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THE WHITE HOUSE
WASHINGTON

TO EPB EXECUTIVE COMMITTEE MEMBERS

The attached paper(s) will be discussed
at a forthcoming Executive Committee
meeting.

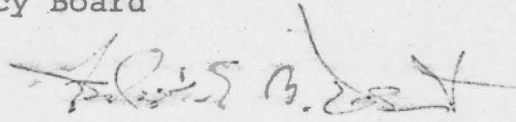


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THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON

17 MAR 1976

MEMORANDUM FOR: The Economic Policy Board

FROM : Frederick B. Dent 

SUBJECT : Trade Policy -- Six Months Projection

Overview

Over the next six months the Administration will be required to make decisions on petitions by some key U.S. industries for remedial trade action under the escape clause, countervailing duty, antidumping, and unfair trade practices provisions of U.S. law. Most of these cases are the result of efforts by U.S. private sector interests to test provisions of the Trade Act of 1974 relating to potential remedial actions.

These potential U.S. actions come at a sensitive time, from both domestic and international points of view. Domestically, the U.S. will be concerned over unemployment, which is expected to remain relatively high despite the modest recovery of the U.S. economy which has been forecast. At the same time, as the U.S. economy proceeds in its gradual recovery, the U.S. trade balance is expected to decline, going from a \$3.8 billion surplus on a CIF basis last year to a possible deficit this year.

The current political and economic situation is even more delicate abroad. The recovery of the major foreign economies is expected to lag behind that of the U.S. economy and this can be expected to make them quite defensive in their reactions to what they perceive as a shift to a protectionist trend in the U.S. This attitude is likely to be reinforced by exchange rate instability of some major currencies.

The convergence of a series of potential U.S. trade actions under U.S. domestic laws and heightened foreign sensitivity is likely to strain international cooperative efforts such as the multilateral trade negotiations in the GATT and the pledge of OECD countries to avoid trade restrictive actions. At the same time, it will be more necessary than ever to achieve positive results in these efforts as an effective demonstration that the world is not going protectionist.

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E.O. 12356, Sec. 3.4.

MR 92-23 #6 NSC 6/24/93

By 1604 NARA, Date 7/29/93

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- 2 -

Trade Act Remedies

The most pressing of our problems during the next six months will be in the area of managing bilateral trade problems addressed under the relief provisions of the Trade Act.

Automobile Dumping Case. By far the largest single case that is pending is the antidumping complaint against all major foreign producers of automobiles, involving \$7.5 billion in U.S. imports. The tentative decision of the Secretary of the Treasury due May 11 is whether foreign producers have sold automobiles in the United States at less than fair value. Before any dumping duties are imposed, the ITC would have to find injury (at the latest by November 11). While any public determinations on May 11 will thus not be final, appraisalment will be withheld, and the decisions will have a sizeable effect on our trading relations. This issue is complicated by the existence of a massive backlog of customs entries which could get caught by an eventual dumping finding, with extremely grave consequences for some manufacturers, however Customs is working on this problem.

Import Relief -- Shoes. The President must decide by April 20 whether to impose restrictions on \$1.1 billion of shoe imports, the largest escape clause case that has been brought. The USITC was unanimous in its finding of injury. The EC is the largest supplier (by value, Taiwan is the largest by volume), with \$380 million in exports to us in 1975. Depending on what kind of relief is given, the impact would fall unevenly on Italy, Spain, Brazil, Taiwan, and South Korea. It has the potential of being a major irritant in our relations with any or all of those countries, not to mention smaller suppliers.

Import Relief -- Specialty Steel. At the same time, we will be attempting to negotiate orderly marketing agreements with the major suppliers of specialty steel, to avoid the imposition of quotas no later than June 14 for three years on \$200 million of trade (primarily from Japan, the EC, Sweden and Canada).

Import Relief -- Other. On February 28, the ITC found affirmatively on an escape clause petition by domestic producers of stainless steel flatware. The President must decide by April 30 whether to provide relief. Imports of \$52 million (1975) are involved. The major suppliers are Japan, Taiwan, and South Korea. On March 17 the ITC is believed likely to find that imports are causing injury to domestic producers of mushrooms (1975 imports \$41 million). The President must, by May 15, make his

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- 3 -

decision as to appropriate action. The next large cases which are coming up are shrimp (1975 imports \$346 million; USITC decision due May 17) and stainless steel wire (1975 imports \$39 million; USITC decision due June 12). Major suppliers of shrimp are Mexico, Panama, India and Equador, and of stainless steel wire are Japan, Sweden, West Germany, and France.

Section 301 Cases. The Trade Act also provides for a new complaint procedure under which U.S. exporters can seek remedial action against unfair foreign trade practices. Cases filed with STR are now pending against many EC agricultural practices, including subsidization into foreign markets in which the U.S. and EC compete, minimum import prices, and other EC agricultural restrictions. It is likely that a case will be filed against the EC's nonfat drymilk mixing regulations that have just been put into effect and are estimated to cause a loss to U.S. soybean exports of approximately \$90 million per year. The EC has so far refused to discuss section 301 cases, rejecting the legitimacy of this process. These cases can be particularly acrimonious due to the very fact that there is Presidential discretion as to how and when to exercise this authority.

Countervailing Duty Law. The implementation of our countervailing duty law, which now has a time limit on Treasury action, is for the first time fully responsive to legitimate domestic complaints against foreign subsidization. It also provides us with a major irritant in our relations with other countries, particularly as we do not require an injury finding as a prerequisite.

There has been a court challenge to a negative Treasury determination in connection with border tax remissions on steel imports from the EC. The broad question of indirect tax rebates is involved. There is also likely to be an appeal to the courts from a negative determination with respect to exports of approximately \$1 billion of electronic products from Japan. There is also a challenge to the Treasury's decisions on the extent to which regional development schemes should be countervailable. Each of these issues are potentially explosive. While court decisions will not be reached for some time, the cases will be a source of continuing concern to our major trading partners.

Another serious problem is a number of countervailing duty decisions (footwear, leather handbags and castor oil) and petitions pending (scissors and shears and cotton yarn) against Brazil. Other petitions may follow. This is the most significant issue

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- 4 -

in U.S.-Brazil trade. A major question in the coming months will be whether the countervailing duty waiver provision will be exercised in some or all of these cases.

International Cooperative Efforts

Multilateral Trade Negotiations. The MTN is in an early stage of the negotiating process, and really hard decisions will generally not have to be made until early 1977. Early decisions will be required, however, with respect to Tropical Products and a general Tariff Cutting Formula.

-- Tropical Products. On March 1, the U.S. offered to cut tariffs on \$1 billion of tropical products imported into the United States, in exchange for appropriate trade commitments by the developing countries. Decisions on a final tropical products agreement will be required in the course of the summer, though the agreement is not expected to be implemented until later.

-- Tariffs. On March 23, the U.S. will table an initial U.S. proposal for an across-the-board tariff cutting formula. Our goal is to achieve international agreement on such a formula within a six month period.

OECD Trade Pledge. During the last two years, the U.S. and other OECD countries agreed to avoid trade restrictive actions to deal with disruptions caused by large oil price increases and world recession. The current OECD trade pledge will expire in May, and a decision will be required on whether or not it should be renewed. Mr. Van Iennep, the head of the OECD, has suggested that restrictive U.S. trade actions are likely to lead to foreign resistance to a renewal of the pledge.

Other Trade Issues

DISC. On March 16, there was the first meeting of a GATT Panel to review a complaint by the EC on the DISC (alleging a violation of GATT rules governing subsidies) and a counter-complaint by the United States against similar tax practices of France, Holland and Belgium. The work program of the GATT Panel will likely involve three or four Panel sessions over the next few months and possibly a finding (to be referred to the Contracting Parties) by the fall. Given domestic industry interest in the DISC, the GATT review will generate considerable interest. If the panel finds that the DISC violates the GATT, there will be a serious inconsistency between U.S. practice and the international rules.

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- 5 -

Jackson - Vanik Waiver. The key Trade Act issue with respect to nonmarket economies during the next six months will be the renewal of the waiver provision of the Jackson/Vanik amendment, which expires on July 4. In the absence of the renewal, it is possible MFN would have to be revoked from Romania, and there would be little possibility under the Trade Act to extend MFN to other communist countries. The President must request renewal of the waiver no later than June 4. This should be given early consideration by the East-West Trade Board, with a recommendation sent to the President by early May. While the extension may be non-controversial, it may also develop into a major political fight affecting our relations with Eastern Europe.

Textiles. The Multifiber Arrangement (MFA) expires on December 31, 1977. Extension of the MFA is strongly supported by the U.S. textile industry and the Administration has decided in favor of seeking renewal. Efforts to build international support for extension of the MFA must begin shortly.

The Peoples Republic of China has a growing export trade in textiles to the United States, particularly in cotton (it is the second largest supplier). This has been a matter of increasing concern to the U.S. domestic industry, the Congress, and to the Administration. At its February 4 meeting the Textile Trade Policy Group agreed that Ambassador Dent should raise the matter with Secretary Kissinger with a view to finding a solution satisfying our domestic interests, our bilateral trade relations with the PRC, and our equity obligations with third countries under the MFA. I have raised the matter by memorandum to Secretary Kissinger and the problem is now under consideration.

Generalized System of Preferences. GSP is now in effect, covering some \$2.5 billion of LDC exports to the United States. The granting or denial can be the subject of public petition, but we are not experiencing any exceptional problems in requests for review of individual items for duty free treatment. An issue that may become significant is whether the Trade Act will be amended to allow the OPEC non-embargoers (primarily Venezuela and Ecuador) to receive GSP.

Palm Oil Imports. Increasing shipments of palm oil to the U.S. has caused concern among U.S. producers and processors of oilseeds, as well as strong Congressional concern. Imported palm oil now accounts for about 8 percent of the U.S. market for edible oils. However, there already exists productive capacity in Malaysia

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and Indonesia, the major producing countries, to double shipments by 1980. Much of this productive capacity has been financed by the international lending institutions, which have derived major financial support from the United States.

Japan: Citrus Fungicide Regulations. Japanese health and sanitary regulations currently prohibit the use of fungicides (TBZ and OPP) which have been utilized on shipments of U.S. citrus to Japan. These fungicides are necessary to inhibit deterioration of the fruit shipped to Japan, and are accepted for use by CODEX. Results from a testing program on the fungicides now underway in Japan are due in May or June. If the GOJ does not approve these fungicides for use at that time, the industry will likely request retaliatory action under Section 301 of the Trade Act of 1974. The U.S. market for fresh citrus in Japan is currently about \$80 million.

EC: Cognac - Poultry. If negotiations with the EC to improve access for U.S. turkey and turkey parts are not completed by June 30, the U.S. will take action to restore the penalty tariff rates on imported cognac. This action, which will require a Presidential proclamation, will exacerbate already tender US/EC relations in the trade area.

Tariff Items 806.30 and 807.00. Under these items, U.S. goods are shipped abroad for further processing or assembling, and the U.S. components are exempted from duty upon re-importation. U.S. labor strongly supports repeal of these provisions. On next Wednesday, March 24, the Administration will be testifying before the Green Subcommittee on items 807.00 and 806.30. On March 17, the Trade Policy Staff Committee agreed on a policy statement supporting retention of these items and opposing the numerous bills which have been introduced to abolish or amend them. The ground for this position is that elimination or amendment of these items will result in a net economic loss for the United States particularly in regard to the number of jobs affected.

U.S. Meat Imports. The U.S. is currently attempting to negotiate voluntary restraint agreements to limit shipments of beef to the U.S. market in 1976. The VRA approach is designed to prevent beef imports from exceeding the trigger level set by the Meat Import Act of 1964. A number of the countries concerned, particularly Australia and the Central American countries have objected to the size of their export allocations, and it is not clear at this time whether negotiation of agreements will be possible. Imposition of quotas under the Meat Import Act would place us in violation of our GATT obligations and have an adverse effect on our efforts to resist protectionism and expand trade through the MTN.

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- 7 -

Relations With Developing Countries. Over the next six months, our relations with LDCs can be expected to be characterized by their increased frustration with what they regard as the rigidities of the international trading import system. The system does not allow the special and differential treatment that they feel is their due. Our longer run solution is to negotiate in the MTN limited special and differential treatment in exchange for the more advanced developing countries accepting increased obligations in the trading system. The increased economic opportunities and the reduction of pressure for import barriers resulting from the expected upturn in the economy may ameliorate, but will not eliminate, this problem.

Conclusion

Despite favorable economic recovery in the United States which is being followed in other economies abroad, the next six months will present a series of persistent trade problems which must be dealt with carefully in order to avoid serious repercussions.

Expanding U.S. imports, and the desire of foreign nations to continue to take advantage of our market as an aid to their economic recovery, should assist us in managing these trade problems.

Monetary conditions will have a strong influence on trade flows and public attitudes toward trade.

In what promises to be a trying period of bilateral trade problems, it is important that the United States continue its strong world leadership for continuing an open and free market oriented trade policy.

Attachment

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PENDING ESCAPE CLAUSE ACTIONS

<u>Product</u>	<u>Final USITC Report Due</u>	<u>Due Date For Presidential Decision</u>	<u>Trade Value (Millions of Dollars, CY1974)</u>
Slide fasteners and parts**	2/18/76	4/19/76	12
Footwear, non-rubber	2/20/76	4/20/76	990
Certain stainless steel flatware	2/28/76	4/30/76	53
Mushrooms	3/17/76		31
Blue pigments	4/2/76		3
Shrimp	5/17/76		387
Round stainless steel wire	6/12/76		47
Certain ceramic tableware	3/31/76	4/31/76*	67 (CY73)

* This is an administrative deadline which would give the president one month in which to decide whether to continue existing escape clause rates.

** Involves adjustment assistance.



PENDING ANTIDUMPING CASES

<u>Product</u>	<u>Secretary of Treasury Final Action Date</u>	<u>Import Value (Millions of Dollars, CY1974)</u>
Butadiene acrylonitrile rubber	3/27/76	.7
Water circulating pumps	5/26/76	.08
Polymethyl methacrylate	6/18/76	2.7*
Acrylic sheet	7/21/76	2.0
Ski bindings	7/23/76	3.0
Bricks	7/23/76	1.8
Automobiles	8/6/76	7,485.5
Knitting machines	8/15/76	2.25
A.C. adapters	10/7/76	5.6
Tantalum capacitors	10/17/76	3.0
Portland cement	11/21/76	3.5
Industrial vehicle tires	12/19/76	.5
Melamine	12/19/76	1.0

* Import value for the period January 1974 to June 1975.

PENDING SECTION 301 CASES

<u>Product or Service</u>	<u>Administrative Due Date *</u>
Shipping Services	1/1/76
Egg Albumen	10/6/75
Canned Fruits, Juices and Vegetables	11/1/75
Malt	1/12/76
Wheat Flour	1/30/76

* There is no legislatively prescribed time limit for processing 301 cases, however STR has administratively set six months as the due date to be consistent with mandated time placed on other types of trade-related complaints.

PENDING COUNTERVAILING DUTY ACTIONS

<u>Product</u>	<u>Due Date of Tentative Decision</u>	<u>Due Date For For Final Decision</u>	<u>Import Value (Millions of Dollars, CY 1974)</u>
Screws	2/17/76	8/17/76	1.9
Glass beads	3/2/76	9/2/76	0.3
Vitamin K	6/26/76	12/26/76	.015
Scissors & shears	*		1.2 (CY75)
Cotton yarn	*		4.7 (CY75)

*Investigation not formally initiated but complaint received.

UNFAIR COMPETITIVE PRACTICES IN IMPORT TRADE
(Section 337)

<u>Product</u>	<u>Final USITC Report Due</u>	<u>Due Date For Presidential Decision*</u>
Convertible game tables and components thereof	4/2/76	
Expanded, unsintered poly- tetrafluoroethylene in tape form	4/3/76	
Chain door locks	4/3/76	
Eye testing instruments incorporating refractive principles **	4/3/76	
Certain electronic audio and related equipment	4/3/76	
Certain hydraulic tappets, II **	4/3/76	
Certain ultra-microtome freezing attachments	4/3/76	
Liquid propane heaters **	4/3/76	
Certain high fidelity audio and related equipment **	4/3/76	
Overlapping digital movements**	4/3/76	
Certain angolan robusta coffee**	4/3/76	
Monolithic catalytic converters	7/24/76	
Glass fiber optic devices and instruments equipped with glass fiber optic devices **	8/27/76	
Record palyers incorporating straight line tracking systems **	9/24/76	

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- * The President has 60 days from the date of receipt of the USITC determination to review and act upon such determination.
** Termination of case expected action.

PRINCIPAL SUPPLIER AFFECTED BY PENDING TRADE ACTIONS

Pending Escape Clause Actions

	Principal Supplier					
	EC	JAP	CAN	KOREA	BRAZIL	SPAIN OTHER
Footwear, non-rubber	x				x	x
Certain stainless steel flatware		x				
Mushrooms				x		x
Blue pigments	x	x				
Shrimp						x
Round stainless steel wire	x	x				x
Certain ceramic tableware		x				x

Pending Section 301 Cases

Shipping services						x
Egg albumen	x					
Canned fruits, juices and vegetables	x					
Malt	x					
Wheat flour	x					

Pending Antidumping Cases

Butadiene acrylonitrile rubber		x				
Water circulating pumps	x					
Polymethyl methacrylate		x				
Acrylic sheet		x				
Ski bindings	x					x
Bricks			x			
Automobiles	x	x	x			x
Knitting machines	x					
A.C. adaptors		x				
Tantalum capacitors		x				
Portland cement						x
Industrial vehicle tires			x			
Melamine	x					

Unfair Competitive Practices in Import Trade

Convertible game tables and components thereof						x
Expanded, unsintered polytetrafluoroethylene-in tape form	x					x
Chain door locks			x			x
Eye testing instruments incorporating refractive principles		x				
Certain electronic audio and related equipment		x				
Certain hydraulic tappets, II						x

EC JAP CAN KOREA BRAZIL SPAIN OTHER

Unfair Competitive Practices in
Import Trade Cont'd

Certain ultra-microtome freezing
attachments

x

x

Liquid propane heaters

x

Certain high fidelity audio
and related equipment

x

Certain angolan robusta
coffee

x

Monolithic catalytic
converters

x

Glass fiber optic devices and
instruments equipped with
glass fiber optic devices

x

Record players incorporating
straight line tracking
systems

x

Pending Countervailing Duty Actions

Screws

x

Class beads

x

Vitamin K

x

Scissors and shears

x

Cotton yarn

x





DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

March 17, 1976

MEMORANDUM FOR THE EXECUTIVE COMMITTEE ECONOMIC POLICY BOARD

SUBJECT: Up-Date on New York City

I. March 15 Monthly Report

The March 15 monthly report, covering the period ending January 31, shows continued steady budget reductions roughly in accordance with the financial plan for fiscal 1976. It should be noted that the plan still calls for annualized expenditure reductions of only \$200 million in fiscal 1976, notwithstanding the \$300 million increase in the deficit estimates. What remains of most concern is the fact that no concrete plans have yet been announced to cover the \$400-\$500 million reductions required in each of the next two fiscal years.

II. Other New York City Matters

The transit workers' contract expires on March 31 and negotiations are currently underway. The Union is demanding a substantial wage and benefit increase and is taking the position that since the Transit Authority is technically a State agency, its employees are not covered by the city employee wage freeze. Needless to say, whether or not this position is factually correct, as a practical matter a substantial wage and/or benefit increase will make it extremely difficult to hold the line on other city contracts which will be negotiated this spring.

Last week, Governor Carey announced the removal of Herbert Elish as Executive Director of the Emergency Financial Control Board, and appointed Stephen Berger, currently State Welfare Commissioner, to the position. Berger is extremely familiar with the finances of New York City since he served as Executive Director of the Rockefeller-created Scott Commission which raised some key warning signals in 1973 and 1974. Berger has a reputation as an honest and tough, if somewhat abrasive, administrator. If, notwithstanding the Governor's public pronouncements regarding stretching

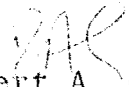
out the financial plan and similar comments by Felix Rohatyn, the Control Board is committed to carrying out the plan, Berger can be an effective force.

In April, New York City will return to the front burner in Congress. Proxmire will hold oversight hearings beginning on April 1. Secretary Simon will be the lead-off witness; Mayor Beame, other City and State officials, and GAO representatives will also testify. On April 6, both the Senate and House Appropriations Subcommittees will hold hearings on the issue in connection with our fiscal 1977 administrative expenses appropriation. Congressman Ashley's Subcommittee of House Banking is expected to hold oversight hearings on or about April 20 (the date the first loan repayment is due).

III. New York State

There is room for optimism with respect to the financing requirements of New York State. The \$2.6 billion State Agency financing package appears to be firmly in place.

With respect to the State's own financing requirements, considerable progress has been made. The legislature is expected to adopt a conservatively balanced FY-77 budget sometime this week. The New York clearing house banks have agreed to provide approximately \$1 billion of the \$2.75 billion to be raised from the private sector. The principal question mark is the \$700 million scheduled to be provided by commercial banks outside of New York State. No formal approaches have been made to these institutions, pending adoption of the budget and the issuance of a State prospectus regarding the offering. An informal contact with the institution expected to take the largest share provides basis for hope, but it is still too early to tell.


Robert A. Gerard
Deputy Assistant Secretary
Financial Resources Policy Coordination

[April 1976]

THE WHITE HOUSE
WASHINGTON

TO EPB EXECUTIVE COMMITTEE MEMBERS

The attached paper(s) will be discussed
at a forthcoming Executive Committee
meeting.





EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: JAMES T. LYNN
MICHAEL MOSKOW

SUBJECT: Inflation Impact Statement Evaluation

Attached is a first year evaluation of the Inflation Impact Statement process. The purpose of this interim report is to evaluate the implementation of the President's policy that agencies consider the economic impact of their actions on consumers, businesses, and governments. Recommendations are proposed to improve second year operations and analytical quality. Major policy and procedural questions have been deferred until December 1976 when the current executive order expires. Postponement of any major modifications will permit agencies to concentrate on the execution of current requirements and will also provide a wider data base of operating experiences from which decisions regarding future efforts can be made.

OMB and CWPS are developing a working plan to guide IIS activity during the second year and to prepare for the evaluation at the end of the year which will lead to recommendations concerning the future of the inflation impact requirement. The working plan articulates CWPS' and OMB's responsibilities for the remainder of this year.

The interim evaluation recommends that CWPS and OMB work with individual agencies to review their procedures for complying with E.O. 11821 and improving the quality of their analyses. To strengthen the monitoring and control function, we also recommend that agencies be required to:

- (a) certify in the Federal Register for regulations or in correspondence to OMB for legislation that proposed actions which do not exceed their criteria have been reviewed and that a full analysis is not required;
- (b) upon request from CWPS, justify briefly why a proposed action is not major; and
- (c) submit copies of Inflation Impact Statements (rather than summaries thereof) to CWPS whenever major rules and regulations are proposed.



Background of Inflation Impact Statement Initiative

The intention to create an Inflation Impact Statement requirement was outlined by the President in a speech to the Congress on the economy delivered on October 8, 1974. The President indicated that he would have all the executive branch agencies analyze the external cost implications of their major actions as a step toward removing inflationary pressures induced by the Federal government.

To execute this policy, the President issued Executive Order 11821 on November 27, 1974. The option to implement the policy with an Executive order was chosen because it could be done quickly and it was believed that it would avoid the problems of litigation associated with legislation (as is the case with Environmental Impact Statements). Also, an Executive order would mandate that the executive branch agencies carry out the policy and would thus carry greater weight than other less formal communications, such as a letter.

The intent of the Executive order was to improve the agencies' consideration of cost impacts in decisionmaking and not to develop a new paperwork and compliance system which would generate perfunctory performance. The specific objectives were to: 1) improve agencies' decisionmaking by having them include indirect cost effects of their actions in the analytical process; 2) reduce Federal government induced cost pressures on the economy; and 3) provide OMB and the Council on Wage and Price Stability with a better tool to review the indirect, off-budget cost effects of proposed rules, regulations and legislation.

The management concept behind the Executive order was to decentralize to the department and agency heads, the responsibility for developing and implementing the effort. This allowed each agency to adopt procedures that would match the nature of their mission and organization and not saddle them with unrealistic or overlapping requirements. Decentralization was also intended to focus responsibility and attention for the implementation of the President's policy on the agencies rather than the Executive Office of the President.

The Executive order delegated responsibility for insuring implementation of the President's policy to the Director of OMB who issued Circular A-107 on January 28, 1975.

The circular provides guidance to the agencies for developing procedures and criteria to analyze the economic impacts of proposed major legislation, rules, or regulations. The decentralization approach was continued in the circular which placed the primary responsibility for implementation largely in the agencies, with OMB and the Council on Wage and Price Stability maintaining a monitoring role. In addition, OMB had responsibility for approving the criteria which the agencies would use in determining whether an action was major and required an IIS. Neither the circular nor the executive order provided any specific mechanisms to assure compliance or a standard level of quality analysis. However, the circular did go beyond the executive order in dealing with compliance by requiring agencies to: (1) certify, whenever the proposal is published or issued, that an analysis had been performed for major actions; (2) submit brief summaries of analyses of proposed rules and regulations to CWPS; and (3) supply OMB with data when requested to determine the adequacy of criteria, procedures, or analyses.

Against this setting, OMB and CWPS staffs devoted most of their available time and effort from February until September 1975 working with the agencies to develop final criteria or exempting those agencies whose regulatory and legislative proposals would clearly not have major economic effects. This required explaining the intent of the initiative to agencies, reviewing and approving proposed criteria, commenting on procedures and reviewing various issues which developed such as public disclosure of analyses.

During this period of establishing criteria, the decisions made on these issues led to a gradual standardization of the process. The most significant effect was the development of consistent government-wide criteria. Agencies in their original drafts had submitted a wide range of criteria. However, OMB and CWPS established minimum benchmark levels for each criterion to assure that any impacts exceeding these levels would be fully analyzed. Agencies in their final submission were permitted to vary from the benchmarks but only if they could provide adequate justification. The result was that most agencies adopted the benchmarks or something very similar. Thus, the implementation of these standards led to almost all agencies adopting common criteria.

As of December, 1975, all 26 participating agencies, with the exception of FEA, had approved criteria. In the first year, 10 of these agencies have performed a total of 91 IIS analyses of which 66 were for proposed rules or regulations. The majority of OMB, CWPS, and the agencies' attention during this period was focused on establishing the process with less effort directed at compliance or the quality of the analysis. As a result most agencies have had limited experience operating with final approved criteria. Many IIS analyses were performed under interim procedures.

A workshop was held on November 7, 1975 in order to reinforce the importance of this Presidential initiative and to review policy and analytical issues involved with the Inflation Impact Statement initiative. Several examples of IIS analysis were presented. Officials from OMB and CWPS discussed the intent of the Executive Order. All participating agencies as well as representatives from the various independent regulatory agencies were invited.

Given this background, an interim evaluation of the effort has been completed. Prior to the expiration of the Executive order on December 31, 1976, a full evaluation will be performed to determine if the Inflation Impact Statement requirements should be extended, and if so, how. This interim evaluation is not intended to and will not address the issue of whether or not to continue the effort. Instead this evaluation focuses on the adequacy of general procedures, the impact the effort has had to date on getting agencies to focus on the economic effect of their decisionmaking, the costs to comply with the effort, and the problems of assuring compliance and high quality analysis. We also consider changes to improve the effort in the next year.

This interim evaluation was performed on the basis of data and information collected through the review of various agency submissions, a written questionnaire sent to agencies on October 23, 1975, direct interviews with key agency staff, and the experiences of OMB and CWPS staff in overseeing the process. While many different issues and areas of concern were raised during the evaluation, this report will focus on the 7 main issues identified during the review.

Criteria

The Circular provided for six areas to be considered in developing criteria: cost impacts and effects on productivity, competition, supplies of important materials, employment, and energy. Benchmark levels to identify major proposals were developed for each criterion. There has been significant time and attention given to the development of criteria as agencies went through the learning process of determining the types of economic effects their operations have and the relationship of these effects to the criteria.

There have been several problems in the effective use of the criteria and their appropriate benchmark levels, including:

1. The almost exclusive use of the cost criterion. This suggests that some of the other criteria may be unnecessary as screening thresholds for analysis. A few of the other criteria, for example, employee productivity and energy supply and demand, are reducible to cost levels.
2. Government-wide benchmark levels that are too high, resulting in very few complete analyses in most agencies. For example, many proposed rules, regulations and legislation are not considered major and hence do not trigger an economic analysis because their cost impacts are less than \$100 million on the national economy. As a result only a few agencies have done more than one or two analyses. There were some agencies, however, that thought the proposed levels were too low and advocated raising the benchmarks. For these agencies, (e.g. FEA and EPA), the inflation impact process has generated many analyses.
3. Benchmark levels for evaluating cost impacts on the national economy and on its component sectors and industries that are not in proportion. The benchmark level for evaluating cost impacts on economic sectors, industries, and government is proportionately far higher than the standard used for evaluating cost impacts on the national economy.

4. Difficulty in the practical application of the benchmark levels for evaluating employment impacts below the national level. It is not clear how an agency would accomplish the apparently endless iterations, e.g., at the state or local government level, necessary to determine the employment impact of a particular proposal with the current criteria benchmarks. Using a standard of 10,000 workers to evaluate the employment impacts upon industries, governments, and sectors of variable size results in biased, inequitable analyses. For example, using the threshold of 10,000 workers at the local government level effectively eliminates many local governments whose total employment levels are frequently far below the criteria.

Staff Recommendations:

We do not recommend major changes to the criteria at this time. Specifically, we suggest:

1. Retaining all six criteria since major structural changes in the IIS program at this stage would impede agency analyses. Retention of all criteria will not create any substantial problems since it seems that most agencies place their major emphasis on the cost criterion. Considerations to change criteria can be made during the evaluation for the December 1976 decision.

Agree _____ Disagree _____

If this recommendation is agreed to, no changes will be required.

2. Retaining present national benchmark levels. Establishing the criteria benchmarks and procedures for implementing the IIS program have consumed much of the past year and, hence, have shortened the time in which agencies have participated in the actual analysis process. Agencies have spent a lot of effort and time in reaching agreements on current levels. Continuation of the current national benchmark standards through the next year will provide a more reliable indication of agencies' experiences. Lowering the national benchmarks at this point in the program would be premature.

Agree _____ Disagree _____

If this recommendation is agreed to, no changes will be required.

3. Working with individual agencies where appropriate to alter the cost and employment benchmarks for impacts below the national level. However, we do not suggest making government-wide mandated changes at this time for reasons stated above. Although revising the cost and employment sector benchmarks might improve their applicability and thus their use in screening proposals, a policy change at this time probably would divert agency attention away from implementation and back to procedures. However, where these two sector criteria present problems for specific agencies, they can be modified.

Agree _____ Disagree _____

If this recommendation is agreed to, no specific action will be required at this time. Under the Procedures Issue section, there is a discussion of a proposed joint CWPS/OMB activity to work with each agency to improve procedures. This effort will include a review of the applicability of these two sector benchmarks in each agency.

Agency Procedures

Although OMB and CWPS do not review and approve agency procedures for complying with the IIS requirements, effective agency practices are essential to success. Therefore, the evaluation staff reviewed this issue and found that procedures for initially screening all proposals and performing the economic analyses for major proposals have been established by all agencies. Policy level personnel have usually been assigned responsibility for final certification of inflation impact statements and review of the analyses accompanying major proposals. Perhaps the only exception is the Department of the Interior where final certification occurs at the bureau level. In this case, the agency's monitoring efforts appear to be weakened and perhaps ineffective.

Although the procedures for program implementation are in place, it is difficult to evaluate how thoroughly most of the agencies review and substantiate the economic effects of non-major proposals since the IIS only accompanies major proposals. There has been an uneven level of agency activity in the inflation impact statement (IIS) process. A recent review of 26 agencies shows that 16 agencies (4 cabinet) have completed no IIS's while the remaining 10 agencies have completed 91 analyses. Even among these 10 the activity is very skewed with EPA having completed 40, or almost half of all analyses. Thus there is in most cases no or insufficient data to judge the procedures. While positive judgments can be made about EPA's procedures, they must be tempered by the fact that they were required by statute to do economic analyses before E.O. 11821 and that 20 of the 40 would have been done without an IIS requirement.

Initial concern that instituting the IIS process would produce costs in excess of benefits appears, thus far, unfounded. There have been no significant workload increases. The only agencies reporting more than 10 major analyses were EPA (40), USDA (15), and FEA (14). Staff costs are expected to be relatively minor. Additional consultant costs are anticipated to be under \$10 million.

The final step in procedural implementation should include submission of the analyses to CWPS and/or OMB. Although the agencies are required by A-107 to notify CWPS and OMB of all major analyses, some have been very slow in doing so. In the case of proposed regulations, the agencies are further required by A-107 to submit summaries of their analyses to CWPS. There have been further delays in the submission of these. This has created problems for the CWPS/OMB staffs in adequately reviewing the analyses and submitting comments during the review period preceding implementation of agency rules, regulations and legislation.

Some serious problems for CWPS have resulted also from inadequate agency public disclosure procedures. Generally, there are no procedures to systematically disclose inflation impact statement analyses to the public or to respond to third party requests for disclosure. Most agencies have not considered the issue and are responding on a case-by-case basis. Thus, the benefits of third party review and comment are not being consistently and fully realized.

The thrust of the entire IIS process has been to inject in the decisionmaking process a more thorough consideration of the economic effects of proposed regulations and legislation. It is difficult to know the decisionmaking impact because of the limited experience in performing analyses. However, it appears that the process, thus far, is not mature enough to have had a significant impact, although it is still too early to evaluate. It is also possible that there will be little evidence of decisionmaking impact if proposals are changed in the planning stage as a result of IIS.

Staff Recommendations:

1. We recommend that the agencies be directed to send their analyses to CWPS at the time a proposed regulation is published, rather than only summaries thereof. This would avoid the delays that result from the current procedure requiring CWPS to ask for the analyses after it has received summaries. Further, this would prevent the additional staff work entailed in preparing a summary of an analysis.

Agree _____ Disagree _____

If agreed, paragraph 5d of the OMB Circular would be amended to require that analyses, rather than summaries, be sent to CWPS at the time that the agency first certifies that it has made an inflation impact analysis.

a. We believe there is no need at this time to seek other major changes in agency procedure, apart from those outlined on page 14. However, we do recommend that CWPS and OMB, under CWPS' leadership, undertake an exploratory effort, directed toward a small sample of agencies, to review and evaluate the specific IIS procedures which these agencies have implemented. One outcome might be CWPS/OMB recommendations to



the heads of these agencies for procedural improvements. Another outcome might be CWPS/OMB sponsored seminars with the agency staffs to develop improved analytical techniques for making inflation impact analyses. Such individual agency evaluations are contemplated for the Department of Labor, the Environmental Protection Agency, the Federal Energy Administration, the Department of Agriculture and the Department of Health, Education and Welfare.

We do not have sufficient evidence at this time to draw any other conclusions about the effectiveness of agency procedures. As agencies gain experience and CWPS and OMB review their efforts, there may emerge patterns that need to be altered. Currently, we believe our primary attention should focus on the CWPS/OMB monitoring and control functions.

Agree _____ Disagree _____

If agreed, the Director of OMB and the Director of CWPS will identify appropriate members of OMB and CWPS staffs to take on the responsibility for organizing and conducting the individual agency reviews.

Legislated Inflation Impact Statements

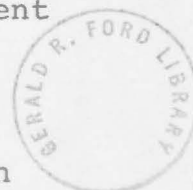
There has been increasing discussion that inflation impact or similar type (e.g., cost, economic) analyses should be legislated. Even prior to the President's Executive order issued on November 27, 1975, there were two bills introduced in the Senate which required that the economic impacts of proposed legislation, rules or regulations be evaluated. Neither Senator Dole's bill (S.4032 - September 7, 1974) nor Senator Humphrey's bill (S.4195 - November 26, 1974) were acted upon in the 93rd Congress. There have been about 25 bills introduced during the 94th Congress requiring some type of economic evaluation of regulatory impacts.

There have been several specific cost or cost related impact requirements included in several authorization bills which have been signed into law. The recently enacted Energy Policy and Conservation Act requires that the CAB, ICC, FMC, FPC, and FAA state the probable impact of "major regulatory action on energy efficiency and energy conservation." The Defense Production Act Amendments of 1975, requires consideration of cost impacts compared to probable benefits of actions taken under the act. The Consumer Product Safety Commission is required by their authorizing statute to perform benefit cost studies of proposed regulations, and several of EPA's statutes require specific economic analysis (e.g., Effluent Guidelines Limitation and New Source Performance Standards for Air).

In light of all of the discussion surrounding legislated statements, it was suggested that the executive branch propose legislation requiring economic impact statements. By proposing a bill, the President could suggest the language and coverage of the bill and, hopefully, not create a new paperwork requirement. Attention would also be given to the problems of disclosure and litigation. Most important, the bill would reach independent regulatory agencies which the current Executive order approach does not.

Staff Recommendation:

Given the limited experience the executive branch has had to date with the IIS under Executive Order 11821, we recommend that no legislation be proposed at this time. As the agencies and the Executive Office of the President gain experience, better judgments can be made about the effort, and if need be, how to best draft a proposed bill. While legislation may put more weight behind issues of disclosure of analysis and procedural requirements, it will also open up the litigation problem (see Litigation Issue). If language



is included in the bill to remove it from judicial review, the proposed legislation would do little more than the current Executive order except to reach the independent regulatory agencies. A bill designed by the Executive specifically to reach these agencies could appear as an attempt by the Executive to limit their independence. If the bill does not include the independents it might do little more than give the impression that the President cannot manage his own Departments.

The staff suggests that legislation should be a key issue in the evaluation prepared for the December 1976 decision on the Executive order. The agencies will have had over a full year of actual operating experience to evaluate. The independent regulatory agencies will have been given ample time to demonstrate their willingness and ability to analyze the indirect cost affects of their actions, as the President requested. With this type of data, if it is decided to extend the IIS effort, a much more informed decision can be reached about legislation and the specifics of a proposed bill.

In summary, nothing is lost and much can be gained by waiting until about October 1976 to make a decision on this issue.

Agree _____ Disagree _____

If this recommendation is accepted, no changes or activities will be necessary at this time.



Litigation

There has been a great deal of concern about the potential of third party suits brought against agencies for failing to comply with Executive Order 11821. It was believed that the Inflation Impact Statement could generate the same legal problems as the Environmental Impact Statement and that some agency activities could be halted by legal actions. This threat had led some agencies to take very legalistic positions regarding IIS. Their responses to the effort were aimed at protecting themselves from court action rather than fulfilling the intent of good economic analyses. The concern was heightened by actual suits brought against the USDA and HEW.

It appeared, based on the Omaha, Nebraska District Court opinion in the suit against the Department of Agriculture (Meatpackers Case), that the courts would review an agency's compliance with IIS as a basis for stopping the agency's regulatory action. However, the Eighth Circuit Court of Appeals has rejected the lower court's findings and has argued that an agency's compliance with Executive Order 11821 is not subject to judicial review.

It is the opinion of the OMB Office of General Counsel that the threat of future litigation has probably been mitigated by the Appeals Court decision. They do point out that this opinion must be adopted by the other circuit courts and is still subject to an appeal to the Supreme Court. However, they believe the Eighth Circuit Court of Appeals' decision will be upheld.

Staff Recommendation:

It appears that the threat of litigation has been removed and that no specific action is needed at this time. The White House Counsel had suggested that one partial step to correct the litigation problem was to change the name of the Executive order from "Inflation Impact Statement" to eliminate the possible connection, in the opinion of the courts, with the legislated "Environmental Impact Statement."

While the staff believes there is reason to change the name in order to better reflect the indirect costs analysis intent of the effort, this is not the time to do so. Without litigation problems at this time a name change will probably result in confusion, offsetting any benefits derived from the change. The time to consider the name change is in December 1976 when the decision to continue the effort must be made.

Agree _____ Disagree _____
 If this recommendation is agreed to no changes are necessary at this time.

Monitoring and Control

The monitoring and control function for the IIS process is divided between the Council on Wage and Price Stability and OMB. Agencies are supposed to notify CWPS of all rules and regulations which have major impacts at the time they are proposed and submit a summary of the analysis to them. CWPS can then review the analysis and make direct comments to the agencies, and if necessary, file as a third party intervener to the rulemaking.

Proposed legislation is to be initially screened by OMB's Legislative Reference Division and then by the appropriate program staff. If a proposed bill has major impacts it should have an IIS certification. If there are questions about the IIS analysis, agencies are supposed to submit detailed analysis. Agencies can be requested to modify proposed legislation if necessary under the standard procedures of A-19.

Since about 75% of all IIS's to date have been for regulations, the major responsibility for monitoring and control falls on CWPS. The problems that currently have been identified are due largely to the fact that agencies do not have to make negative or non-major impact certifications (i.e., that the impact is not major and has not been analyzed), that CWPS is not notified of all proposed rules and regulations, and that there is a large volume of rules and regulations proposed. Thus, if any agency submits a major impact regulation late or fails to submit it at all, CWPS has no way of knowing about it other than wading through the Federal Register (or other sources such as trade journals) and questioning each new proposed rule or regulation that does not have an IIS certification.

OMB, in reviewing proposed legislation, has had problems. When a proposed bill carries no certification, staff must make a judgment as to whether the bill has major impacts and the agency failed to analyze them. In order to assist in reducing this problem, agency heads were requested in a letter on June 3, 1975 from the Director to provide negative certifications on non-major bills. However, LRD reports that very few bills have carried this certification.

The problems of monitoring and control are further compounded by the limited agency experience with IIS. Since many agencies have done only a few or no analyses, there has not been an opportunity to review their efforts and provide feedback. Without the negative certifications, it is difficult to determine how carefully they are screening proposals since OMB and CWPS do not know if the agency is doing anything at all.



The lack of opportunities for feedback has limited CWPS' and OMB's ability to provide comments on quality and to give specific guidance for improvements. Many of the IIS's that have been seen have been long narratives that discuss the proposal but provide little actual cost analysis. But when an agency has done only one IIS, there is no evidence that they understand what is expected.

The split in lead responsibility has generated other problems in monitoring and control. CWPS is not always made aware of major legislative proposals that create regulatory authority.

Staff Recommendation:

We believe that major effort in the next year should be to monitor carefully the agencies' activities and work with individual agencies where problems exist. While there are no explicit control mechanisms, the Directors of OMB and CWPS should be made aware of all significant compliance problems immediately in order that they can take appropriate actions to enforce the Executive order. To facilitate this we recommend the following steps be implemented:

1. Agencies should be required to certify to CWPS and, through the Federal Register, to the public, that the impacts of proposed rules and regulations which do not exceed the benchmark criteria have been reviewed and a full inflation impact analysis is not required. This will also flag to the policy officer the need for meeting an IIS requirement.

Agree _____ Disagree _____

2. To obtain better information on the agencies' screening efforts, assure that large costs which are below agency criteria benchmarks are adequately reviewed, and provide a better indication of what those costs are, agencies should be required to provide on request from CWPS, a brief statement as to why a particular action did not meet the agency criteria and, therefore, did not require a full analysis. This is not a requirement for analysis, and given current workload and costs, should not create any significant burden on the agencies.

Agree _____ Disagree _____

If either one or both recommendations are accepted, it will be necessary to revise OMB Circular A-107 to:

- a. require, for recommendation #1, that agencies certify that a full analysis is not required for each proposed rule or regulation whose impact does not exceed agency criteria; and
- b. require, for recommendation #2, that agencies justify, when requested by CWPS, the decision that a proposal did not require a full analysis.



CWPS' Role in Legislative Review

Part of CWPS' legislative charter is to examine government actions that are contributing to inflation and to comment on them publicly. Presently, OMB, through its legislative review process, has been responsible for evaluating IIS's for major legislative proposals, which account for about one-fourth of IIS activity. The other three-fourths of IIS activity during the past year has resulted from rules and regulations and, therefore, has been under the operational responsibility of CWPS. It would appear to make sense that CWPS should also play a principal role in reviewing legislative proposals in which an IIS has been prepared since this would be a normal adjunct of their mission and well-integrated with their oversight responsibilities with respect to inflationary problems. This could be done by requiring that LRD obtain views from CWPS on all legislative proposals for which an IIS is required.

Staff Recommendation

We recommend that OMB, specifically LRD, obtain the views of CWPS on all legislative proposals which require an IIS.

Agree _____ Disagree _____

If this recommendation is agreed to, the Director of OMB will instruct LRD to obtain CWPS' views on all legislation requiring an IIS.

BRIEF SUMMARY OF RESPONSES* TO EVALUATION

AGRICULTURE: Analysis Completed to Date: Total 15;
Legislative 3; Rules/Regulation 12

- component agencies prepare IIS
- some previous analysis, but not much
- 45 man-weeks involved
- cost impact most important - materials least important.

COMMERCE: Analysis Completed to Date: Total 1;
Legislative 1; Rules/Regulation 0

- responsibility at Assistant Secretary level
- workload projected at 6 man-months.

DOD: Analysis Completed to Date: Total 0;
Legislative 0; Rules/Regulation 0

- responsibility at the Services and division head level, reviewed by Office of Secretary of Defense Comptroller
- internal directives not issued yet, but should be issued shortly pending final approval
- do not anticipate any real activity.

HEW: Analysis Completed to Date: Total 1;
Legislative 0; Rules/Regulation 1

- review at secretarial level
- 1 IIS under preparation (shellfish not major)
- no workload impact
- cost criteria most important
- some analysis prior to IIS.

*These responses were obtained from the agencies' written comments to the October 21, 1975 questionnaire which was followed up by direct verbal communications with 17 of the agencies. They are not intended to reflect substantive evaluations of agency efforts, but rather are to illustrate the activities in each agency.



HUD:

Analysis Completed to Date: Total 2;
Legislative 1; Rules/Regulation 1

- IIS procedures in place; Asst. Sec. for Policy Dev. & Res. certifies each analysis as to procedures followed
- fairly good communication of IIS process; Under Secretary briefed; have had workshop; will issue directive within 10 days on process of identifying as major and accompanying analysis
- limited decisionmaking impact
- resource cost approximately 1-2 GS-13 staff years, but no new staff required yet; will possibly use consultants in future; economists in most offices affected; otherwise Office of Economic Affairs is resource point.

INTERIOR:

Analysis Completed to Date: Total 0;
Legislative 0; Rules/Regulation 0

- responsibility at bureau level with no higher approval or review within department
- no analysis on major impact done but claim significant analysis done to screen non-majors
- can't forecast future resource needs, but expect no real increase if no change to A-107 and criteria
- don't expect any substantive analysis.

JUSTICE:

Analysis Completed to Date: Total 0;
Legislative 0; Rules/Regulation 0

- procedures in place; Office of Policy & Planning certifies analysis
- good communication of procedural requirements
- public notification good
- may possibly have one IIS analysis coming up in connection with LEAA to reexamine criminal justice information systems; cost & competition most significant criteria; they don't expect to use others
- staff resource needs grossly estimated to include approximately 20% of 1 senior official in addition to 1 planner under him; will probably hire 1 economist in near future.



LABOR: Analysis Completed to Date: Total 6;
 Legislative 2; Rules/Regulation 4

- review by Assistant Secretary for Policy Evaluation and Research
- IIS analysis under study
- no evaluation prior to IIS
- 6 persons needed, \$4 million in contracts.

STATE: Analysis Completed to Date: Total 0;
 Legislative 0; Rules/Regulation 0

- responsibility at Assistant Secretary level with review at Deputy Under Secretary - management level
- no "major" analysis expected under current criteria--have screened several non-major actions
- initiative has been fully communicated
- no additional resources needed.

TRANSPORTATION: Analysis Completed to Date: Total 6;
 Legislative 1; Rules/Regulation 5

- responsibility at modal administration level with review at Office of Secretary
- due to prior economic/cost analysis by several administrations do not expect increase in resources; however, litigation and potential litigation may cause real need for increased resources
- effort has been thoroughly communicated throughout department
- report growing interest throughout department in IIS.

TREASURY: Analysis Completed to Date: Total 4;
 Legislative 4; Rules/Regulation 0

- responsibility at Assistant Secretary/bureau head level with review by Office of Secretary
- cost criteria triggered all 4 analyses
- initiative communicated but formal directive held up by an IRS procedures problem which was being resolved
- estimate increased resources of less than 2 . staff years if litigation problem avoided and IRS rulings continue to be exempted.



GSA: Analysis Completed to Date: Total 0;
Legislative 0; Rules/Regulation 0

- responsibility at Service level, reviewed by Assistant Administrator
- no activity to date and don't expect any.

SBA: Analysis Completed to Date: Total 0;
Legislative 0; Rules/Regulation 0

- procedures in place - notification of OMB/CWPS specifically stated; communication of IIS process seems limited to General Counsel's office
- don't expect any criteria to be a problem, especially since they don't see any IIS work forthcoming
- no additional resource needs
- will probably make analyses available to public but have not yet confronted this problem.

OTHER AGENCIES PARTICIPATING UNDER E.O. 11821

The following agencies have approved criteria in place. Most responded to the written questionnaire indicating no IIS activity with little or no expectation of any. None reported doing any IIS analysis.

Equal Employment Opportunity Commission
Export-Import Bank of the United States
International Trade Commission
National Aeronautics and Space Administration
Panama Canal Company
Renegotiation Board
Tennessee Valley Authority
Veterans Administration
Water Resources Council



THE WHITE HOUSE
WASHINGTON

April 1, 1976

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MEMORANDUM FOR THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Establishment of an EPB Task Force
on Small Business

On February 12, 1976, the President designated Michael Kobelinski, the new Administrator of the Small Business Administration, as a member of the Economic Policy Board. At that time he expressed his desire that this appointment would "help ensure small business participation in the formulation of our economic policies." On January 26, 1976, the EPB Executive Committee requested the Department of Commerce to develop a set of possible initiatives that could be taken to assist small businesses within the current budgetary restraints. The Department of Commerce and the Small Business Administration have prepared the memorandum attached at Tab A in response to that request.

The broad range of potential initiatives identified by the Department of Commerce and the Small Business Administration suggests the usefulness in creating an interagency task force to evaluate and further refine these possible initiatives for consideration by the EPB Executive Committee.

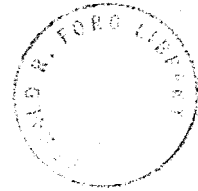
There is also a need for an interagency mechanism to more closely monitor for the EPB Executive Committee developments and trends in the small business community.

Recommendation:

In order to monitor small business activities on a regular basis and to evaluate and further refine potential policy initiatives to assist small businesses, I recommend that the EPB Executive Committee establish a Task Force on Small Business.

The Task Force would be chaired by the Administrator of the Small Business Administration and would include representatives, at the Assistant Secretary level or higher, from the Departments of Treasury and Commerce, the Office of Management and Budget, the Council of Economic Advisers, the Domestic Council, and the office of the Assistant to the President for Economic Affairs.

The Task Force would be directed to undertake as its first principal assignment a thorough evaluation of the initiatives outlined in the attached memorandum and to prepare a paper on their findings for consideration by the EPB Executive Committee the week of May 3.



EPB

Juice and Coffee and the GNP— The Men Who Meet in the Morning

Under the leadership of Simon and Seidman, the Economic Policy Board has evolved into possibly the most important Administration coordinating body.

BY DANIEL J. BALZ

It's 8:35 on a Wednesday morning and in the Roosevelt Room in the West Wing of the White House, William E. Simon, the Secretary of the Treasury, has just been given a tall glass of iced orange juice. He sits at the head of a long, polished table. From the room's south wall, three portraits of the Roosevelts—two of Teddy and one of FDR—stare down at the men around the table.

On Simon's right sits L. William Seidman, the assistant to the President for economic affairs. On Simon's left is Sidney L. Jones, the assistant secretary of the Treasury for economic policy. Along the sides of the table sit senior officials from the Departments of State, Labor and Commerce, the Office of Management and Budget, the Council of Economic Advisers and the Council on International Economic Policy. The southwest door of the room opens and Alan Greenspan, the chairman of the Council of Economic Advisers, walks in. He hesitates momentarily, looking for a chair near Simon, then takes up a position at the opposite end of the table, directly below the cream-colored fireplace mantle. The meeting is under way.

On almost any weekday morning, the scene is the same. This is the executive committee of the Economic Policy Board, and it is part of the daily routine in the White House. Anyone who wants to influence economic policy in the Ford Administration wants to be in this room at 8:30 every morning.

Dominance: The Economic Policy Board is only 18 months old, but in that time it has become a dominant part of the White House decision-making process, perhaps the most important coordinating body in the Ford Administration. It cuts a wide swath in the

White House, edging over now and then onto the turf of the Office of Management and Budget, eclipsing some of the functions of the Domestic Council, pulling into its fold some of the responsibilities of the National Security Council.

Its members have been faced with some of the severest problems the country has experienced in decades—the worst economic slump in 40 years, double-digit inflation, 9 per cent unemployment, the virtual collapse of the nation's largest city, a growing shortage of energy resources, the threat of starvation in parts of the world. These are the kinds of problems that these men (there are no women on the executive committee) have wrestled with day in and day out. Seidman, the board's executive director, said the group has been "unusually active, at the eye of the storm," which is not quite an apt metaphor. Only recently has there been relative calm.

The Economic Policy Board is a creature of the Ford presidency, established to help him make orderly economic policy. "People find that it is an effective way to have their views presented," Seidman said. "And it is the way the President wants to have things presented." The board has mastered the coordinating function. Papers move efficiently from the agencies through the board to the President. Whether economic policy is sounder because of the board is something even its members cannot answer.

The meeting: Even when he is just listening and dragging on a cigarette, Simon is in charge of the meetings. "Bill Simon runs a good meeting," an Administration staff member said. "Any meeting he chairs has pace and a sense of humor."

Simon is now listening to a presenta-

tion from another Administration economist. Most of the others around the table sit quietly. Simon asks most of the questions, and many of his comments show that his commitment to the market economy is as firm within the confines of the White House as it is when he acts as the Administration's chief economic spokesman.

Seidman is more reserved than Simon, but he carries a kind of quiet clout with him during the sessions. It is Seidman more than anyone else there who brings "the President" into the discussions. The President would like to know this, the President would like to know that. We should get this put together for our meeting with the President, Seidman says.

Greenspan shows a sense of humor during the sessions, but more than that, demonstrates why his reputation as a careful, thoughtful economist has been enhanced by his time in Washington. He is to the point when he speaks, and while not everyone understands his explanations, they all listen.

Regular contact: Seidman, in an interview, said that one ingredient that has been important to the success of the group "is that it is a regular, high-level forum." The daily meetings help to establish working relationships among Cabinet officials, allow representatives of one agency to hear the boss of another agency explain his or her own views of a problem. The social intercourse, the daily half hour when officials know they will find their counterparts from other agencies, helps grease the wheel of policy making.

But morning meetings of White House economists are not new; they stretch back into the Administration of President Nixon. What Simon and Seidman have done with the Economic Policy Board is to institutionalize those

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MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

April 30, 1976

Attendees: Messrs. Seidman, Lynn, Greenspan, Richardson, Baker, Scowcroft, Cannon, Zarb, Tyler, Schmults, Dixon, Parsky, Gorog, Porter, MacAvoy, Katz

1. Arab Boycott

The Executive Committee reviewed the Arab boycott issue. The discussion focused on the status of pending congressional legislation, the current public position of the Administration, the substantive and psychological impact of additional legislation, and the alternative courses of action available to the President.

Decision

The Executive Committee agreed that a paper should be prepared on the Arab boycott issue for review with the President. NSC will prepare a draft options paper for the President for review by Executive Committee members next Monday.

2. Task Forces to Reduce Waste and Inefficiency in Government Regulation

The Executive Committee reviewed a memorandum from Messrs. Cannon and Seidman on "Task Forces to Reduce Waste and Inefficiency in Government Regulation." The discussion focused on the ad hoc nature of the proposed task forces, the objectives of the task forces in producing results within the next six months in classifying and speeding up the regulatory process in Executive departments and agencies, and the particular areas of the Executive Branch that the task forces would initially concentrate on.

Decision

The Executive Committee approved the recommendation to establish a number of short-term task forces to reduce waste and inefficiency in agency operations in the next six months. The memorandum on this issue will be submitted to the President.



J. - Should not be in yellow folder

Teach

Teach

EYES ONLY

2

3. Review of Maritime Policy

The Executive Committee agreed to consider the paper reviewing maritime policy at a later Executive Committee meeting.



EYES ONLY
RBP