIVE COMMITTEE

December 18, 1976

11:00 a.m.

Cabinet Room

From: L. William Seidman

*LWS*

I. PURPOSE

- A. To discuss the economic assumptions for use in the 1978 Budget.
- B. To discuss tax policy issues in preparation for your FY 1978 budget and for your Tax and State of the Union messages.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: At your meeting with the EPB Executive Committee on December 13 you made several decisions on tax policy issues and deferred three decisions until you were able to review the results of the pending economic forecast exercise.

Yesterday, the Troika forecasting group received the Fourth Quarter GNP flash figures and is completing the final refinements on the forecast. An economic assumptions sheet will be completed late this evening and provided you tomorrow morning before the meeting.

A short memorandum summarizing the three deferred issues and providing effects on fiscal year receipts is attached at Tab A. Greater detail is available in the December 11 memorandum which you already have.

- B. Participants: William E. Simon, L. William Seidman, James T. Lynn, Alan Greenspan, Elliot Richardson, W.J. Usery, James M. Cannon, Arthur F. Burns.
- C. Press Plan: White House Photographer.

III. AGENDA

A. Economic Assumptions

Alan Greenspan will review the economic outlook and economic assumptions for use in the 1978 Budget.

B. Tax Policy Issues

Secretary Simon will review the remaining tax policy issues requiring your decision in preparation for your FY 1978 budget and for your Tax and State of the Union messages.

THE WHITE HOUSE  
WASHINGTON

December 17, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Tax Policy Issues

At your meeting with the EPB Executive Committee on December 13 you made several decisions on tax policy issues and deferred three decisions until you were able to review the results of the pending economic forecast exercise.

The three issues you deferred are: (1) Whether to retain or delete the proposal to end withholding on dividends to foreigners; (2) whether to retain or delete the proposed sliding scale capital gains tax; and (3) whether to propose additional tax incentives designed to stimulate private investment. These issues were discussed in the December 11 memorandum which you have.

Modifying Certain Outstanding Proposals to Increase Tax Revenues

	Effects on Fiscal Year Receipts (\$ billions)		
	1977	1978	1979
<u>Proposal to end withholding on dividends to foreigners</u>	0.1	0.2	0.3

Retain \_\_\_\_\_ Supported by: Treasury, Commerce, Domestic Council

Delete \_\_\_\_\_ Supported by: CEA, OMB *Born*

No Comment: Labor

<u>Sliding scale capital gains tax</u>	-0.1	0.6	0.9
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Sliding scale capital gains tax

Retain \_\_\_\_\_ Supported by: CEA, Treasury, Domestic Council

Delete \_\_\_\_\_ Supported by: OMB, Commerce\*

No Comment: Labor

\* Commerce feels should be tied to integration.

Possible Stimulative Investment Measures

Four alternatives to stimulate increased investment are presented for your consideration.

Option 1 \_\_\_\_\_ Advance the dividend deduction feature of the integration proposal.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
2.1	4.9	5.2

Option 2 \_\_\_\_\_ Increase the investment tax credit to 12 percent and to 14 percent on assets with lives of 12 years or more. Permit the full amount of the credit to apply against all income tax liabilities with refundability to the extent it is in excess of current tax liabilities.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
2.1	5.2	5.9

Supported by: Commerce, Labor

Option 3 \_\_\_\_\_ Reduce the top corporate rate 2 percentage points more from 46 percent to 44 percent.

You have already approved reproposing a reduction from 48 percent to 46 percent.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
0.9	2.1	2.5

Option 4 \_\_\_\_\_ Increase the investment tax credit to 12 percent only for assets with lives of 12 years or longer. Permit the full amount of the credit to apply against all income tax liabilities with refundability to the extent it is in excess of current tax liabilities.

Effect on Fiscal Year Receipts (\$ billions)		
1977	1978	1979
1.1	3.1	3.6

Supported by: CEA

Option 5 \_\_\_\_\_ Do not propose additional stimulative investment measures.

Supported by: OMB, Domestic Council

Treasury supports some additional measures to stimulate investment but has no preference for the method of stimulation except that it should include measures to benefit small business. Treasury supports preparing a package of the above stimulative measures at a level of approximately \$4 billion annually.

*Growth*  
Comparison of Forecasts

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>Money GNP</u>						
1977 Budget	1890	2124	2376	2636	2877	N.A.
Mid-Session	1890	2121	2370	2575	2747	N.A.
Case I	1876	2066	2279	2512	2733	2914
Alternative 1 <i>Trinka</i>	1881	2082	2315	2569	2790	2913
2 <i>Bum</i>	1881	2092	2336	2554	2746	2925
3 <i>OMB</i>	1887	2106	2341	2561	2740	2906

<u>Real GNP</u>						
1977 Budget	1332	1411	1503	1600	1679	N.A.
Mid-Session	1339	1418	1508	1575	1634	N.A.
Case I	1334	1396	1464	1545	1625	1689
Alternative 1	1333	1395	1473	1560	1619	1676
2	1333	1400	1483	1551	1605	1662
3	1335	1407	1484	1554	1608	1666

<u>% Change Real GNP</u>						
1977 Budget	5.7	5.9	6.5	6.5	4.9	N.A.
Mid-Session	5.7	5.9 ✓	6.3	4.4	3.7	N.A.
Case I	5.4	4.7	4.9	5.5	5.2	3.9
Alternative 1 <i>Trinka</i>	5.3	4.7 ✓	5.6	5.9	3.8	3.5
1a	6.0	4.1	6.4	5.1	3.5	3.5
2 <i>Bum</i>	5.3	5.2	5.9	4.5	3.5	3.5
2a	6.0	5.1 →	6.3	3.6	3.5	3.5
3 <i>OMB</i>	5.5	5.4	5.5	4.7	3.5	3.5
3a	6.1	5.4 →	5.5	4.0	3.5	3.5

*plenum assumptions, adjusted for change*

*a is 4th/Quarta to 4th/Quarta*





	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
<u>% Change GNP Deflator</u> (fourth over fourth)						
1977 Budget	6.3	5.7	4.7	4.0	4.0	N.A.
Mid-Session	6.0	5.7	4.7	3.6	2.5	N.A.
Case I	5.1	5.2	5.2	4.5	3.4	2.6
Alternative 1	5.8	5.5	5.2	4.4	3.5	2.5
2	5.8	5.5	5.2	4.4	3.5	2.5
3	6.0	5.8	5.2	4.0	3.0	2.1

Unemployment Rate

1977 Budget	6.9	6.4	5.8	5.2	4.9	N.A.
Mid-Session	6.4	5.7	5.1	4.8	4.7	N.A.
Case I	6.9	6.5	6.3	5.7	5.1	4.9
Alternative 1	<del>7.4</del> 7.3	6.7	5.8	4.9	4.8	4.8
2	7.3	6.6	5.7	4.9	4.8	4.8
3	7.1	6.1	5.3	4.9	4.8	4.8

Notes

1. Case I refers to the economic assumptions that have thus far been used for budget planning purposes.
2. In the section, % change real GNP, alternatives 1, 2, and 3 show year-over-year growth while alternatives 1a, 2a, and 3a show fourth quarter over fourth quarter growth.
3. Alternatives 1 and 2 assume that the economy grows at an annual rate of 6.5 percent beginning in the first quarter of 1979. When the unemployment rate reaches 5.0 percent the rate of growth is gradually slowed to the potential rate of growth of 3.5 percent. Alternative 3 assumes that the economy grows at a 5.5 percent rate of growth beginning in the first quarter of 1979.

