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Economy - Budget *RL*



N-13

Economy: News

CBO Offers 'Cautious Good News'

The Congressional Budget Office offered "cautious good news" on the economy, saying the inflation rate will not increase appreciably and unemployment will continue to decline through 1977, but not very rapidly.

CBO Director Alice Rivlan said (on CBS film): "The recovery is going well. Moreover, the recovery appears to us to be sustainable at least through the end of 1977 without major bottlenecks of the sort that appeared in 1973-74 and without a foreseeable re-escalation of inflation."

Dr. Rivlan said she expects:

- An unemployment rate of 6.9 to 7.3 percent by the end of the year, and from 5.8 to 6.4 percent by the end of 1977.
- A rise in the inflation rate of 5 to 7 percent for the next year and a half, roughly the same as the 5.5 percent rate during the first year of recovery. The consumer price index will rise 4.7 to 6.7 percent in 1977.
- A rise in the Gross National Product, adjusted for the effects of inflation from 5 to 6.5 percent during the remainder of the year and from 4.5 to 6.5 percent during 1977.
- A gradual rise in short-term interest rates.

She conceded that the CBO's predictions were surprisingly like the Ford Administration's. She also said the credit for the solid, though not too rapid recovery could be divided between the White House, which held down inflation, and the Congress, which provided more stimulus than the Administration wanted. CBS -- (8/2)

Administration: News

WH Denies 'Open-Ended Arms Sale'

The White House said Monday the U.S. does not have any "open-ended arms sale" permitting a foreign country to buy unlimited amounts of U.S. weaponry.

Ron Nessen made the statement after a Senate Foreign Relations Committee staff report was released by Sen. Hubert Humphrey asserting that the U.S. had "no control" over sales of weapons to Iran.

Humphrey said (on CBS film): "There was a breakdown in the policy controls of our own government both in Congress and in the executive branch. So what we are learning now is that we have to be much more careful. When you sell armaments, you've got to remember that you are also involving the U.S. in basic national security policy. And that's what the Middle East poses for us today."

The State Department also denied the committee's charges, saying the sales were periodically reviewed at the highest level before being approved, CBS reported. CBS -- (8/2/76)

Economy

THE WHITE HOUSE
WASHINGTON

November 5, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON *Jmc*
SUBJECT: Response to Congressman Jack Kemp

Attached for your signature is a letter responding to Congressman Jack Kemp's concerns about the flow of Federal funds to the Northeast.

This letter has been cleared by Bob Hartmann's office.



THE WHITE HOUSE
WASHINGTON

Dear Jack:

Thank you for your letter of September 24, 1976, with your suggestions for a Presidential Commission to ascertain bias in Federal distribution formulas.

First of all, let me assure you that I share your deep concern about this subject. Secretary Coleman and Bill Seidman have recently met with the Council of Northeastern Governors and discussed the economic problems of the northeast. Domestic Council staff members have met with representatives of many organizations to review the northeastern economy and to specifically discuss distribution formulas.

In addition, the Department of Commerce is giving financial support to the Council for Northeast Economic Action which is being organized to address the Northeast's job and income problems. The Council will establish a permanent means of focusing on the economic problems of the Northeast and will review existing economic studies on that region and identify gaps in the knowledge about the region's economic problems. It will also consider such economic issues as tax structures, transportation, energy, Federal funding and changes in the industrial base of the Northeast.

Given these actions currently underway, I am deferring the establishment of a Presidential Commission at this time. However, I very much appreciate your proposal to solve a problem which requires the attention of all levels of government.

With best wishes,

The Honorable Jack Kemp
House of Representatives
Washington, D.C. 20515



September 29, 1976

1976 SEP 30 PM 3 26

SECRETARIAT
COP

Dear Jack:

This will acknowledge receipt and thank you for your September 24 letter to the President outlining your proposals for revitalization of the economy in the Northeast.

Please be assured I shall call your letter promptly to the attention of the President and the appropriate Presidential advisers. I know your recommendation for Federal participation through the appointment of a Presidential Commission will be fully reviewed.

With kindest regards,

Sincerely,

Charles Leppert, Jr.
Deputy Assistant
to the President

The Honorable Jack Kamp
House of Representatives
Washington, D.C. 20515

bcc: w/incoming to Wm. Seidman for DIRECT REPLY - ASAP
bcc: w/incoming to Alan Kranowitz, OMB, for your information

CL:JEBLVO:rg

4
JACK KEMP
38TH DISTRICT, NEW YORK

COMMITTEE:
APPROPRIATIONS

RANDAL TEAGUE
ADMINISTRATIVE ASSISTANT

LOU ROTTERMAN
EXECUTIVE ASSISTANT

Congress of the United States
House of Representatives
Washington, D.C. 20515

9-27
WASHINGTON OFFICE:
132 CANNON HOUSE OFFICE BUILDING
AREA CODE 202: 225-5265

DISTRICT OFFICE:
1101 FEDERAL BUILDING
111 WEST HURON STREET
BUFFALO, NEW YORK 14202
AREA CODE 716: 842-6876

ED RUTKOWSKI
DISTRICT REPRESENTATIVE

September 24, 1976

President Gerald R. Ford
The White House
Washington, D.C.

Dear Mr. President:

Throughout your Administration, you personally and many members of your Cabinet have met with Governors, state and local officials, and representatives of the private sector from the Northeast States about ways to restore the economy of that region. Those efforts are deeply appreciated.

Few objectives could be of greater importance to the American people than the revitalization of the Northeast economy. Nearly half of the Nation's people and industry are in the Northeast States. There is truly a national stake in solving this problem. Your awareness of this has been a substantial motivation to the departments and agencies of the Federal Government.

The most important assignment which lies ahead of us in the next few months is to get a firm grasp on the exact nature of the problems peculiar to the Northeast. To the extent that those problems have been characterized as Northeast versus "the-rest-of-the-country" struggles, both the problems and the solutions to them have been obscured.

Bringing clarity to this issue cannot be done solely at the regional and State levels. It will require the cooperation we have been receiving from the Federal Government to continue and be expanded.

In an address before the Associated Industries of New York this weekend in Lake Placid, New York, I intend to call upon the Governor of New York to convene an emergency meeting between the New York State Congressional Delegation and the majority and minority leadership of the State Senate and Assembly and principal local officials, to develop a joint strategy for reducing the high tax rates which

discourage business activity in New York State. This will require New York State to examine its programs and policies to an extent it has never done before.

I am making it clear to the Associated Industries and to the Governor that only when we make New York State more competitive, not only with the Sunbelt but also with the other States within the Northeast to which industries and people are moving, will we fully restore our economy.

I am also outlining a three-step State-level effort. The State has to reduce costs to the taxpayers, and it cannot do that by simply trying to shift those costs up the line to the Federal Government or down the line to the local governments. The burdens on the taxpayers would remain the same. The legislature must next examine every existing program from the vantage point of State and local cost sharing, then determine what percentages ought to be changed while maintaining a total cost reduction. Those two tasks must be part of the strategy, but the revitalization depends on restoring incentives for job-creating businesses to stay in New York and for those now in other areas to come to the State. This must mean a reduction in both individual and business tax rates.

It is crucial that the Federal Government accelerate its efforts during this same period. To that end, I am requesting that you appoint a blue-ribbon Presidential Commission to ascertain the biases in all Federal grant-in-aid, revenue sharing, and other formulae, whether those biases benefit the Sunbelt or the Snowbelt, and to tell us how the various types of Federal programs -- defense, social services, differing transportation modes, etc. -- create advantages for different regions. I believe the Commission should be appointed at the earliest date. Now would not be too soon. The Commission should consist of professionals -- lawyers, accountants, statisticians -- who will give us accurate information. Their task should be limited to analyzing present policies, and the formulation of recommendations should be left to the Executive and Legislative branches. The Commission should complete its final report no later than June 30, 1977, nine months from now, with no extensions granted. This will give us the specific knowledge we must have, Mr. President, to address this problem through remedial policies and legislation.

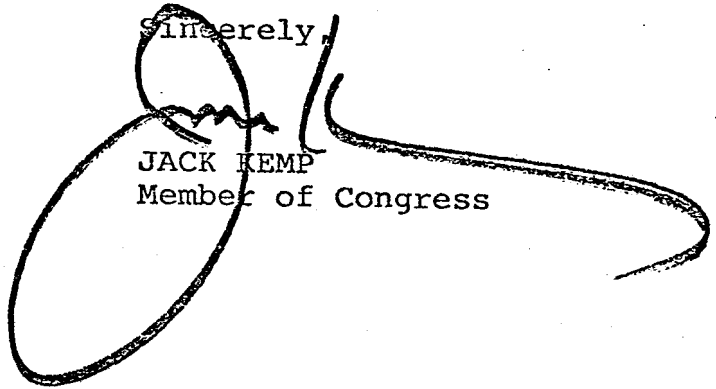
As I said at the outset, all the country has an interest, nationally and regionally, in helping to restore the economy

of half its people and industry that are located in the Northeast. There are mutual interests abounding in solving this problem, for it does not have to be a win or lose situation. It can be one through which every region gains.

I hope you can move forward with this proposal during the next few days.

With best regards, I am

Sincerely,



JACK KEMP
Member of Congress

JK:rt

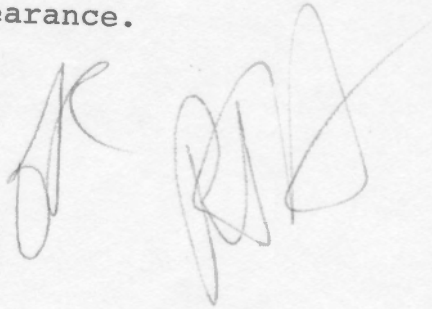
THE WHITE HOUSE
WASHINGTON

Nov. 5, 1976

Mr. Hartmann:

Jim Cannon sent this down
for clearance.

Neta

Handwritten signature and initials in pencil. The signature appears to be "Neta" and the initials are "JK".



U.S. DEPARTMENT OF COMMERCE

October 14, 1976

To : Art Quern

From: John W. Eden

A handwritten signature in black ink, appearing to read "John W. Eden", is written over the name in the "From:" line. The signature is stylized with a large loop.

As I promised, attached are materials relating to the Council for Northeastern Economic Action.

Attachments



THE WHITE HOUSE

WASHINGTON

October 13, 1976

MEMORANDUM FOR ART QUERN

FROM: ROGER PORTER *RP*

SUBJECT: Jack Kemp Letter

In a recent letter to the President, which was sent to us by Congressional Relations, Jack Kemp recommended that the President appoint a "blue-ribbon Presidential Commission to ascertain the biases in all Federal grant-in-aid, revenue sharing, and other formulae," etc. When I showed the correspondence to Bill Seidman he said that he thought the Domestic Council was the most appropriate place to handle a response. I apologize for the lateness to getting this correspondence to you and would appreciate knowing what you think of it and how it gets handled.

Attachment

retyped

DOMESTIC COUNCIL

FROM:

Congressman Jack Kemp

SUBJECT:Anti-Northeastern bias in Federal
programs.

----- Date: -----

COMMENTS:

No response ever went to Kemp from
either you or the President. Do you want
to send a response at this point?

A.

-----
ACTION:Date:

THE WHITE HOUSE

WASHINGTON

October 26, 1976

MEMO FOR: JIM CANNON

FROM: ALLEN MOORE

SUBJECT: Presidential letter to Jack Kemp
re: anti-Northeastern bias in
Federal distribution formulas.

You asked that the letter drafted for your signature be modified for the President's signature.

Art has raised the question of whether or not the President will be able to sign it. Because of the lack of time, and the possibility that Kemp may "use" the issue, Art thinks you should consider calling Kemp directly . . . and/or re-drafting the letter for your signature.



DOMESTIC COUNCIL

FROM:

Art Quern

SUBJECT: Response to letter from Congressman
Jack Kemp

COMMENTS:

Kemp requests the establishment of a
Presidential Commission to ascertain
regional biases in Federal aid
programs.

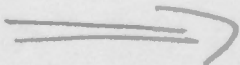
Quern: Kemp needs some kind of pro-Northeast
indication and I believe this response
is appropriate.

Friedlesdorf will call JMC-
should the Pres. sign letter?



6:20 pm
10/21/76

ACTION:



Yes 6:30 pm

Date:

THE WHITE HOUSE
WASHINGTON

October 18, 1976

*Prepare
for Pres. sig.*

Dear Jack:

Thank you for

with your

The President has asked me to review your letter of September 24, 1976, and its suggestions for a Presidential Commission to ascertain bias in Federal distribution formulas.

First of all, let me assure you that I share your deep concern

As you know, this is an area of deep concern to this Administration. Secretary Coleman and Bill Seidman have recently met with the Council of Northeastern Governors and discussed the economic problems of the northeast. ~~Arthur Guern of the Domestic Council have met with Dr. James M. Howell, chief economist of the First National Bank of Boston, and representatives of other organizations to review the northeastern economy and to specifically discuss distribution formulas.~~

In addition, the Department of Commerce is giving financial support to the Council for Northeast Economic Action which is being organized to address the northeast's job and income problems. The council will establish a permanent means of focusing on the economic problems of the Northeast and will review existing economic studies on that region and identify gaps in the knowledge about the region's economic problems. It will also consider such economic issues as tax structures, transportation, energy, Federal funding and changes in the industrial base of the northeast.

Given these actions currently underway, ~~we would defer~~ *I am deferring the* establishment of a Presidential Commission at this time. However, ~~if these actions do not prove adequate, I will most certainly consider additional measures to solve a problem which requires the immediate attention of all levels of government.~~

With best wishes,

Sincerely,



James M. Cannon
Assistant to the President
for Domestic Affairs

*very much
appreciated
proposal*

The Honorable Jack Kemp
House of Representatives
Washington, D.C. 20515

*about this
subject.*

*staff
members*

COUNCIL FOR NORTHEASTERN ECONOMIC ACTION

FACT SHEET

On October 6, 1976, the United States Commerce Department announced its intent to support the newly formed Council for Northeastern Economic Action. The Council will bring together public and private sector leaders from the Northeastern region to formulate a program of relevant research and policy coordination in order to develop solutions to pressing regional economic problems.

Why is a Council for Northeastern Economic Action necessary?

There has emerged in the Northeast an ongoing pattern of interaction among public officials -- Federal, State, and local -- which can accurately be labeled a "regional political process." The participants in this process, whether based in Washington or in the region, want and need relevant, usable information for devising public policies which are truly responsive to the Northeast's economic needs. But while the quantity of research undertakings on the economic problems of the Northeast continues to grow, there is little evidence that this research subsequently becomes useful and finds its way into the policymakers' hands. A Council for Northeastern Economic Action will help to close this ever-widening research/policy gap.

What will be the overall agenda of the Council?

The agenda of the Council can be divided into two distinct phases. The first phase is a relatively short (six-month) program development stage that will lay the foundation for establishing an institutional mechanism to assure a significant flow of usable economic policy information to senior regional governmental decision makers. The Council will also develop a work program for this new regional instrumentality that more precisely addresses the economic needs of the Northeast. During the second phase, it is anticipated that this institution, representing a coalition of public and private leaders in the Northeast, will be established and funded, and the work program conceptualized in Phase I will be undertaken.

Who will serve on the Council?

The Council -- which will function as a steering committee during Phase I -- will consist of representatives of government, industry, labor, and finance. Although the full membership of the Council has not yet been determined, the members who have been named are: James M. Howell, Senior Vice President and Chief Economist of The First National Bank of Boston (Chairman of the Council);



Congressman Michael J. Harrington (D-Massachusetts), Chairman of the Northeast/Midwest Economic Advancement Coalition; Congressman Frank Horton (R-New York), Vice Chairman of the Northeast/Midwest Economic Advancement Coalition; Kenneth M. Curtis, former Governor of Maine (Democrat); Michael D. Dingman, President and Chief Executive Officer of Wheelabrator-Frye, Inc.; Betty L. Tianti, Connecticut State Labor Council (AFL-CIO); William H. Wilcox, Secretary of the Pennsylvania Department of Community Affairs; Amory Houghton, Jr., Chairman of the Board, Corning Glass Works; Warren M. Anderson, President Pro Tem and Majority Leader of the New York State Senate; Kenneth H. Olsen, President, Digital Equipment Co.; Arthur J. Holland, Mayor City of Trenton, New Jersey; Earl F. Hord, Senior Vice President, Dollar Savings Bank (Pittsburgh); and William Donaldson, Dean, School of Management and Public Affairs, Yale University.

How will the Council differ from other recently formed regional groups?

The Council will not be another organization; it will not be a lobbyist group; it will not replace any group. Instead, it has been created to strengthen and coordinate the efforts of existing groups. Specifically, it will work with groups such as the Northeast/Midwest Economic Advancement Coalition, the Council of Northeastern Governors, and the Northeastern Legislative Caucus, developing an agenda of research that these ongoing organizations can translate into legislative and administrative action at both the State and Federal levels.

What are the primary tasks of the Council?

The Council will work with the staff of the EDA of the Commerce Department in selecting an organization or organizations to carry out two separate tasks:

- Task 1: An organizational study, which would take into account the recent emergence of parallel coalitions of government officials, consisting of
- an analysis of the need for a permanent institution to consider the problems of the Northeast,
 - identification of alternative organizational structures, and
 - presentation of recommendations concerning the function of such an institution and its organizational structure.



Task 2: A state of knowledge review preparatory to future actions, consisting of

- an examination of past and ongoing research and planning on the needs and problems of the Northeast that is directed toward an identification of the gaps in knowledge, and
- recommendations concerning areas that merit priority attention.

The Council will receive the products of these tasks and determine the actions to be carried out in Phase II. During Phase II, an institution to address the problems of the Northeast on a continuing basis will be established and funded with private and public support, including EDA, and other governmental and private foundation funds.

When will the Council's work begin?

The Council will hold its first meeting in New York City in late October, at which time its structure will be formalized and its research program developed. While the members of the Council will provide overall direction and guidance, the day-to-day work program will be carried out by the Council's professional staff in its Boston and New York offices.

UNITED STATES DEPARTMENT OF **COMMERCE** **NEWS**

WASHINGTON, D.C. 20230

OFFICE
OF THE
SECRETARY

G-76-206

FOR RELEASE ON RECEIPT

James Register (202) 377-5113

RICHARDSON PLEDGES
SUPPORT FOR COUNCIL
ON NORTHEAST ECONOMY

Support for the Council for Northeast Economic Action, which is being organized to address the mounting job and income problems of the northeast region of the nation, was pledged today by Secretary of Commerce Elliot L. Richardson.

Formation of the Council was announced by Dr. James M. Howell, senior vice president and chief economist of the First National Bank of Boston, who will serve as chairman of the Council.

The Council will include representatives of government, industry, labor and financial institutions from the northeast.

Richardson said the Commerce Department's Economic Development Administration will provide financial and staff support to the Council.

John W. Eden, Assistant Secretary of Commerce who heads EDA, said the agency expects to provide more than \$500,000 in grants to support the organization's program. He said an application for approximately \$140,000 is being processed to assist the Council with administrative expenses. Eden also expects to provide about \$400,000 to help the Council establish a permanent institution representing public and private interests and to sponsor research relevant to the region's needs.

(more)



"We anticipate that this new institution will bring together regional decision makers in a collaborative process that will lead to public policies which are more responsive to the economic needs of the northeast," Richardson said.

The Council is expected to hold its initial session this month.

In addition to the establishment of a permanent institution to focus on the economic problems of the northeast, the Council will review existing economic studies on the region and identify gaps in knowledge about the region's economic problems. It will consider such economic issues as tax structures, transportation, energy, Federal funding and changes in the industrial base of the northeast.

#

US COMM DC 66701-25
10-6-76

Economics

THE WHITE HOUSE

WASHINGTON

November 10~~6~~1976 11 PM 5 47

MEMORANDUM FOR

THE EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARDFROM: WILLIAM F. GOROG *WFG*

SUBJECT: Update of Selected Economic Statistics

1. Money Stock Measures

	M	(%Change)	M
Change in September from	<u>1</u>		<u>2</u>
June 1976	4.1		10.3
March 1976	5.5		9.9
September 1975	4.3		9.7

2. Total Industrial Production (Real Terms, seasonally adj.)

(Index: 1967 = 100)	Index	% Change
September 1976	131.3	-
August 1976	131.3	+0.5
July 1976	130.7	+0.5
June 1976	130.1	+0.4
May 1976	129.6	+0.9
April 1976	128.4	+0.2
March 1976	128.1	+0.6
February 1976	127.3	+1.3

(September 1975 - September 1976) +7.5

3. Retail Sales (Current dollars, seasonally adj.)

Total:	\$ Billions	% Change
October 1976	54.06	-1.0
September 1976	54.60	+0.1
August 1976	54.53	+1.4
July 1976	53.75	-0.4
June 1976	53.98	+2.1
May 1976	52.87	-1.5
April 1976	53.70	+0.7

(October 1975 - October 1976) +8.0

11/11/76

4. Housing Starts and Building Permits (Seasonally adj.)

Starts (annual rates):		Units	% Change
September	1976	1,814,000	+11.4
August	1976	1,542,000	+11.6
July	1976	1,382,000	-8.5
June	1976	1,510,000	+6.2
May	1976	1,422,000	+4.0
April	1976	1,367,000	-3.5
March	1976	1,417,000	-8.4

(September 1975 - September 1976) +39.1

Permits (annual rates):			
September	1976	1,433,000	+10.6
August	1976	1,296,000	+6.7
July	1976	1,215,000	+5.7
June	1976	1,150,000	-0.7
May	1976	1,158,000	+7.0
April	1976	1,082,000	-4.6
March	1976	1,188,000	-

(September 1975 - September 1976) +31.0

5. Employment and Unemployment (Seasonally adj.)

Civilian Labor Force (CLF): Millions of Persons - 16 yrs.+ -

October	1976	95.34
September	1976	95.20
August	1976	95.49
July	1976	95.33
June	1976	94.64
March	1975	91.88
December	1974	91.64

Employment:

October	1976	87.77
September	1976	87.82
August	1976	87.98
July	1976	87.91
June	1976	87.50
March	1975 (low)	84.11
December	1974	85.05

Unemployment:

	Millions of Persons	% of CLF
October 1976	7.57	7.9
September 1976	7.38	7.8
August 1976	7.51	7.9
July 1976	7.43	7.8
June 1976	7.14	7.5
May 1975	8.25	9.0
December 1974	6.59	7.2

Unemployment:

Heads of Households:

		(% of Group)
October	1976	5.4
September	1976	5.4
August	1976	5.2
July	1976	5.4
December	1975	5.7
May	1975	6.1
December	1974	4.6

6. Manufacturers' Shipments and Orders (current dollars, seasonally adj.)

Total Shipments:	\$ Billions	% Change
August 1976	94.48	+0.6
July 1976	93.91	-0.4
June 1976	94.24	-0.1
March 1976	93.05	+2.3

Total Inventories:

August 1976	152.74	+0.6
July 1976	151.82	+0.6
June 1976	150.91	+1.2
March 1976	148.15	+0.6

Total New Orders:

August 1976	95.00	+0.2
July 1976	94.80	-0.8
June 1976	95.60	-0.2
March 1976	93.39	+3.5

7. Consumer Price Index

All Items - 12 mos. previous to:	% Change
September 1976 (+0.4% for month)	+4.8
August 1976 (+0.5% for month)	+5.6
July 1976 (+0.5% for month)	+5.4
June 1976 (+0.5% for month)	+5.9
March 1976 (+0.2% for month)	+6.1
September 1975	+7.8
June 1975	+9.3
March 1975	+10.3
December 1974	+12.2

8. Wholesale Price Index

All Commodities - 12 mos. previous to:			% Change
October	1976	(+0.6 for month)	+3.5
September	1976	(+0.9 for month)	+3.9
August	1976	(-0.1 for month)	+4.0
July	1976	(+0.3 for month)	+4.9
June	1976	(+0.4 for month)	+5.4
March	1976	(+0.2 for month)	+5.4
September	1975		+6.3
June	1975		+11.6
March	1975		+12.5

9. Gross National Product (constant 1972 dollars)

Change from previous Quarter:			% Change
Third Quarter	1976		+4.0
Second Quarter	1976		+4.5
First Quarter	1976		+9.2
Fourth Quarter	1975		+3.3
Third Quarter	1975		+11.4
Second Quarter	1975		+5.6
First Quarter	1975		-9.9

10. Real Spendable Earnings

12 Months previous to:			% Change
September	1976		-0.8
August	1976		-0.4
July	1976		+0.5
June	1976		-0.2
March	1976		+4.5
December	1975		+3.8
September	1975		+1.6
June	1975		+0.2
March	1975		-4.6

11. Personal Income (current dollars, seasonally adj.)

Annual Rate:	\$ Billions	% Change
September 1976	1,392.2	+0.5
August 1976	1,385.5	+3.4
July 1976	1,380.8	+0.8
June 1976	1,370.4	+0.6
March 1976	1,341.9	+0.8
December 1975	1,308.2	+13.4
December 1974	1,153.3	-

12. Composite Index of Leading Indicators

Change from previous month:

	<u>% Change</u>
September 1976	-1.7
August 1976	-1.7
July 1976	+0.3
June 1976	+1.1
May 1976	+0.7
April 1976	+0.4
March 1976	+0.9
February 1976	+0.5
January 1976	+1.2





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Economics

176 DEC 7 PM 3 57

DEC 6 - 1976

Honorable James A. Rhodes
Governor, State of Ohio
Columbus, Ohio 43215



Dear Jim:

This is in response to your letter of October 12, 1976, regarding the proposed formula to be used by the Economic Development Administration in distributing funds under the Local Public Works Capital Development and Investment Act of 1976.

I am aware that the Department of Commerce and the Economic Development Administration have proposed to use both the number of unemployed persons and the unemployment rate in determining State by State distribution of these funds. After having considered many options, including the one you suggest, the Department felt that its formula was the most equitable for addressing the objectives embodied in the Act. We did review the Commerce formula and saw no reason to ask the Department to reconsider their decision.

Since the final decision in this matter was that of the Department of Commerce, I am asking that they provide you with a more detailed explanation of the reasons for selecting the proposed formula.

Sincerely,

(Signed) Jim

James T. Lynn
Director

cc: Department of Commerce
James Cannon, Domestic Council

DOMESTIC COUNCIL

FROM:

ROBERT HOLLAND, CED

Reconomy

SUBJECT:



CED POLICY STATEMENT ON ECONOMIC STRATEGY

Date: 12/15

COMMENTS:

The attached statement was sent for your reactions.

It has now been published and is neither particularly creative nor controversial. Its lack of newsworthiness reflects the decline in impact suffered in recent years by the CED.

The letter to you is basically a form letter. Paul L. sees no reason to respond -- especially since the statement was published about the same time we received it.

A. J. L.

ACTION:

Date:



December 15, 1976

976 DEC 15 PM 5 46

The Honorable James M. Cannon
Assistant to the President for
Domestic Affairs
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D. C. 20500

Dear Mr. Cannon:

As part of a broad strategy to achieve a lasting economic expansion, the Research and Policy Committee of the Committee for Economic Development is calling for prompt action to stimulate the economy, preferably through a permanent tax cut for consumers and business.

At the same time, the committee sees an urgent need to harmonize short-term stabilization measures, such as a tax cut, with the longer-range objectives of stable prices and an adequate budget surplus at high employment. In my view, the need for a clear and coherent program that combines short-run actions with longer-term structural measures has not been sufficiently emphasized in recent public statements about the economy.

Our recommendations are contained in the enclosed policy statement, The Economy in 1977-78: Strategy for an Enduring Expansion. A list of the members of the Research and Policy Committee appears on the first two pages of this statement. Their affiliations are noted on pages 12-15.

I urge you to give careful consideration to this report. I would be most interested in your comments and I would be happy to bring together a group of CED trustees to discuss it with you at your convenience.

Sincerely,

Robert C. Holland

Enclosure

RCH:elm

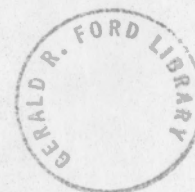
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December 15, 1976

976 DEC 15 PM 5 46

The Honorable James M. Cannon
Assistant to the President for
Domestic Affairs
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D. C. 20500



Dear Mr. Cannon:

As part of a broad strategy to achieve a lasting economic expansion, the Research and Policy Committee of the Committee for Economic Development is calling for prompt action to stimulate the economy, preferably through a permanent tax cut for consumers and business.

At the same time, the committee sees an urgent need to harmonize short-term stabilization measures, such as a tax cut, with the longer-range objectives of stable prices and an adequate budget surplus at high employment. In my view, the need for a clear and coherent program that combines short-run actions with longer-term structural measures has not been sufficiently emphasized in recent public statements about the economy.

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Robert C. Holland

Enclosure

The Economy in 1977-78:



Strategy for an Enduring Expansion

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UNTIL DECEMBER 17**

**A Statement on National Policy
by the Research and Policy Committee
of the Committee for Economic Development**



December 1976

Responsibility for CED Statements on National Policy

The Committee for Economic Development is an independent research and educational organization of two hundred business executives and educators. CED is nonprofit, nonpartisan, and nonpolitical. Its purpose is to propose policies that will help to bring about steady economic growth at high employment and reasonably stable prices, increase productivity and living standards, provide greater and more equal opportunity for every citizen, and improve the quality of life for all. A more complete description of the objectives and organization of CED is to be found in the back of the book.

All CED policy recommendations must have the approval of the Research and Policy Committee, a group of trustees whose names are listed on these pages. This Committee is directed under the bylaws to "initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce to the attainment and maintenance" of the objectives stated above. The bylaws emphasize that "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic

group." The Committee is aided by a Research Advisory Board of leading social scientists and by a small permanent professional staff.

The Research and Policy Committee is not attempting to pass judgment on any pending specific legislative proposals; its purpose is to urge careful consideration of the objectives set forth in this statement and of the best means of accomplishing those objectives.

The Program Committee of the Research and Policy Committee served as the drafting committee for this report. The full Research and Policy Committee participated in drafting the findings and recommendations. Members of both committees have the right to vote to approve or disapprove the statement and to submit individual comments for publication.

Except for the members of the Research and Policy Committee and the Program Committee, the recommendations presented herein are not necessarily endorsed by other trustees or by the advisors, contributors, staff members, or others associated with CED. Contents approved effective December 9, 1976.

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THE ECONOMY IN 1977-78: Strategy for an Enduring Expansion

No more urgent and important task awaits the new President and Congress than the establishment of policies that will foster determined progress toward sustainable high employment without inflation. The only dependable road to achieving this objective is through an orderly and enduring expansion.

Clearly, it will take time to develop detailed and workable programs for coping with the nation's long-term economic problems. But this Committee sees an urgent need to make clear the broad goals and directions of economic stabilization policies for 1977 and 1978. The American people need to be assured that the President, Congress, and all the government's economic policy-making bodies will pursue a coherent strategy for promoting healthy, noninflationary, and sustainable economic growth while simultaneously taking direct measures to attack special unemployment problems.

The strategy we recommend in this statement is derived from principles developed by CED's Research and Policy Committee over the past thirty years and most recently in our policy statement *Fighting Inflation and Promoting Growth*. We believe they provide a solid framework for shaping sound and practical economic stabilization policies.

BUILDING CONFIDENCE

Business and consumer confidence is the key to restoring the economy to a steady upward course. Uncertainty about national economic policies and prospects has become a major factor inhibiting the spending and investment decisions and future plans of both business executives and consumers. We need strengthened consumer confidence to provide the markets required to bolster economic growth. And we badly need more investment in productive capacity in order to be able to generate the added jobs and products that the economy will call for in the years to come.

Confidence-building efforts deserve to be high on the priority list of the new administration and Congress. Assurance is needed, in particular, that short-term stabilization measures will be taken to foster an adequate recovery and that such measures will also be fully compatible with the longer-range objectives of stable prices and an adequate budget surplus at high employment.

We also believe that as a part of the effort required to dispel uncertainties, business and labor need assurance that they will not face the threat of wage and price controls. We therefore welcome the recent announcement by the President-elect that he will not seek standby authority to impose such controls. Even the anticipation of wage and price controls can seriously impair investment incentives, trigger precautionary price and wage increases, and lead to increased pressure for more extensive government involvement in market decisions.

ATTACKING INFLATION AND UNEMPLOYMENT SIMULTANEOUSLY

Some uneven progress has been made in bringing down inflation and unemployment from their record levels of recent years, but both remain intolerably high. The cost in wasted resources, lagging productivity, social inequities, and economic distortions is more than the nation should be asked to endure. *We believe that the tasks of conquering inflation and achieving high employment are not mutually exclusive. They can and must be attacked simultaneously and with the greatest possible determination, even though it must be recognized that success can come only gradually.*

A new layer of complexity has been added by the increasingly close linkage of the world's economies. An enduring economic expansion in the United States cannot take place without a sound world economic recovery. In turn, such a recovery is vitally dependent on a healthy domestic economy in the United States and also in the other major industrial nations. *We believe, therefore, that the three strongest trading partners — the United States, West Germany, and Japan — need to take the lead in a concerted effort to shape harmonious policies that will promote enduring world economic expansion while assuring maximum freedom in international trade and financial transactions.*

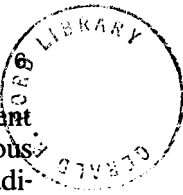
A major element in such an effort should be the achievement of a rate of expansion in real incomes and output that is vigorous enough to stimulate higher productivity growth and needed additions to capacity but not so rapid that it causes the economy to overheat. **This Committee believes that for the United States a rate of increase in real gross national product (GNP) that averages in the neighborhood of 6 percent during much of the next two years is a realistic growth target for making headway both in reducing unemployment and in winding down inflation. Fiscal and monetary policies should be geared to fostering such a growth rate.** Of course, as the economy moves closer to full utilization of resources, a slower growth rate will become appropriate.

According to most indicators, the nation's economic advance has slowed prematurely during the last half of 1976. Capital investment is not moving forward as vigorously as had been hoped, growth in industrial production has flattened, consumer buying has leveled out, and federal outlays have fallen short of budgeted totals. **To enable the economy to reach the recovery target cited, we believe further moderate stimulative action is required promptly to bolster demand.** However, more information about the actual state of the economy and the prospective trend in government outlays will be needed before a clear decision can be made about the particular amount of stimulus required.

But improved demand management policies alone can move the economy only partway toward the simultaneous attainment of high employment and price stability. If the nation is to make satisfactory progress toward these goals, demand policies must be complemented by a wide range of structural measures, many of them pinpointed to the industrial, population, or geographic sectors where the problems of unemployment, low productivity, or capacity limitations are most serious. Such structural measures are as important as fiscal and monetary policies for achieving our economic goals.

KEY ELEMENTS OF A STRATEGY FOR ORDERLY EXPANSION

A sound strategy for fighting inflation, reducing unemployment, and promoting growth will have to include a number of elements. Some of these will have a prompt impact. Other key elements will yield their beneficial results only over a longer span of time but nonetheless deserve early attention.



Actions with a prompt impact

1. The extra stimulus that the economy requires should as far as possible be provided by fiscal measures that can be instituted quickly, produce prompt results, and do not entail a significant long-term drain on the nation's fiscal resources.

2. As the principal method of injecting extra stimulus, we strongly favor broadly based tax reductions, both for consumers and for business. Our preference is for a permanent reduction rather than a temporary tax cut or a one-time tax rebate. The assurance of permanence, we believe, can do more to reduce uncertainties, instill confidence in the future, and thereby promote greater private spending. If permanent reductions in tax rates are properly designed, they need not mean permanent revenue losses because they will generate substantially higher taxable incomes than would otherwise have been realized. Among the types of measures that deserve consideration in this connection are an increase in the personal exemption, an enlarged per capita tax credit, a rise in the investment tax credit to a permanently higher level, and improved depreciation allowances.¹ The size and timeliness of the initial impact of the tax change could be accentuated as much as needed by making the change effective as of January 1, 1977, and possibly even partially or fully applicable to 1976 returns. At the same time, we recognize that there can be a case for combining more permanent tax cuts with temporary tax reductions or a rebate in order to hold down the size of future revenue drains and achieve prompter results.

3. To minimize the danger of overdoing fiscal stimulus and to foster long-term budgetary discipline, budget and other fiscal policies should be developed within a multiyear framework. Restraint must be exercised in launching new federal programs with a potentially large inflationary impact. Any stimulative measures used for short-term stabilization purposes must not be allowed to

¹Although these measures are permanent, their net drain on revenues should diminish as time passes: in the case of personal income tax cuts, as a result of the fact that rising money incomes will move taxpayers into higher brackets; in the case of lower business taxes, through the stimulative effect of the cuts on investment and, hence, on incomes and tax receipts. In determining the design of any permanent tax reductions, account must, of course, also be taken of the facts that a number of temporary reductions in personal taxes from 1974 levels are now in effect but are scheduled to expire at the end of 1977 and that the present 10 percent level of the investment tax credit is effective only through 1980.

overshoot their mark and cause excess demand inflation. Expenditure programs chosen to provide extra demand stimulus should generally be of a type that contains built-in safeguards to assure that the programs will be automatically phased out as high employment is approached. Nor do we believe that recent unintended shortfalls in government spending should be offset by a forced effort to spend extra federal funds in a hurry. Instead, extra expenditures should, as much as possible, be concentrated in carefully considered programs that represent productive investments in the country's material and human resources. With proper forethought, such programs can be kept largely temporary in nature and yet be productive in the longer term. Examples are programs to speed the improvement of deteriorated railway roadbeds or to provide the unemployed and underemployed with training in those skills that will be needed to sustain economic growth.

4. Monetary policy should not be expected to substitute for a responsible fiscal policy; rather, it should be designed to accommodate a responsible fiscal policy. In general, we believe that the larger adjustments for stabilization should be accomplished through the tools of fiscal policy rather than monetary policy. We also believe that monetary policy, apart from accommodating the added fiscal stimulus we are recommending, has moved about as far toward ease as is productive under current circumstances.

Medium- and longer-range measures

1. Responsible fiscal and monetary policies must be blended with a range of structural measures. These structural measures should, in particular, be designed to reduce especially high rates of unemployment within the inner cities and among the young, old, and disadvantaged and to strengthen incentives and remove harmful disincentives for engaging in productive work. A CED subcommittee is currently studying in detail constructive and innovative approaches toward increasing useful employment and training opportunities for these groups, particularly in the private sector. It is also vitally important to hold down cost inflation by promoting increased productivity and competitiveness in both product and labor markets and to encourage additions to productive capacity in the energy field and other areas in which the long-term needs for capacity growth are especially urgent.

2. Stabilization strategy must give greater weight to encouraging productive capital investment. The long-run solution to overcoming inflation lies as much in increasing supply as in restraining excessive demand. Past policies have given insufficient attention to supply and capacity problems. Only through adopting policies that promote more vigorous growth of capital investment can the nation be assured of the added industrial capacity and increased productivity that are required to avoid future supply bottlenecks and minimize cost inflation.

COPING WITH CONTINGENCIES

The strategy for assuring favorable economic growth must make provisions for the unexpected. But steps to deal with contingencies ought not to be adopted on an ad hoc and uncoordinated basis. They should be part of an integrated strategy for reconciling short-term stabilization needs with efficient longer-term resource allocation.

In this statement, we have placed particular stress on the near-term need to provide added demand stimulus to assure an adequate and lasting recovery. However, while dealing with the more immediate risk of flagging growth, policy makers must also remain alert to the danger that inflationary supply pressures may emerge in key sectors sooner than is now widely anticipated, either because there may be less capacity than has been estimated or because the overall rate of demand expansion might become more rapid than the one we have advocated.

There are also the risks that renewed inflationary shocks might be exerted on the U.S. economy through external influences or that upward cost-push pressures might become much more substantial than current trends suggest. The latter situation might develop if a pattern of relatively moderate average wage increases should give way to a widespread and aggressive push for large wage settlements. If such a combination of forces should impel a new wave of inflation, that unhappy event would need to be opposed by appropriate countermeasures.² We believe that a continuing mechanism for voluntary business-labor cooperation, such as a strengthened high-level national Labor-Management Committee,

²For a detailed discussion of various measures to deal with inflation, see our July 1976 policy statement, *Fighting Inflation and Promoting Growth*.

can do a good deal to foresee and forestall possible new inflationary pressures.

As general guiding principles for contingency planning, we recommend the following:

1. Deviations from a steady longer-term course should be adopted only if there is strong reason for making such a change.
2. Once the need for providing significant extra demand stimulus or restraint is clearly established, flexible adjustments in both fiscal and monetary policies should be made promptly but within the discipline of a stable long-term growth strategy.
3. If government expenditure programs are chosen to provide some of the extra stimulus, they should generally contain mechanisms to ensure that the programs will be automatically phased out as high employment is approached.
4. Supply-demand and wage-price relationships in particular industries should be carefully monitored so that potential inflationary pressures stemming from such factors as materials and capacity shortages or industrial disputes can be anticipated at a sufficiently early date to permit timely efforts by the government and private firms to avert or ease such pressures.

CONCLUDING COMMENT

The policy strategy that we have outlined has two essential ingredients. First, it calls for early recognition of emerging problems and timely action to cope with these problems. In this connection, there is a major need for better information, including improved statistical measures more closely related to policy options.

Second, it emphasizes the importance of keeping short-, medium-, and long-run effects of current policies in proper perspective. Policy makers must remain constantly aware that the steps they adopt today will have wide repercussions whose precise nature and timing are often difficult to foresee. They need to retain a healthy understanding of the fact that in our complex and interdependent society, fostering a sound, noninflationary recovery remains an extraordinarily difficult task. At best, government policies can only encourage a healthy, noninflationary and broadly distributed economic expansion; they cannot guarantee it. What the American people can fairly ask is the best performance of which public policy is capable.

Objectives of the Committee for Economic Development

For three decades, the Committee for Economic Development has had a respected influence on business and public policy. Composed of two hundred leading business executives and educators, CED is devoted to these two objectives:

To develop, through objective research and informed discussion, findings and recommendations for private and public policy which will contribute to preserving and strengthening our free society, achieving steady economic growth at high employment and reasonably stable prices, increasing productivity and living standards, providing greater and more equal opportunity for every citizen, and improving the quality of life for all.

To bring about increasing understanding by present and future leaders in business, government, and education and among concerned citizens of the importance of these objectives and the ways in which they can be achieved.

CED's work is supported strictly by private voluntary contributions from business and industry, foundations, and individuals. It is independent, nonprofit, nonpartisan, and nonpolitical.

The two hundred trustees, who generally are presidents or board chairmen of corporations and presidents of universities, are chosen for their individual capacities rather than as representatives of any particular interests. By working with scholars, they unite business judgment and experience with scholarship in analyzing the issues and developing recommendations to resolve the economic problems that constantly arise in a dynamic and democratic society.

Through this business-academic partnership, CED endeavors to develop policy statements and other research materials that commend themselves as guides to public and business policy; for use as texts in college economics and political science courses and in management training courses; for consideration and discussion by newspaper and magazine editors, columnists, and commentators; and for distribution abroad to promote better understanding of the American economic system.

CED believes that by enabling businessmen to demonstrate constructively their concern for the general welfare, it is helping business to earn and maintain the national and community respect essential to the successful functioning of the free enterprise capitalist system.

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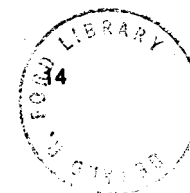
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IDEP	Institut de l'Entreprise <i>6, rue Clément-Marot, 75008 Paris, France</i>
経済同友会	Keizai Doyukai (Japan Committee for Economic Development) <i>Japan Industrial Club Bldg. 1 Marunouchi, Chiyoda-ku, Tokyo, Japan</i>
PEP	Political and Economic Planning <i>12 Upper Belgrave Street, London, SW1X 8BB, England</i>
SNS	Studieförbundet Näringsliv och Samhälle <i>Sköldungagatan, 2, 11427 Stockholm, Sweden</i>

Memoranda of Comment, Reservation, or Dissent

Page 4, by EDWARD R. KANE, to follow sentence ending "practical economic stabilization policies"

Although I am in substantial agreement with the statement, I do have a serious reservation about the target of 6 percent real increase in the nation's GNP for two additional years. This is higher than now seems within our grasp, and it would be inappropriate to adopt near-term stimulative measures to force such a growth rate over this period of time. Furthermore, this seems to conflict with the concluding statement that "Policy makers must remain constantly aware that the steps they adopt today will have wide repercussions whose precise nature and timing are often difficult to foresee."

There is also, throughout the statement, a note of urgency about the various recommended actions. Although I agree that present problems call for some stimulus, I think it must be applied in an orderly fashion. The economy is basically sound, and the facts do not indicate the need for extreme or drastic action.

Page 4, by J. W. VAN GORKOM, to follow sentence ending "practical economic stabilization policies"

This statement offers the same broad, general platitudes that we have already presented in other releases. It adds nothing of practical significance to the subject under discussion. I see no reason to publish it.

Page 5, by RALPH LAZARUS, to follow sentence ending "an adequate budget surplus at high employment"

I agree that confidence-building efforts ought to be high on the priority list of the new administration and Congress. Indeed, I would go farther and state that such efforts should have the highest priority.

The instability and fundamental weakness of business and consumer confidence derives principally from the experience of the last five years. During this period, economic growth has been subnormal and uneven, averaging less than 3 percent annually, while inflation has been excessive and continuing, averaging close to 7 percent annually.

If confidence is to be restored in any lasting fashion, equal emphasis must be given to policy actions that foster sustained economic growth and those that promote expectations that reasonable price stability will be attained. The statement, however, only partly addresses these priority needs. Numerous specific policy recommendations are made relative to stimulation of economic growth, but almost no specific or innovative policy recommendations are made relative to the amelioration of inflation.

Page 5, by ROBERT R. NATHAN, to follow the sentence ending "government involvement in market decisions"

For several years, even when the prospects of active or standby controls were virtually non-existent, many large price increases were excused on the grounds of the so-called threat of controls. We do not need across the board wage and price controls, but we do need direct efforts to slow the rate of inflation and make perceptible progress toward price stability.

The "soft economy" approach has not brought us near to price stability. Despite nearly four years of slow growth and deep recession we have not really made significant progress in lowering the rate of basic inflation. If we were to eliminate from our price indices the shock effects, direct and indirect, of the OPEC oil-price decisions and the 1972 Russian grain deal and the two devaluations, we must conclude that inflation in the second half of 1976 is only modestly lower than it has been for several years.

We must recognize that inflation will need to be fought simultaneously and vigorously along with determined pursuit of

recovery and growth. The most serious deficiency in this generally excellent CED program is the failure to deal with the need for a positive and forceful anti-inflation effort. Such an effort may entail guidelines and guideposts; using the persuasion of executive authority in holding down price and cost increases; asking for legislating authority to delay sizable price and wage increases, pending public hearings; stimulating joint labor-management efforts to speed improvement in productivity; assuring investment incentives not only to speed modernization but also to lean toward excess capacity rather than tightness in capacity; and other measures which can flow from imaginative and serious efforts to pursue price stability. Even standby authority to impose controls is preferable to the "do nothing" pattern we have followed so unsuccessfully.

Finally, I would strongly urge a new Temporary National Economic Committee (TNEC) like the one headed in the 1930's by Senator Joseph O'Mahoney. That committee, in an objective and non-partisan manner, did a remarkable job of analyzing the strengths and weaknesses of price and other forms of competition in most sectors of the economy. Today, with far better data and computer capabilities, we could analyze the functioning of the marketplace much more thoroughly and fruitfully than was possible forty years ago.

We desperately need to know why it is so difficult to get rid of inflation. We need to find ways to strengthen price competition in the marketplace and thereby preserve our free enterprise system. This is certainly a major effort in which business and labor could and should cooperate with all of the branches of government in pursuit of the common objective of high levels of employment and production along with price stability.

Page 5, by ROGER B. SMITH, to follow the sentence ending "involvement in market decisions"

There is no question that assurance by the President of his opposition to wage and price controls would do much to restore confidence. In my view, however, much more is required. The vast expansion of the regulatory authority of government and the unending stream of administrative orders have materially increased both the cost and the risk of new investment. Growth in

output and employment has been impaired. A clear declaration by the President of a moratorium on new regulation in order to assess the impact of existing regulation would represent a second essential step in restoring confidence.

Page 5, by C. WREDE PETERSMEYER, to follow sentence ending "are not mutually exclusive"

Conquering inflation and achieving high employment may not be mutually exclusive, but if there has to be a choice, I believe conquering inflation must take priority. Any crash measures taken to solve unemployment that might possibly rekindle the fires of inflation would be self-defeating. The result would be more unemployment rather than less.

Page 6, by ROGER B. SMITH, to follow the sentence ending "is required promptly to bolster demand"

At present, there is a wide divergence of view on whether any additional so-called stimulus is required or is desirable. The federal deficit is currently estimated to be in the area of \$50 billion. The short-run effect of "stimulus," however managed, would almost certainly increase this deficit and, along with this, inflationary expectations. Consumer prices are still rising at an annual rate of over 5 percent, a major improvement over the double-digit rates of the recent past but still too high. In my view, this paper does not give adequate attention to this continuing threat or its long-term implications.

Page 7, by RALPH LAZARUS, to follow heading "Actions with prompt impact"

Although I am substantially in agreement with the general substance of the four sections under this heading, section 2 would benefit from additional detailed description of the size and consequences of the extra stimulus recommended.

With regard to the consumer tax cut, an across-the-board permanent reduction of consumer income taxes of some \$15 billion

would not be inflationary and should be enacted promptly. Such action would be in preference to a one-time rebate, which experience has shown to have distorting effects and only temporary benefits to the growth of the economy. A permanent, equitable tax reduction would boost confidence, stimulate use of accumulated savings, and result in an acceleration of consumer spending greater than the amount of tax reduction. This growth in demand would, in turn, create a sustained increase in production that would support business confidence and encourage expansion of productive, job-creating capital investment.

Although some short-term revenue losses would occur, greater emphasis should be given to the fact that a permanent tax reduction would stimulate strong growth in overall economic activity, in employment, in aggregate consumer income, and in total corporate profits. Such growth would result in a broadly based expansion of the federal tax base that would eventually more than restore the revenue lost to the tax cut action.

Page 7, by JAMES Q. RIORDAN, to follow sentence ending "instill confidence in the future"

I agree that the economy needs fiscal and psychological stimulus. Early recognition of the fact that the private sector is overtaxed and overregulated will be very helpful, especially if prompt changes, albeit small, are made on a permanent and on an across-the-board basis. Both consumers and investors need reassurance. Changes should make our laws, especially our tax laws, simpler.

Page 7, by C. WREDE PETERSMEYER, to follow sentence ending "improved depreciation allowances"

I would be hopeful that any tax reduction would truly be "broad-based" through the granting of a given percentage reduction in federal income tax liability for all taxpayers without a ceiling such as the \$200 in the Tax Reduction Act of 1975. Each time a ceiling is imposed, the income tax structure becomes even more progressive. It is already highly progressive, and the savings of those in the higher tax brackets must help provide the capital

needed for jobs and a higher standard of living for all citizens. (See page 9, item 2, of the statement, "*Stabilization strategy must give greater weight to encouraging productive capital investment*").

Page 7, by CHARLES KELLER, JR., to follow sentence ending "achieve prompter results"

I do not recognize that a case has been or can be made on a temporary tax reduction or rebate. It is my judgment that tax stability is essential to restore confidence and permit longer-range planning. If confidence is restored, increased economic activity will increase tax yields so that future revenue drains will be minimized or nullified. I would therefore oppose a temporary tax reduction or rebate.

Page 7, by ROBERT R. NATHAN, to follow item 2.

Obviously, the easiest and perhaps quickest way to achieve fiscal stimulus is through tax reductions. However, there are two very difficult issues associated with principal reliance on this approach. One concerns the composition and nature of tax cuts and their longer-term implications. These issues are necessarily dealt with only briefly in this short statement. With respect to tax cuts, I would favor rebates rather than reductions plus some kind of direct income payment to those at the lowest levels of income who would not benefit from a tax rebate.

A far more important issue is the alternative of spending efforts compared with tax reductions. This CED statement leans far too heavily in favor of tax reductions and against increased public job-generating expenditures.

At a time when many cities and other governmental units in this country are in dire financial straits, due in considerable degree to restrictive federal fiscal and monetary policies, it would be a tragic mistake to focus principally on tax cuts and ignore the anti-recovery steps that state and local governments are being forced to take. Schools are being closed because of lack of funds; police and fire protective services have been reduced; rat control programs have been abandoned; recreational programs have been curtailed; essential maintenance programs have been abandoned

or cut back; slum clearance needs have been totally neglected; mass transit facilities are proceeding at a snail's pace; bond ratings are reduced and this brings higher debt service costs; regressive property tax rates are increased with resulting heavy impacts on low income groups; and endless other impacts. In 1976 the gap in state and local revenues will likely total \$30 billion relative to full employment revenues at existing tax rates. We need a substantial level of counter-cyclical revenue sharing.

There are desperate needs all over this country which should be given priority in terms both of stimulating economic recovery and meeting critical needs. Tax reductions will mean a few extra dollars in the pockets of middle and higher income recipients. Recovery stimulation flowing from these extra dollars will not be as effective or warranted as expenditures for critically needed public services and facilities.

Many repeat the old litany that public works expenditures extend endlessly into the future and should not be relied upon for recovery purposes. We need not include in expenditure programs for recovery purposes outlays for major bridges and highways and huge building facilities. There are many needs that can be fulfilled in reasonably short time with efficiency and with maximum benefits. We probably need a new Harry Hopkins with the vision and nerve to support public needs via useful work. Maybe we cannot achieve 100 percent efficiency but let us settle for 90 percent or even 80 percent efficiency and give priority to basic essentials.

Unemployment of untenable proportions is likely to continue for some time. Therefore, we ought to favor some risks of lags and inefficiencies on the expenditure side to use the stimulative fiscal measures for varied purposes. I favor splitting the needed sizable fiscal stimulation into at least half in the form of expenditures and not more than half in selective tax reductions.

Page 8, by CHARLES KELLER, JR., to follow sentence ending "sustain economic growth"

I agree that programs are available and can be devised "that represent productive investments in the country's material and human resources." However, I believe that the "improvement of deteriorated railway roadbeds" is a most unfortunate example. The complex of problems involved in initiating such a program seem to me to guarantee delay in its implementation. Are funds to be made available through loans or grants only to financially

troubled systems or to all systems based on traffic demands? Are systems that maintain their roadbeds to be penalized in favor of those who do not? Is area unemployment to be a factor in deciding which systems are to be approved? I would prefer grants to states, urban areas, and federal agencies to implement public works projects for which plans are completed but not implemented because of lack of funds. I would also suggest grants to urban areas for low-interest loans to encourage housing improvements and restorations and perhaps grants for antipollution activities, all of which can be initiated promptly and phased out when the stimulus is no longer required.

Page 8, by RALPH LAZARUS, to follow heading "Medium- and longer-range measures"

In addition to the recommendations made in the sections 1 and 2 of the statement, I believe that if we are to have satisfactory longer-term economic performance, it will also be necessary to:

Direct attention to the need for comprehensive tax reform for consumers and business. Such action should protect equity, promote increased saving, encourage new productive investment, and eliminate existing structural barriers to sustained improvement in the well-being of the nation.

Direct attention to the need to make substantial progress toward "full employment" over the next five years. Such progress will require growth in "real" economic activity averaging 5 to 6 percent annually in the 1976-1981 period. This superior economic performance will necessitate not only additional equitable tax relief for both consumers and business to support sustained expansion of demand and investment but also dictate continuing reduction of federal budget deficits to contain inflationary pressures. Within this context, implementation of new major federal spending programs will have to be constrained. In addition, comprehensive, continuing review of the purposes and effectiveness of all existing programs will be vital.

Page 10, by ROGER B. SMITH, to follow the sentence ending "reason for making such a change"

I subscribe fully to this "guiding principle." The present policy statement could be viewed by many readers as endorsing a contrary principle.

Economy

THE WHITE HOUSE

WASHINGTON

December 17, 1976

MEMORANDUM FOR PAUL O'NEILL

FROM:

JIM CANNON *J Cannon*

SUBJECT:

Extension of the Council on Wage and
Price Stability

I recommend Option 2.

I would not extend the Council on Wage and Price
Stability.





EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503



MEMORANDUM FOR ECONOMIC POLICY BOARD EXECUTIVE COMMITTEE

FROM : Paul H. O'Neill

SUBJECT: Extension of the Council on Wage and Price Stability

Issue: Should the Administration request legislation to extend the Council on Wage and Price Stability beyond the current termination date of September 30, 1977? Appropriation requests in the 1978 budget, which is entering the final stages of printing, must reflect either a proposal to extend the Council or to allow it to expire.

Background: The Council on Wage and Price Stability was created by the Wage and Price Stability Act of 1974 with the general purpose of monitoring inflationary activities throughout the economy. At the President's request, the duration of the Council was extended in 1975 from its original expiration date of August, 1975, until September 30, 1977. In carrying out its mandate, the Council has monitored new regulations proposed by Federal agencies and has analyzed the impact selected regulations might have on the economy. Some of the Council's analyses are supplemental to those undertaken by the agencies pursuant to Executive Order 11821, jointly administered by the Council and OMB. The Executive Order requires that agencies conduct inflation impact analyses of the potential effects on the economy of proposed major legislation, rules and regulations. The Council is not authorized to delay agency action.

In the private sector, the Council has monitored both wage and price activities in order to identify possible sources of inflation. The Council is authorized to collect data on profits, costs, prices, productivity, and other matters related to inflation. The Council does not have the power to delay or prevent wage or price increases.

Options:

There are two basic options:

- (1) Submit legislation requesting an extension of the Council beyond September 30, 1977, and include

either a 1978 appropriations request in the 1978 budget or an indication that appropriations will be requested when the legislation is enacted.

- X (2) Take no steps to propose the Council's extension and reflect no appropriation request in the President's 1978 budget.

Discussion:

Principal arguments in favor of an extension of the Council are as follows:

- (1) The Council has several functions that can be expected to be desirable during 1978 and beyond regardless of the state of the economy at the time. One example is the work done by the Council to monitor Federal activities and influence government agencies to undertake cost-benefit analyses of these activities. Such activities would be supportive of concerns for more efficient government regulation. The Council's intervention authority allows it to submit cost-benefit analyses and related comments to the factual records of agency proceedings. At present, the Council is the only entity within the Executive Branch that performs this task.
- (2) A request to extend the Council beyond fiscal year 1977 would demonstrate the Administration's continuing concern to have a monitoring agency--
 - a. to assist the containment of inflation beyond the current reduced level,
 - b. to identify quickly any resurgence of inflation, and
 - c. to analyze any individual sectors of the economy that are experiencing unusual inflationary problems.

Arguments in favor of terminating the Council are as follows:

- (1) Evidence of the abatement of inflation since the Council was established may suggest that the need for the Council's oversight of this problem has also receded.

- (2) Some may argue that the products of the Council are highly oriented toward analyses and studies, some of which are controversial and do not appear to have any real impact on the activities studied.
- (3) Some may argue that the Council's monitoring and occasional "jawboning" role is an excessive governmental intrusion in the private sector.
- (4) Abolishing the Council would reduce the size and cost of the Executive Office of the President.
- (5) Allowing the Council to expire does not preclude the submission of legislation at a later date to establish a monitoring agency with functions similar to the Council, but differing in title, organizational structure and other respects.

If the Council were proposed for extension, the period of extension could be a year, two years, or more. A one-year extension may lessen the Council's ability to influence the Government agencies and private groups with whom it deals. A two-year extension has precedent and would continue to lend an air of temporariness to the Council. A three-year or longer extension could give the impression that the Council is an ongoing part of the Executive Office.

Summary

The options may be summarized as follows:

- . Submit legislation to extend the Council beyond September 30, 1977:
 - to September 30, 1978
 - or
 - to September 30, 1979
 - or
 - to _____
- . Take no steps in the 1978 Budget or its accompanying legislation to propose the Council's extension.

