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DEMOCRATIC PLATFORM

ON EDUCATION...

Recognizes the "right of all citizens to education...
and the need for bilingual and bicultural educational
programs."

Stresses "extending postsecondary opportunities
for students from low and middle income families.

Emphasizes that "Basic Educational Opportunity Grants
should be funded at the full payment schedule."

States that libraries should receive continuous and
guaranteed support, and that presently impounded
library support funds should be released.

ON ARTS AND HUMANITIES...

Calls the role of arts and humanities
essential in the development of America.

Pledges a strong federal role in behalf
of Arts and Humanities.



DER No. 119

daily report for EXECUTIVES

overnight notification from the Nation's Capital

JUNE 18, 1976 • FRIDAY

WASHINGTON, D.C.

Today's Summary and Analysis

Liberals Lose Skirmish In Tax Reform Battle

Senate liberals lose the first round of their fight to strengthen a controversial tax revision bill (HR 10612) as the Senate defeats, by a 46-33 vote, a proposal to prevent wealthy individuals from using deductions from certain investments to reduce taxes on unrelated income, such as salaries and professional fees. The liberals, who have forged an alliance with the Senate Budget Committee, counterattack with an amendment to extend through September 1977 all existing individual and business tax reductions due to expire June 30. Senate Finance Chairman Long and his allies launch a minilibuster to postpone a vote on the amendment until next week, as Budget Chairman Muskie claims to have the votes to pass the proposal. In the early Long victory, the Senate rejects part of the liberal package to raise roughly \$400 million a year by curbing real estate, farming, oil and gas, movie, sports, and equipment leasing tax shelters. (G-6)

Foreign Investment Encouraged In U.S.

A nine-volume Department of Commerce study concludes that the U.S. should retain its open door policy on foreign direct investment. The study says massive takeovers of U.S. industries are unlikely, adding that the impact of investment here by Middle East countries is rather small. The department seeks legislative authority to put together investment data gathered by other agencies and to do annual surveys with a "benchmark" review every 10 years. The foreign direct investment position in the U.S. totaled \$26.5 billion at year-end 1974, an increase of \$5.1 billion from the previous year. (A-9)

Justice Aide Says Suit Against OPEC Not Feasible

A Justice Department official warns that an antitrust suit against foreign governments participating in OPEC or other commodity cartels "would be legally difficult and diplomatically controversial, and perhaps even confrontational." Joel Davidow, Foreign Commerce Section Chief of the Antitrust Division, expresses his office's inclination toward negotiation of an international antitrust code or set of competition principles in order to deal with OPEC.

Commerce Dep't summary of principal findings in report to Congress on "Foreign Direct Investments in the U.S." (B-1)

Exchange of letters between SEC Chairman Hills and Commerce Secretary Richardson on proposed legislation concerning questionable corporate payments abroad (B-3)

CASB interpretation of standard on consistency in allocating costs incurred for same purpose (J-1)

✓ Democratic Party platform adopted by 153-member platform committee (X-1)

At a symposium in Dallas on private investments abroad, he notes that such an international antitrust code, which would condemn cartels operated by or on behalf of states, was advocated by Secretary of State Kissinger at a U.N. special session last year. (A-1)

Pretax Profits Show
7.8% Rise In 1st Quarter

Before-tax book profits of U.S. corporations advanced 7.8 percent--or \$10.4 billion--in the first quarter of 1976 to a seasonally adjusted annual rate of \$142.8 billion, the Bureau of

Economic Analysis reports. Corporate profits from current production rose 9.9 percent, or \$11.2 billion, to \$123.9 billion at an adjusted annual rate. The figures on first-quarter profits have been revised since BEA's preliminary report on profits was issued a month ago showing pretax profits had risen by 6.3 percent, and corporate profits from current production, by 8.1 percent. After-tax profits climbed 7.2 percent--or \$5.8 billion--to a rate of \$85.7 billion. Earlier estimates had indicated a first-quarter increase of only 5.5 percent. BEA says other revised data for January-March show "real" Gross National Product increased 8.7 percent at an annual rate, instead of by 8.5 percent, as shown in the earlier report. GNP was revised up by \$1.2 billion to \$1,620.4 billion, while the GNP implicit price deflator rose at an annual rate of 3.6 percent in the first period, slightly above the 3.5 percent rate reported earlier. Gross Domestic Product, at \$1,607.7 billion, was not changed from the previous report. (N-1)

House Rejects B-1 Bomber
Delay, Votes \$105 Billion

Responding to pleas to show that the U.S. is "not going soft on defense," the House rejects proposed amendments to the military appropriations bill (HR 14262) to delay initial production

of the B-1 bomber and begin construction of another nuclear aircraft carrier, and votes a record \$105.6 billion for fiscal 1977. The B-1 program is the nation's largest military program and is expected to cost about \$21 billion. The floor effort, defeated by a vote of 207-186, is a duplicate of recent Senate action on the defense authorization measure that is now in conference and which would delay until next February a decision by the incumbent President on when to begin production. (A-6)

CFTC Panel Urges Shift
In Regulatory Approach

Improving commodity futures contract terms and monitoring are better ways to control abuses than using fixed speculative position limits as a regulating tool, a CFTC advisory panel

says. The committee says these limits have serious drawbacks, including lack of control during the crucial delivery months. It asks for a broader definition of hedging to improve commercial access to the markets. Requests for contract market designations should not be denied unless they are shown to be contrary to the public interest, the CFTC group adds. (L-1)

FEA "Insurance Policy"
Approved By House Panel

An "insurance policy" bill providing a simple three-month extension of FEA is approved on a voice vote by the House Commerce Committee. The bill would allow FEA to continue to

function past the June 30 deadline for renewal of the legislation authorizing the agency should the House and Senate become embroiled in an extended conference over the two FEA extension bills passed recently. Reconciliation of the two measures may prove difficult because of the controversial provisions the Senate added to its bill. (A-5)

Industry Likes Standard
On Deferred Compensation

Industry gives general approval to the concept of proposed Standard 415 on Accounting for the Cost of Deferred Compensation, which would provide criteria for the measurement of the

cost of deferred employee compensation and the assignment of such cost to cost accounting periods. The Council of Defense and Space Industry Associations supports the major concept that deferred compensation costs shall be assigned to current cost accounting periods whenever a valid obligation has been incurred. It also supports the concept that the cost of deferred compensation to be paid in the future should be measured by the present value of the future benefits to be paid. However, CODSIA, in common with several others of the approximately 15 comments received to date, finds inconsistencies in the wording of several paragraphs. (G-1)

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LEGISLATIVE CALENDAR
94th Congress, Second Session
Friday, June 18, 1976

SENATE

Senate Action

Continued on HR 10612, tax reform bill.
Sen. Humphrey announced he will run for Majority Leader, making the race for the post a four-way battle. He will compete against Senators Robert Byrd, Ernest Hollings, and Edmund Muskie.
Adjourned until Monday, June 21.

June 17

Passed and sent to the House SJ Res 203, continuing the authority of the Commissioner of Education to insure loans under the guaranteed student loan program.
Passed with committee amendments HR 13965, making appropriations for Washington, D. C., for FY 1976, and asked for a conference with the House.
Passed and returned to the House HR 8410, Packers and Stockyard Act. The bill is designed to assure that livestock producers will receive payments for the animals they send to packing plants. Senate agreed to one amendment of a technical nature.

Schedule for Next Week

June 21 through 25

The Senate next week will continue Monday through Friday on the tax reform bill, with a brief interlude Monday to take up the Spanish Friendship Treaty.

Bills and Resolutions Introduced

June 17

(FEDERAL POLICY) to establish a program of management and policy study commission of the Federal Government. S 3580 (Bartlett) Government Operations.
(MARITIME AFFAIRS) to establish an Office of Maritime Affairs Coordinator in the Executive Office of the President. S 3581 (Taft) Commerce.
(BANKING) to institute certain due process requirements with respect to the supervisory authority of the federal banking agencies. S 3586 (Tower by request) Banking.
(SOCIAL SECURITY) to provide that, in the case of an individual residing in a retirement home or similar institutions, certain payments made to such home or institution by relatives of such individuals shall not be regarded as income. S 3587 (Hugh Scott) Finance.
(TAX POLICY) to provide a pilot program for review of certain existing tax expenditures, and to provide for systematic review of new tax expenditures and existing tax expenditures which are continued. S 3588 (Gary Hart) Finance.

Bills Reported

June 17

HR 14236, making appropriations for FY 1977 for public works projects, with amendments (S Rept 94-960).

Committee Action

Banking, met on S 2347, to regulate standby letters of credit.
Foreign Relations, subcommittee met on the U. S. grain industry and U. S. foreign policy.
Interior, met on the nominations of Albert Azpanta to be Assistant Secretary of the Interior; Clement Malin to

Assistant Administrator of FEA; and on Samuel Tuthill to be an Assistant Administrator of FEA.
Judiciary, subcommittee met on terrorists activities in the U. S. that could disrupt Bicentennial celebrations on July 4.
Public Works, subcommittee met on items which may be included in the Water Resource Development Act.
Conferees, agreed to a conference report on S 2145, to reimburse public schools for initial costs of educating Vietnamese and Cambodian refugee children.

June 17

Appropriations, ordered reported HR 14236, Public Works Appropriations for FY 1977; and HR 14235, Military Construction Appropriations for FY 1977.
Commerce, ordered reported S 3521, to expedite a decision on the selection of a natural gas transportation system for delivery of Alaska natural gas to other states. Also approved the nomination of John Holloman for reappointment as a member of FPC.

Committee Meetings Scheduled

(All meetings open unless otherwise noted)

June 21

Foreign Relations, on the situation in Lebanon.
Armed Services, subcommittee, opens three days of hearings on the service academies.
Appropriations, markup of Agriculture and State-Justice appropriations.
Commerce, on corporate rights and responsibilities.
Agriculture, on default of potato contracts.
Interior, on distillate fuel oil decontrol.
Public Works, subcommittee, on items for inclusion in water resource Development Act.
Conferees, on HR 12438, military procurement.
Executive.
Banking, markup of the National Consumer Cooperative Bank.
Commerce, on National Transportation Safety Board nomination.
Judiciary, subcommittee, on S 3555, Voluntary Standards and Certification Act.

June 22

Agriculture, continues on Food Stamp Act.
Banking, markup of corporate bribery legislation.
Interior, subcommittee, continues oversight on Indian contracting.
Public Works, subcommittee, resumes on replacement of locks and dam at Alton, Ill.
Interior, begins two-day session on Alpine Lakes wilderness area.

June 23

Banking, hears from Carla Hills on HUD programs.
Agriculture, subcommittee, on national Commission on Food Marketing.
Foreign Relations, subcommittee, resumes grain industry hearings.
Agriculture, on timber management practices.

June 24

Finance, hears OMB Director Lynn and Treasury Undersecretary Yeo on public debt ceiling.

Government Operations, resumes on amendments to the Administrative Procedure Act.
Agriculture, subcommittee, considers GAO report on the management of farm export policy.

June 25

Commerce, considers Office of Telecommunications Policy nomination.
Public Works, subcommittee, on requests for additional funds for the Kennedy Center for the Performing Arts.

H O U S EHouse Action

By a 327 to 22 vote, approved and sent to the Senate HR 12179, State Department Authorization. Rejected by a 229 to 130 vote efforts to block negotiations on a new Panama Canal Treaty, a major issue in the Republican Presidential campaign.
Began consideration of HR 14239, State-Justice Appropriations bill for FY 1977.
By a 313 to 25 vote, approved and sent to Senate HR 13589, authorizing \$262 million for the U. S. Information Agency for the 1977 fiscal year.
Met in late session.

June 17

Passed by a voice vote and sent to the Senate HR 3147, to extend the Marine Protection, Research, and Sanctuaries Act to two years; clearing the measure for the President.
Returned to the Senate HR 13380, to amend the Central, Western, and South Pacific Fisheries Development Act to extend the appropriations authorized through FY 1979, after amending a Senate amendment to that measure.
By a voice vote, passed S 3147, to extend the Marine Protection, Research, and Sanctuaries Act for two years; clearing the measure for the President.

Schedule for Next WeekJune 21 through 25

Monday: HR 12505, Smithsonian additional authorization; SJ Res 203, Emergency Technical Provisions to Higher Education Act; HR 14299 and HR 14298, disability compensation and pension bills for veterans; HR 14394, FEA three-month extension; and HR 13711, Horse Protection Act amendments.
Tuesday: HR 8125, revision of excise tax structure on large cigars; HR 9889, extension of time to amend charitable remainder trust governing instruments; HR 10051, tax treatment of certain distribution of life insurance companies; HR 12254, suspension of duty on certain bicycle parts and accessories; HR 1216, small post office closings; HR 13955, Bretton Woods Agreement Act amendments; HR 14233, HUD-Independent Agencies Appropriations.
Wednesday: S 3201, Public Works Capital Development Conference Report; and HR 14232, Labor-HEW appropriations.
Thursday: HR 14260, Foreign Assistance Appropriations; HR 14234, DOT Appropriations.
Friday: HR 14231, Interior Appropriations.

Bills and Resolutions IntroducedJune 17

(SOCIAL SECURITY) to amend the Social Security Act to authorize international agreements with respect to social security benefits. HR 14429 (Burke of Mass. and Archer, by request) Ways and Means.
(SOCIAL SECURITY) to reduce the effect of wage and price fluctuation on old-age, survivors, and disability insurance benefits. HR 14430 (Burke of Mass. and Archer, by request) Ways and Means.

(FEDERAL CONTRACTS) to require the payment of interest by federal agencies on overdue contract payments, to amend the Office of Federal Procurement Policy Act. HR 14432 (Gude and Chappell) Government Operations.
(HEALTH) to permit the U. S. to provide indemnification against claims for injury related to inoculation with vaccine under a comprehensive nationwide influenza immunization program. HR 14437 (Staggers and Devine by request) Commerce.
(SOCIAL SECURITY) to amend the act to improve state medical assistance utilization control programs. HR 14438 (Staggers and Devine, by request) Commerce.
(MATERIALS) to establish a materials policy for the U. S., to create a materials research and development capability, and to provide an organizational structure for the effective application of such research capability. HR 14439 (Symington and Mosher) Science, Judiciary, and Rules.

Bills ReportedJune 17

Report entitled "Allocation of Budget and Outlays" (H Rept 94-1273).

Committee Action

House Administration, Chairman Hays announced he would step down from his responsibilities as head of the committee due to the "current state" of his health. In addition, Hays denied he would resign from Congress.
Agriculture, continued markup of Food Stamp Act.
Appropriations, subcommittee met on D. C. budget for FY 1977.
Commerce, continued markup of HR 12112, synthetic fuels loan guarantees.
Science, subcommittee continued on weather modification.
Judiciary, subcommittee continued markup of HR 2223, Copyright Law revision.
Ways and Means, subcommittees met on SSI; and on long-range social security financing, and discussed the President's latest proposed bill.
Budget, released scorekeeping materials on appropriations bills and the FY 1977 budget resolution targets.

June 17

Agriculture, ordered reported to the House S 2853, Food Stamp Vendor Accountability Act.
Banking, ordered reported to the House HR 13955, as amended, to provide for amendment of the Bretton Woods Agreements Act.
Commerce, reported to the House HR 14394, to extend the Federal Energy Administration Act of 1974 until September 30, 1976.

Committee Meetings Scheduled

(All meetings open unless otherwise noted)

June 21

Budget, task force, on "off-budget" agencies.
District of Columbia, subcommittee, on HR 13404, pretrail release.
Interior, subcommittee, on disposal of oil shale.
Interior, subcommittee, on S 1506, amending the Wild and Scenic Rivers Act.
Commerce, subcommittee, on Alaskan Pipeline Safety.
Judiciary, subcommittee, continues markup of HR 13131, premerger notification.
Rules, on HR 11734, zero-base review of government programs.
Ways and Means, continues markup of federal estate and gift tax bill.

June 22

Education and Labor, subcommittee, on Emergency Education Revenue Act.
 Int'l Relations, on resolution concerning payments to influence Italian politics.
 Commerce, subcommittees, on drug safety amendments; rail amendments; Sales Representative Protection Act; and on middle oil distillates.
 Post Office, subcommittee, on agriculture census.
 Public Works, subcommittee, on regulatory reform.
 Public Works, subcommittee, on urban mass transit amendments.
 Merchant Marine, subcommittee, on oil spill legislation.

June 23

Aging, subcommittee, on medical appliances for the elderly.
 Education, subcommittee, on National School Lunch and Child Nutrition Acts.
 Education and Labor, subcommittee, on management of EEOC.
 Post Office, subcommittee, on continuing bulk mail system.
 Public Works, on repairs and alterations of government buildings.
 Judiciary, subcommittee, on bottlers bill.
 Merchant Marine, subcommittee, on household goods shipments in foreign commerce.
 Ways and Means, subcommittee, on agenda for remainder of year in light of congressional budget resolution.
 Judiciary, subcommittee, on FBI oversight.

Merchant Marine, subcommittee, on Sea Grant College oversight.
 Government Operations, subcommittee, on FTC's division of national advertising.

P R E S I D E N T

The President canceled a campaign trip to Iowa to remain in Washington to direct the evacuation of Americans from Lebanon. He will go to Andrews AFB on Saturday "to pay his respects" when the bodies of two American diplomats murdered in Beirut are returned. The decision to cancel the trip was made following a morning meeting with the National Security Council and a Cabinet meeting where Secretary of State Henry Kissinger briefed on the Lebanon situation.
 The President announced his intention to nominate J. Blaine Anderson to be a U.S. circuit judge for the Ninth Circuit.
 The President announced his intention to nominate Cecil F. Poole to be a U.S. district judge for Northern California.
 The White House said the President will leave next Saturday for the two-day seven-nation economic conference in San Juan, Puerto Rico on June 27-28.

THE PRESIDENT'S APPOINTMENTSFriday, June 18

8:00 - Staff meetings.
 11:00 - Cabinet meeting.

- - End of Section AA - -

6-18-76

Legislation—Regulation—Rulings

(No. 119) A - 1

ANTITRUST: JUSTICE OFFICIAL FAVORS WORLD CODE,
NOT ANTITRUST SUIT, TO DEAL WITH OPEC CARTEL

An antitrust case against foreign governments participating in the Organization of Petroleum Exporting Countries or other commodity cartels "would be legally difficult and diplomatically controversial, and perhaps even confrontational," according to Joel Davidow, Foreign Commerce Section Chief at the Justice Department's Antitrust Division.

Davidow, in an address prepared for a symposium on private investments abroad held by the Southwestern Legal Foundation's International and Comparative Law Center in Dallas, on June 15, expressed his office's inclination toward negotiation of an international antitrust code or set of competition principles in order to deal with OPEC. He noted that such an international antitrust code, which would condemn cartels operated by or on behalf of states, was advocated by Secretary of State Kissinger at the United Nations' Seventh Special Session last year.

A direct antitrust suit against OPEC members or other states involved in cartels is "theoretically conceivable, but fraught with difficulties," according to Davidow. The OPEC countries would probably contend that they possess sovereign immunity and that their activities were "diplomatic agreements concerning the most vital natural resources of those states. . . ." Also, Davidow contended, the foreign states might rely on a 1943 U.S. Supreme Court case, *Parker v. Brown*, 317 U.S. 341, 351, "suggesting that the Sherman Act was never intended to deal with the actions of governments but only with the actions of private enterprises."

In any event, even if U.S. courts decided an antitrust case against OPEC members in favor of the U.S., there would be questions as to how that judgment could be enforced. Davidow suggested that "seizure of assets is the most likely method, but doing so might expose American assets abroad to retaliation."

Another alternative suggested by Davidow as "less difficult" than a suit against OPEC members would involve an "antitrust challenge to multinationals based in or with branches in America which cooperate with and facilitate the carrying out of a foreign-state producer cartel injuring the U.S." As an example of such a suit, Davidow pointed to the recent Antitrust Division suit against the Bechtel Corporation, charging that company with conspiring with subcontractors in the U.S. "in order to facilitate the carrying out of the Arab League boycott against American firms."

However, Davidow gave no indication that this "less difficult" alternative will be undertaken by Justice. He stated earlier in his address that "it is not altogether clear that the multinational corporation is or has created a major antitrust problem," and "there is little or no hard evidence that multinational corporations commit a great number of antitrust violations, or more than they used to, or more than purely national firms of the same size." Thus, a "final alternative" deemed "particularly attractive" by Davidow would be to work for an international antitrust code.

With regard to such a code, Davidow noted two major areas of disagreement between developed and less developed countries. He stated that the developed nations are attempting to convince developing countries that the latter should not be allowed to engage in restrictive business practices that would be condemned if engaged in by enterprises from developed nations. However, "this was a difficult point to sell in light of the enormous short-run profits of OPEC." Davidow stated that "perhaps the easier point to get across was that the developed nations are simply not prepared to sign a one-sided international agreement."

Whether such an international antitrust code should be legally binding is another major issue. The U.S. view is that a voluntary code is the only acceptable alternative, according to Davidow, "because of the extreme variation in national norms and procedural approaches at this time, and because of the stated reluctance of the developing countries to join in an agreement like the Common Market treaty . . ."

Notwithstanding the major areas of disagreement, Davidow asserted that "international work and study of antitrust practice and principles will have important educational benefits for all those engaged in it, even if those benefits began with events as small as the shipment of two requested books on American antitrust law to the trade library in Moscow. There can be no doubt that training in antitrust is in the long run an education in ethical capitalism. It is thus entirely appropriate that we should provide and encourage such training in a world characterized by competing ideologies."

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STANDARDS: HEARINGS SET ON MEASURE TO REGULATE GROUPS SETTING INDUSTRY STANDARDS

Hearings on voluntary standards and certification programs that affect both consumer and producer goods were announced today by Sen. Philip A. Hart (D-Mich), chairman of the Senate Judiciary Antitrust Subcommittee.

Sen. James Abourezk (D-SD), chief sponsor of the proposed "Voluntary Standards and Certifications Act of 1976" (S 3555), will chair the four-day hearings to be held June 21, 24, and 25 and July 1.

In introducing the bill on June 11, Abourezk said it is designed to promote competition in the development of product standards and in the testing and certification of products. (DER 117, M-1)

"Some 400 private groups develop product standards and another 1,000 laboratories certify that products comply with those standards," Abourezk said. Often cities, states, and the Federal Government adopt these industry standards and what started out as a voluntary standard becomes law through various government codes.

"Yet, there is no uniform procedure for developing standards and no way to appeal a standard that may be outmoded. Therefore, the current system often sets up entry barriers for new products and stifles what could be meaningful competition."

A list of witnesses follows:

Monday, June 21 -- Calvin J. Collier, Chairman, FTC; Charles Orlebeke, Assistant Secretary of HUD for Policy Development and Research; Dr. Betsy Ancker-Johnson, Assistant Secretary of Commerce for Science and Technology; Dr. F. Karl Willenbrock, Director, Institute for Applied Technology, National Bureau of Standards; and Robert B. Ellert, Assistant General Counsel for Science and Technology, Department of Commerce.

Thursday, June 24 -- Roger Carroll, Assistant Commissioner for the Office of Standards and Quality Control for the Federal Supply Service; Burton L. Williams, Maloney, Williams & Baer, Boston; Louis V. Lombardo, President, Public Interest Campaign, Bethesda, Md.; Russell S. Rymer, President, Hydrolevel Corporation, Farmingdale, N. Y.; and Charles Woolfolk, Save-Fuel Corp., Memphis.

Friday, June 25 -- Morris W. Thierman, Manager, Protexulate Division Pluess Stauffer (North American), Inc., New York; Lowell C. Johnson, Executive Vice President, Johnson Gage Co., Bloomfield, Conn.; K. M. Boekamp, President, Boekamp, Inc., La Mesa, Calif.; Joseph H. Windish, President, Trionic Industries, Inc.; Harrisburg, Pa.; and Steve Gold, Wheeling-Pittsburgh Steel Corp., Law Department, Pittsburgh.

Thursday, July 1 -- Jim Tims, Quality Steel Corp., Cleveland, Miss.; E. M. Grandinetti, President, Grandinetti Products, Inc., Lynwood, Calif.; Robert J. Tesar, Senior Vice President, Watts Regulator Co., Lawrence, Mass.; and James G. Worth, President, Applied Research Laboratories of Florida, Inc., Hialeah, Fla.

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**FTC: PROCEDURES SET OUT FOR RESPONDING TO
PETITIONS TO INITIATE RULEMAKING PROCEEDINGS**

The Federal Trade Commission announced today that it has decided to amend its operating manual to provide that recommended responses to petitions to initiate trade regulation rulemaking proceedings be provided to FTC within 90 days of receipt of the petitions. The FTC also provided its staff with guidelines for making such recommendations.

Under the new procedures, the Secretary of the Commission will forward petitions to initiate rulemaking proceedings to the appropriate bureau or office. Within 90 days of receipt, the bureau or office must recommend to the commission that the petition be granted or denied, after considering, among other things --

- Whether the requested rule is within the commission's jurisdiction.
- Whether the rule would have greater beneficial than detrimental effects.
- Whether the commission has the resources to enforce the rule adequately.
- Whether the requested rulemaking proceeding could be undertaken in view of the commission's resources and other duties and commitments.
- Whether it is possible to make the above determinations given the commission's resources, commitments, and need to respond expeditiously to petitions.

The action was announced in response to petitions from several public interest groups seeking a change in the commission's rules of practice which would establish a specific time frame within which to act on petitions to initiate rulemaking proceedings. In denying the petitions, the commission emphasized the need for prompt responses to petitions for rulemaking, but stated that this could be accomplished administratively without the necessity for a formal amendment to the commission's Rules.

One of the commission's notification letters follows: (TEXT)

June 15, 1976

Mr. Tom W. Ryan, Jr.
Research Associate
Missouri Public Interest Research Group
P.O. Box 8276
St. Louis, Missouri 63156

Dear Mr. Ryan:

This is in response to the Petition for Rulemaking submitted by the Missouri Public Interest Research Group seeking amendment of the Commission's Rules to require that all petitions to initiate rulemaking proceedings be either granted or denied within 120 days.

After careful consideration, the Commission has determined to deny the petition. Although petitions for rulemaking should be acted upon as promptly as possible, a 120-day or other fixed time limitation incorporated into the Commission's Rules would be too inflexible to allow the Commission to properly address in all instances the variety of problems which may be presented by rulemaking petitions. A petition for rulemaking may require extensive investigation before a final determination can be made whether or not to proceed with a rulemaking proceeding. Depending on the existing workload and the complexity of the factual and legal issues involved in determining whether to undertake a rulemaking proceeding, it could take more than 120 days for the Commission to reach a well-formulated position on the petition. Therefore, the Commission does not consider it wise to attempt to force the process to fit within a formal inflexible timetable.

Although the Commission has determined to deny the MoPIRG petition, it recognizes the desirability of responding to rulemaking petitions as quickly as possible. Accordingly, the Commission has voted to incorporate in its Operating Manual a provision designed to provide it with recommended responses to petitions for trade regulation rulemaking proceedings within 90 days of their receipt. A copy of this provision is enclosed for your information. The Commission believes that experience with this provision should be evaluated before further consideration is given to a more formal solution.

In maintaining a flexible standard, the Commission's Rules are consistent with the Administrative Procedure Act. The "prompt notice" requirement of 5 U.S.C. §555(e) and the provision in 5 U.S.C. §555(b) that an agency conclude a matter presented to it within a reasonable time, allow for flexible standards which take into account such things as the workload of the agency and the complexity of the matter before it. Cf. FTC v. J. Weingarten, Inc., 336 F.2d 687 (5th Cir. 1964), cert. denied, 380 U.S. 908 (1965); Chromcraft Corp. v. EEOC, 465 F.2d 745 (5th Cir. 1972).

The 120-day provision of the Consumer Product Safety Act, 15 U.S.C. §2059(d), is not precedent for a general time limitation on all petitions made to the Federal Trade Commission. A reading of section 2059 in its entirety reveals that a court may compel the CPSC to act only if the petitioner can demonstrate that the consumer product presents an unreasonable risk of injury and that the failure of the CPSC to initiate a rulemaking proceeding unreasonably exposes the petitioner or other consumers to that risk. Thus, this provision is limited in its application to a specified area where the need for prompt action is great. In contrast, the proposed amendment submitted by MoPRIG would apply to all petitions regardless of any demonstrated need for expedited action.

Additionally, the Administrative Procedure Act, 5 U.S.C. §555(e) does not require that a "full explanation in writing" accompany each preliminary or final denial. It requires only a "brief statement on the grounds for denial." The Commission strives to give petitioners as complete an explanation as possible and will continue to do so.

By Direction of the Commission.

Charles A. Tobin
Secretary

(End of Text)

The enclosure referred to in the letter may be obtained from Public Reference Branch, Room 130, Federal Trade Commission, Washington, D.C. 20580.

- 0 -

**DEMOCRATIC PLATFORM: ONLY ONE MINORITY REPORT
FILED; LITTLE DEBATE AT CONVENTION EXPECTED**

The Democratic national platform will go to the floor of the party's national convention next month with only one minority report in opposition.

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The minority report which required 39 signatures of the 153-member committee, is a proposal to repeal the Hatch Act, which prohibits government workers from active participation in partisan political activities. That minority report was the only one which set the 5 p. m. June 16 deadline set by Minnesota Gov. Wendell Anderson, chairman of the platform committee.

Under existing party rules, the only way the platform can be amended on the convention floor is with such a minority report. The Executive Director of the Platform Committee, Michael Barnes, said that convention delegates can only vote yes or no on a minority report.

But little opposition is expected by the delegates of the moderate 104-page platform which avoided what Jimmy Carter's leading spokesman on the platform committee, Stuart Eizenstat called "red flag issues," such as abortion and busing. The central thesis of the platform adopted June 15, deals with achieving the goal of full employment and using additional tax revenues, gained from lowering the adult rate to 3 percent, to finance a federal income maintenance plan. Such a plan is aimed at providing a minimum income to both the working and nonworking poor, and would require those physically able to work to accept a job or job training.

A national health insurance plan endorsed in the platform calls for mandatory and universal coverage, financed by employer-employee payroll taxes and general revenues.

The platform also calls for a \$5 to \$7 billion cut in the defense budget and a delay in the production of the B1 bomber.

The text of the platform approved by the Democratic Platform Committee is in Section X.

- 0 -

AIRLINES: DELTA WINS NON-STOP AUTHORITY FOR BOSTON-ATLANTA, JOINS EASTERN IN MARKET

Delta Air Lines today won authority from the Civil Aeronautics Board to begin non-stop service in the Boston-Atlanta market and joins Eastern Airlines in the 14th largest U. S. market.

In announcing its decision, the board concurred with an administrative law judge's initial findings that the "adequacy of existing service is not per se a reason for maintaining monopoly service on a route where the evidence demonstrates that the market can support profitable competitive operations in that market."

In addition, the board noted that under the Federal Aviation Act, it is compelled to "foster competition as a means of enhancing the development of air transportation on routes which can support competing carriers -- except where the benefits of competition are outweighed by other public interest considerations."

Delta currently serves the Boston-Atlanta market, but must make stops along the way. In lifting this restriction, the board observed that its decision was consistent with long-standing policy to remove restrictions which no longer serves the public interest.

- 0 -

ENERGY: HOUSE COMMERCE COMMITTEE APPROVES SIMPLE THREE-MONTH EXTENSION OF FEA

An "insurance policy" bill (HR 14394) providing a simple three-month extension of the Federal Energy Administration (FEA) was approved by voice vote June 17 by the House Commerce Committee.

The bill would allow FEA to continue to function past the June 30 deadline for the renewal of the legislative authority for the agency should the House and Senate become embroiled in an extended conference battle over the two FEA extension bills passed recently. Reconciliation of the two bills could prove difficult because the Senate in passing the legislation (HR 12169) June 16 tacked on several controversial provisions which have not been considered by the House (DER 117, A-1 & B-1).

The Commerce Committee has asked the Speaker to place the bill on the House calendar for June 21. The Speaker's approval is likely. Passage of the bill by the House would require a two-thirds majority. The bill, once passed by the House probably would be sent straight to the Senate floor without referral to a committee.

The House and Senate plan to go to conference on the previously-enacted legislation sometime next week. There is hope by some on the Senate side that the FEA extension can be resolved in conference so that passage of the House "insurance policy" bill will be unnecessary.

The Senate has named the following conferees on the bill: Senators Abraham Ribicoff (D-Conn), Henry Jackson (D-Wash), Lee Metcalf (D-Mont), John Glenn (D-Ohio), Charles Percy (R-Ill), Jacob Javits (R-NY), and Bill Brock (R-Tenn). Several other senators were named to the conference, but only on the three titles which will be at the center of the controversy over reconciling the House and Senate versions. The Titles are Title III, Energy Conservation Standards for New Buildings; Title IV, Energy Conservation Assistance for Existing Buildings; and Title V, the Office of Energy Information and Analysis. Named to the conference for these titles were: Senators William Proxmire (D-Wis), Alan Cranston (D-Calif), Warren Magnuson (D-Wash), Ernest Hollings (D-SC), Frank Church (D-Idaho), Floyd Haskell (D-Colo), John Tower (R-Tex), James Pearson (R-Kan) and Clifford Hansen (R-Wyo).

In other action, the House Commerce Committee rejected an attempt to remove a patent licensing provision added to the Synthetic Fuels bill (HR 12112) by its energy subcommittee. The amendment offered by Rep. Clarence Brown (R-Ohio) was defeated 22 to 13.

The attempt to remove the section went to the heart of a growing debate over patent policy in the synfuels program. Rep. John Dingell (D-Mich), House Commerce Energy Subcommittee Chairman, defended the licensing provision. He said the patents and technological innovations developed under the government-financed synfuels program should be made available to other firms. The Government would assume the risks in the synfuels programs and therefore should be able to make the information gained available to other firms after appropriate fees or compensation are made to the original developer.

Brown, however, argued that the information should be protected because it would be the property of the company which developed it. Brown also said the Energy Research and Development Administration would be allowed to determine whether the information should be made available to the public instead of allowing it to be negotiated between ERDA and its developer.

- 0 -

DEFENSE: HOUSE REJECTS B-1 BOMBER DELAY, VOTES \$105.6 BILLION IN FY 1977 APPROPRIATIONS

Responding to pleas to show that the United States is "not going soft on defense," the House on June 17 rejected proposed amendments to the military appropriations bill (HR 14262) to delay initial production of the B-1 bomber and begin construction of another nuclear aircraft carrier, and voted a record \$105.6 billion for fiscal 1977.

The House action followed closely that taken the previous week by its Appropriations Committee which cut only \$600 million from the Administration's budget request. The House cut only another \$600 million, still leaving the appropriation \$13.6 billion over the action taken for the current FY 1976. It provides \$29.3 billion for procurement and \$10.7 billion for research and development for FY 1977, which starts October 1, 1976.

The B-1 program is the nation's largest military program and is expected to cost around \$21 billion altogether under the Air Force plan to procure 244 at an overall unit price of about \$88 million. The floor effort, defeated by a vote of 207-186, was a duplicate of the recent Senate action on the defense authorization measure that is now in House-Senate conference, and which would delay until next February a decision by the incumbent President on whether to initiate production.

President Ford favors award of a production contract around next December; Jimmy Carter, the apparent Democratic Presidential nominee, has spoken strongly against it; and the Democratic Platform Committee has adopted language supporting the delay of a production decision until February. The Administration has requested \$948 million to initiate production of the B-1 although it has not yet completed final prototype testing.

Another target of would-be military budget cutters, the Trident missile firing submarine system, failed to be badly damaged. An attempt to cut the \$880 million requested for new Trident missiles was rejected and a substitute approved reducing the amount by \$165 million while stretching the procurement by six months to allow defects in the missiles to be corrected. The Navy has said that it could accept the \$165 million cut and the stretchout because of the technical problems.

An amendment to cut \$350 million for advance procurement on a fifth nuclear carrier ultimately expected to cost around \$2 billion was rejected on the basis that it would delay construction by a year, to 1985, and add \$178 million to its cost. The request for the carrier money, originally expected to be sought next year, was only sent to the Congress recently. It had not been in the original budget submission and opponents claimed the late request was based on presidential campaign political considerations.

Some of the other amendments agreed to would:

- Strike \$120 million for the procurement of 24 A-7D jet aircraft (not requested by DOD).
- Cut \$74.1 million in Navy R & D funds but restoring \$50 million in such funds for the Trident program.
- Cut \$31.9 million for Air Force R&D.

Amendments that were rejected would:

- Reduce the overall defense appropriation by 3 percent, and an amendment to that amendment to reduce the overall defense appropriation by 5 percent for new obligational authority and not to exceed 10 percent for non-obligated authority.
- To strike \$15.1 million for the procurement of Belgian made machineguns.
- Cut \$297 million for procurement of additional Minuteman III missiles and \$20 million for the initiation of development of MK-12A reentry vehicles (warheads).

The measure now goes over to the Senate for action which is expected next week.

Meanwhile, the Senate Defense Appropriations Subcommittee approved for full committee consideration a \$104.7 billion military appropriations bill, about \$3.3 billion less than the Administration request (DER 117, A-5)

Logistics Studies: The House Appropriations Committee in its report was highly critical of "logistics studies" in the defense establishment. Commenting on an Air Force move to create a new Logistics Management Center at the Air University, the committee said it was "not certain if this (organization) is any more or less justified than the numerous other organizations within the DOD that are studying one or another aspect of logistics."

The committee reports that 24 DOD organizations, 93 Army organizations, 39 Air Force units, 51 Navy, 2 Defense Supply Agency, 20 other Government agencies, and 188 defense contractors are performing logistics studies. "The committee is concerned that many of these studies are never utilized and thus represent total waste." It is therefore having its investigations staff begin a detailed review "to determine the degree to which these studies are necessary and the manpower and funds expended on them. This will allow the committee to obtain a better understanding with respect to the use of such studies in changing DOD management procedures, and look for possible economies."

Regarding the USAF's new logistics management center, the report asserted that its creation "appears to be nothing more than the result of failure by the huge Air Force Logistics Command to do its job," citing the problems with development by AFLC of the Advanced Logistics System and the Standard Base Level Supply System.

- 0 -

FLU VACCINE: PARKE, DAVIS MAY NOT LOSE INSURANCE FOR SWINE FLU IMMUNIZATION PROGRAM

Parke, Davis Co., the drug firm which sent telegrams to the President and Congress on June 15 saying its insurance was being canceled for the swine flu immunization campaign, may not be in danger of losing its insurance.

A Warner-Lambert Company spokesman Ron Zier said the drug company is "hoping to continue our conversations" with insurers, "to see what can be resurrected."

Warner-Lambert is the parent firm of Parke, Davis, one of the four firms making vaccine for the massive immunization scheduled for the fall. Parke, Davis represents about 50 percent of the nation's influenza vaccine production capacity.

After the appeal on June 15 by Warner-Lambert the Ford administration sent draft legislation to Congress to guarantee the manufacturers against certain suits resulting from mass immunization.

Zier said the insurers have not notified Parke, Davis formally in writing of the cancellation. He said the firm "remains optimistic" that some or all of its coverage will be retained.

- 0 -

GOV'T FINANCING: TREASURY TO SELL \$2.5 BILLION IN FIVE-YEAR NOTES

The Treasury Department today announced it will auction \$2.5 billion of five-year, one-month notes to raise new cash.

The interest rate will be determined at the auction, as will the investment yield.

The minimum denomination available is \$1,000, and tenders must be received by Tuesday, June 29, at 1:30 p.m. Final payment is due Friday, July 9. Treasury said a 5 percent deposit of the face value is required when tenders are made.

- 0 -

MONETARY POLICY: HOUSE BANKING COMMITTEE
APPROVES INTERNATIONAL MONETARY FUND REFORM

The House Banking Committee has approved a bill (HR 13955) allowing the U.S. to ratify an International Monetary Fund agreement that sanctions the five-year-old system of flexible or floating exchange rates and eliminates the role of gold as a reserve asset.

The commission voted June 17 to send the measure to the full House with no major substantive changes. A number of technical amendments requested by the Treasury concerning language were approved routinely.

Rep. John H. Rousselot (R-Calif) offered an amendment requiring congressional approval of establishment by the IMF of any new trust fund designed to benefit a particular segment of the organization's membership. The amendment was approved but it will not affect the Third World trust fund recently set up by the IMF with proceeds from auctions of its gold stocks.

A committee staffer told BNA the bill is to be brought up for a vote on the House floor June 22 under the rules suspension procedure, whereby debate will be limited to one hour, no amendments will be allowed, and a two-thirds majority vote will be required for passage.

- 0 -

FOREIGN INVESTMENT: 9-VOLUME COMMERCE STUDY
FAVORS CONTINUATION OF OPEN DOOR POLICY IN U.S.

The foreign direct investment position in the U.S. totaled \$26.5 billion at year-end 1974 -- an increase of \$5.1 billion from 1973 -- and the Commerce Department sees no need to change the nation's open door, nondiscriminatory policy, the agency said today in a nine-volume study resulting from 18 months' work.

The impact of the Arab nations "looms rather small," Deputy Assistant Secretary Stanley Katz said in answer to a reporter's question at a news briefing on the report.

The Department has endorsed a Senate-passed bill authorizing it to periodically survey foreign investment here and U.S. investments abroad (S 2839), sponsored by Sen. Daniel Inouye (D-Hawaii). Katz said the study released today will serve as a "benchmark" for future annual reviews.

"Direct" foreign investment is defined as ownership of 10 percent or more of the voting shares, or the equivalent, in U.S. firms. The investment position is a net figure -- claims of parents on affiliates as reduced by affiliates claims on the parents. A Treasury Department study on portfolio investment has been submitted for printing and is due soon. Commerce's regular annual figures on direct investment will be published in August, Katz said.

In the trade area, U.S. affiliates of foreign parent companies accounted for 24 percent of total U.S. export and 30 percent of imports, the survey showed. In general, effects of foreign direct investment in the U.S. were found to be beneficial.

Among the major conclusions in the study were the following:

- "Foreign direct investments in the United States are significant in size and scope, but are a relatively small factor in the nation's overall economy."

- "The concern over massive foreign takeovers of U.S. industries, especially by the Middle East oil producing countries, is unsubstantiated."

- "The United Kingdom, Canada, and the Netherlands are the principal source countries of U.S. direct investments, but several other European countries and Japan have stepped up their investments here."

- Manufacturing (excluding petroleum refining) has been the leading foreign investment sector."

- "Factors encouraging investment here included dollar devaluation, the large U.S. market, relatively favorable labor conditions, and the "push" of overall economic conditions in other developed countries--a trend which is expected to continue.

- Foreign firms use many sources of funds, including U.S. banks, which in 1974 were the largest suppliers of capital for all foreign-owned affiliates in the U.S.

- Foreign ownership of farmland does not appear to be a threat but merits further investigation.

- There is significant technology transfer from foreign direct investment, although it is not the prime source. Management techniques tend to flow out and product and process technology flow in.

- U.S. taxation doesn't determine decisions to invest here, although it influences financing methods, business strategy, and the disposition of earnings.

Commerce wants the legislative authority under the Inouye bill to consolidate the data now collected by over 20 agencies, Katz said. The Department's Office of Foreign Investment in the United States (OFIUS) is collecting information covering individual investment transactions but is presently limited to balance-of-payments related items, the report said.

The Department also recommends new "benchmark" surveys every 10 years and reports for public use concerning foreign investments in the U.S. It finds these areas worthy of further study: labor effects of foreign direct investment, local impact studies, relationship of foreign direct investment to investment incentives, and investment in land.

Distribution Of Investments: About one-third of the investment was in U.S. manufacturing, mainly chemicals, food, and machinery. Finance, insurance, and real estate combined accounted for about one-fourth. Petroleum made up about one-fourth. Most of the remainder was in wholesale trade, the survey said.

In the chemicals sector, manmade fibers and pharmaceutical dyes were prominent, consultant Ada Wrigley said. Metals, especially aluminum processing, received some attention, she added.

About 4.9 million acres of land were reported as foreign-owned at the end of 1974. Of this, about 1 million acres were used for agriculture. (U.S. farmland is comprised of some 1.1 billion acres.) Western Europe, especially the U.K., and Canada accounted for most of the foreign land ownership. Some Middle East investors are known to have made land purchases through companies incorporated in Europe, the report said.

Outlook For Middle East: "Middle East investment in the United States may be severely inhibited only if U.S. public reaction is outspokenly negative towards an increase in such investment or if Middle East investors are unable to work out satisfactory arrangements for insuring their assets to at least some degree against the threat of inflation and devaluation," the report said.

The Commerce survey expects a major part of the investible surplus from Arab countries (particularly Saudi Arabia) into the U.S. to go into Government securities. It sees a trend away from large-scale direct investments in the U.S. petroleum, petrochemicals, and metals industries by these countries, with a "handful of exceptions," primarily by the Saudis and Iranians.

Private Middle East investors will become more sophisticated in the next five years and will consider direct investments in U.S. property or industry, although they now prefer more liquidity in their holdings, the report predicted.

Joint ventures may be organized with U.S. firms by large and successful Saudi and Kuwaiti merchant companies, but most of these will probably be in the developing countries of Asia and Africa, the survey added.

Japan's Investment: Japan's investment position was about 1 percent because large outstanding loans of U.S. affiliates to Japanese parent corporations offset the parents' investment in their U.S. affiliates.

However, U.S. affiliates of Japanese parents accounted for 22 percent of total foreign affiliate assets, 42 percent of their exports, 35 percent of their imports, and 27 percent of their total sales. All these proportions are the largest for any single country, the survey showed.

By contrast, the Middle East's 7 percent share of the position was almost entirely due to one government's participation in a U.S. -incorporated petroleum company with operating assets in that country, it added.

U.S. Affiliates: Total assets of U.S. affiliates were \$174.3 billion in 1974, the survey said. Nearly half (49 percent) were assets of affiliates in finance, insurance, and real estate, primarily banks. The petroleum, manufacturing, and wholesale trade industries each accounted for about 15 percent of affiliates' total assets.

Affiliates of European parents accounted for over half of affiliates' total assets.

Net property, plant, and equipment was 17 percent of affiliates' total assets. Liabilities accounted for 77 percent and net worth 23 percent of total liabilities and net worth.

Foreign parents' claims on their U.S. affiliates' assets of \$39.8 billion compare with foreign parents' net claims on their U.S. affiliates in the direct investment position of \$26.5 billion. Foreign parents' claims on U.S. bank affiliates that do not represent permanent investments are excluded from the direct investment position, but are included in the total claims of foreign parents. Also, outstanding claims of foreign parents are reduced by comparable claims of U.S. affiliates on their foreign parents.

The overall study was planned and directed by Milton A. Berger, Director of OFIUS. The benchmark survey was directed by George R. Krueger, Director, International Investment Division, Bureau of Economic Analysis.

Copies may be purchased from the Government Printing Office, Washington, D. C. 20402. Volumes 1 and 2--Report to Congress, Benchmark Survey--are sold as a set for \$6 (Stock Number 003-010-00044-9). Volume 3 - Industrial and Geographic Concentration (003-010-00045-7), costs \$4. Volume 4--Energy, Selected Natural Resources, Commercial Fisheries, Grain Trade, Banking (003-010-00046-5), \$2.

Volume 5--Investment Motivation, Financing, Management and Labor Practices (003-010-00047-3), \$7. Volume 6--Taxation (003-010-00048-1), \$4. Volume 7--Federal and State Law (003-010-00049-0), \$5.40. Volume 8--Foreign Investment in Land, Land Law (003-010-00050-3), \$4. Volume 9--Policies and Laws of Other Countries, Transfer of Technology, Accounting, Federal Agency Sources of Data, Bibliography (003-010-00051-1), \$3.85.

The cost of the total study is \$36.25.

The text of a summary of the findings in the report is in Section B.

- 0 -

**HMOs: HEW CERTIFIES TWO MORE HMOs,
FOR PURPOSES OF ACT'S SECTION 1310**

HEW has certified two more health maintenance organizations for the purposes of the HMO Act's Section 1310, bringing to 14 the number of HMOs that can, under certain circumstances, claim a right to inclusion in an employer's health insurance benefit package.

The newly qualified HMOs are Georgetown University Community Health Plan, Inc., in Washington, D. C., and the Health Care Plan of New Jersey, Inc., in Moorestown, N. J.

The HMO Act and its implementing regulations provide that employers with 25 or more employees who contribute to the cost of their employees' health insurance may be required to offer the employees membership in a qualified HMO. The obligation is triggered when the qualified HMO approaches an employer. The employer is required to contribute the same amount of money toward the HMO membership fee as it contributes to alternative forms of insurance.

The Georgetown HMO's service area includes the District of Columbia, the Virginia counties of Arlington, Fairfax, Prince William, and Loudoun; the cities of Falls Church, Fairfax, Alexandria, Manassas, and Manassas Park; and the Maryland counties of Montgomery and Prince Georges.

The service area of the New Jersey HMO includes Burlington County and adjacent municipalities in Camden County.

The 12 HMOs previously qualified by HEW include: Community Health Care Plan, Inc.; New Haven, Conn.; Genessee Valley Group Health Association, Rochester, N. Y.; Health Care of Louisville, Inc., Louisville, Ky.; Health Service Plan of Pennsylvania, Philadelphia,; Maxi-Care, Hawthorne, Calif.; North Communities Health Plan, Inc., Pittsburgh,; Piedmont Health Care Corporation, Greenville, S. C.; Portland Metro Health Inc., Portland, Ore.; Rhode Island Group Health Association, Inc., North Providence, R. I.; Rocky Mountain HMO, Inc., Grand Junction, Colo.; and Sound Health Association, Tecoma., Wash.

Detailed information on qualified HMOs is available for public inspection between the hours of 8:30 a. m. and 5:00 p. m., Monday through Friday, at the Offices of the Administrator, Health Services Administration, HEW, Room 14A-27, Parklawn Building, 5600 Fishers Lane, Rockville, Md. 20852.

Questions about the qualification process or requests for information should be directed to the same office.

- - End of Section A - -

SUMMARY BY DEPARTMENT OF COMMERCE OF PRINCIPAL FINDINGS IN REPORT TO CONGRESS,
June 17, 1976, ON "FOREIGN DIRECT INVESTMENTS IN THE U. S."
(TEXT)

Principal Findings

The U. S. Department of Commerce sees no need for tighter controls on foreign investment in the United States and affirms this country's open door, nondiscriminatory policy towards such investments, according to a report issued today by Commerce Secretary Elliot L. Richardson.

However, the report urges Congress to provide additional authority to monitor foreign investments here in the future.

The report, called for by the Foreign Investment Study Act of 1974, culminates a year and a half of intensive research, analysis and preparation by the Department of Commerce staff, augmented by contributions by other Federal Government agencies and private research contractors.

The report and appendices consist of 9 volumes totalling roughly 2,500 pages, and represent the first comprehensive study on the subject. A central element of the report is the 1974 benchmark statistical survey; the last such survey was in 1959.

Foreign-owned companies were found to have only a minor position in all major sectors of the American economy. In the foreign-trade area, however, U. S. affiliates of foreign parents accounted for 24 percent of total U. S. export and 30 percent of imports. Like domestic investments, the net effects of foreign investments on the economy are not easily measured, but on the whole they are considered beneficial. Marketing objectives and financial security are the principal motivating factors.

The report summarizes the Commerce Department's monitoring program and urges the passage of legislation to provide adequate authority to collect investment information on which it could base continuing reports.

Representatives of the Department of Commerce and the Treasury Department had provided summary findings in early May on foreign direct and portfolio investments respectively in testimony presented to the Foreign Commerce and Tourism Subcommittee of the Senate Commerce Committee, chaired by Senator Inouye.

Supplementing the earlier data, the report released today provides 132 statistical tables based on the benchmark survey and highlights the major findings therefrom. And for the first time, an analysis is made of the relative position of foreign direct investments in the various sectors of the U. S. economy, the motivations and mechanisms of such investments, their management and labor practices, and their economic effects.

U. S. policies and laws regarding such investments are compared with those of other industrialized countries regarding inward investments.

The foreign direct investment position in the United States was \$26.5 billion at year-end 1974. Direct investments constitute ownership by a foreign person of 10 percent or more of the voting shares or the equivalent of a U. S. business enterprise, and the investment position is a net figure--claims of parents on affiliates as reduced by affiliate claims on the parents.

About 90 percent of the position was in U. S. affiliates that were either wholly or majority owned by the foreign parents. The United Kingdom, Canada and the Netherlands each accounted for about one-fifth of the total. Japan's investment position was only about 1 percent, as substantial outstanding loans of U. S. affiliates to Japanese parents largely offset the parents' investment in their U. S. affiliates.

However, this figure understates the economic significance of Japanese investment. U. S. affiliates of Japanese parents accounted for 22 percent of total foreign affiliate assets, 42 percent of their exports, 35 percent of their imports and 27 percent of their total sales. All these proportions are the largest for any single country.

The Middle East's 7 percent share of the position was almost entirely due to one government's participation in a U. S. -incorporated petroleum company with operating assets in that country.

About one-third of the investment position was in U. S. manufacturing, mainly chemicals, food and machinery. Finance, insurance and real estate combined and petroleum each accounted for about one-fourth of the total. Most of the remainder was in wholesale trade.

Citing the difficulties of providing comprehensive and accurate data on land ownership, the study indicates that 4.9 million acres of land were reported as foreign-owned as of the end of 1974, of which 1 million acres were in the agricultural sector--about 0.1 percent of the 1.1 billion acres of U. S. farmland.

Small holdings and those for personal use were excluded from the survey. Western Europe (especially the United Kingdom) and Canada accounted for most of the foreign land ownership. Some Middle East investors are known to have made land purchases through companies incorporated in Europe.

The report is supplemented by a number of special studies covering the various aspects of foreign ownership of land. While informative, these studies underscore the difficulties of securing adequate data.

Foreign ownership of private lands is not substantially restricted since most states either treat aliens on an equal footing with U. S. citizens or impose only nominal restrictions on alien ownership.

Land recordation is local--generally at the county level--and not on a uniform basis. This, plus the lack of information about beneficial ownership and diverse techniques to avoid disclosure, means that there is no readily available way to obtain an accurate picture of foreign land ownership.

Such data as are available suggest that the amount of foreign-owned agricultural land and real estate is small, that most alien investors seem interested in long-term investments rather than short-term speculations, and that the use of farmland did not change after acquisition by nonresident aliens.

The investment position increased \$5.1 billion during 1974, consisting of net capital inflows of \$3.8 billion, reinvested earnings of \$1.6 billion, and small negative valuation adjustments. Earnings distributed to foreign parents amounted to \$5.1 billion.

U. S. affiliates accounted for 24 percent of total U. S. exports and 30 percent of imports. Total assets of foreign-owned firms were valued at \$174.3 billion at year-end 1974, of which more than half was accounted for by affiliates of Western European parents and over one-fifth by Japanese affiliates.

By industry, nearly half the assets was in finance, insurance and real estate--primarily in banking. Most of the rest was roughly equally divided between petroleum, manufacturing, and wholesale trade.

U. S. affiliates had sales of \$146.8 billion in 1974, with wholesale trade affiliates accounting for nearly half--mainly from sales of farm-product raw materials, metals and minerals, and motor vehicles.

U. S. affiliates employed almost 1.1 million persons in 1974, about half in manufacturing. Only about 5 percent were non-U. S. citizens. Wages and salaries totaled \$11.4 billion.

Relating the benchmark survey data to national statistics, U. S. affiliates accounted for about 1.6 percent of private nonfarm employment here and 1.9 percent of private nonfarm wages and salaries.

Total property, plant, and equipment of U. S. affiliates was \$45.5 billion at the end of 1974. Research and development expenditures by U. S. affiliates were \$0.8 billion in 1974.

Manufacturing facilities owned by foreign investors account for less than 6 percent of the nation's output in each of the broad industry categories, although the percentage is higher in some subsectors. Foreign-owned affiliates in the petroleum industry produced about 7 percent of the U. S. output of petroleum in 1974.

Foreign-owned bank affiliates had about 6 percent of total U. S. bank assets and foreign-owned insurance affiliates had about 6 percent of total U. S. bank assets and foreign-owned insurance affiliates accounted for about 5 percent of total premium income.

In addition to the benchmark survey, the report includes a number of qualitative studies produced by Government and private analysts.

Sectoral analysis was undertaken of the position of foreign investors in the U. S. economy. In addition, state maps and lists pinpoint foreign-owned manufacturing facilities.

In manufacturing, foreign investment was significant in a small number of subsectors, such as newsprint and several chemical industries--dyes, pharmaceuticals, and synthetic fibers. In the energy field, foreign-owned firms accounted for an estimated 13 percent of total U. S. refinery capacity in 1974, 10 percent of total gasoline sales, 7 percent of petroleum production, and 4 percent of natural gas production.

In other resource-oriented industries--non-energy minerals, forest resources, and the commercial fisheries industry--foreign participation is not large on a national scale. The foreign presence is significant locally in some cases and respecting a few noncritical minerals.

Alaska and Hawaii have numerous Japanese investments, but these constitute only a minor portion of total investment in either state. In Alaska the investments are centered in resource-related industries--particularly forestry and fisheries--and in Hawaii in tourist-related activities.

Two basic types of motivating forces presently account for the growth in foreign direct investments in the United States and these are expected to continue.

These are: first, the pull caused by the large U. S. market, relatively favorable labor conditions, and in some cases, access to comparatively inexpensive raw materials or special technologies; and second, the push of overall economic conditions in other developed countries accompanied by the increased financial, technical, and managerial capabilities of foreign firms for undertaking large-scale overseas investments.

Foreign firms of Western Europe and Japan that had developed export markets in the years following World War II by the late 1960s or early 1970s had caught up with U. S. firms in technological and management skills.

This factor, accompanied by the gradual equalization of U. S. labor costs with those abroad and two dollar devaluations led some foreign firms to serve the U. S. market by establishing or acquiring plants in the United States. Access to raw materials was important in other cases, particularly in Japanese investments in timber and coal, partly through long-term supply contracts.

Foreign firms were found to use many sources of funds in financing their investments in the United States, with foreign sources primarily important in the initial stage of investment. The benchmark survey indicated that increases in new U. S. affiliates' debt was primarily to U. S. sources.

A privately-contracted study of 69 investment transactions in recent years--including investment funding by and to the parent companies--indicated that the major share of investment funds for new transactions came from foreign sources.

An investigation of the management and employment practices of 100 foreign-owned subsidiaries in the United States found that practices of such companies were generally similar to traditional U. S. practices.

In most of these companies employment increases resulted from the investments, whether start-ups or acquisitions. U. S. nationals were found to predominate in managerial positions.

Another investigation was undertaken to ascertain the dimensions of technology transfers related to foreign direct investment in the United States.

Numerous cases of technology inflows and a small number of outflows were identified in the area of product and process technology. In this area the net balance appears to be into the United States; but in the area of management innovations and marketing techniques the net flow of technology appears to be outward.

U. S. taxation of foreign direct investments was examined, taking into account Federal and state tax law, the tax treaty program, and the home country taxation of foreign parent firms. U. S. taxation was found not to be a major determinant in the basic decision to make direct investments in the United States, although it bears on choices of financing methods, business strategy, and the disposition of earnings.

Tax treaties, home country exemptions, and foreign tax credits moderate the burden of the U. S. tax.

In presenting a comprehensive analysis of Federal and state law bearing on foreign investment, the report finds that national interests, and the need to provide adequate safeguards in the fiduciary and natural resources sectors of the economy, are served by Federal laws restricting and regulating investments by aliens in the fields of transportation, communications, energy and natural resource development, and banking, as well as by the Department of Defense's industrial security program and broad Presidential powers.

Additional restrictions are imposed in some fields, e. g. land ownership, insurance, and banking, by the states. The protective authority was developed over many years in response to perceived needs. Although diverse in many respects, collectively the measures provide the protection required.

Restraints on foreign investment in these fields are generally recognized as acceptable by the industrialized countries. In addition to specific Federal restrictions on foreign direct investment, the President has the power to take control of foreign-owned property in the case of war or national emergency, as well as authority to require all firms operating in the United States to supply goods for military requirements and to accept and perform defense contracts.

Based on intensive consultations with government officials, foreign investors and other knowledgeable persons abroad, the report found that, despite the existence of formal screening procedures in some countries, the other industrialized countries are generally liberal and nondiscriminatory in their attitude toward foreign investment.

Almost all regulate foreign investment in the communications, transportation, utility and financial sectors. Where government review exists, acquisitions are particularly scrutinized in the interest of retaining substantial domestic ownership in significant industries.

Foreign investors are generally treated on an equal basis with domestic investors, including access to investment incentives. Although a few countries expressed initial concern about investments from Middle East oil-producing nations, such investments have been few and the concern has diminished.

For the most part, no basic legislation or policy changes are underway in the industrialized countries respecting inward investments.

Taking into account the findings that foreign direct investments in the United States, while significant in size and scope, are a relatively small factor in the nation's economy; that massive foreign takeovers of U. S. industry have not occurred and are not portended; that, on balance, foreign investments here have essentially the same economic effects as investments by U. S. -owned firms; that a shift in policy toward increased restraint could have detrimental effects on the U. S. economy and on U. S. relationships with other countries; and that existing U. S. laws provide adequate protection of national interests, the report concludes that no change in the current U. S. open-door, nondiscriminatory policy toward foreign investment is necessary or desirable, but that the necessary steps be taken to improve the Government's information on such investments.

The report's basic recommendation in regard to data collection is to conduct benchmark surveys at least

once every 10 years and more extensive sample surveys on which to base annual estimates.

Implementation of this recommendation would require new legislative authority, since the Department of Commerce has very limited authority to conduct future benchmark surveys on foreign investment, and its authority to collect sample data is limited by the Bretton Woods Agreements Act to balance of payments information.

In addition to aggregate data, the report discusses data that are collected by various Federal Government agencies on individual transactions and companies. These data are collected pursuant to the agencies' own regulatory and program responsibilities and reporting requirements are not, in most cases, designed specifically to provide information about foreign investment in the United States.

Commerce's Office of Foreign Investment in the United States, established last year, is now obtaining pertinent data from other agencies as permitted by existing legal authority and is consolidating such data, along with information obtained from public sources, in a foreign investment data system.

The office will provide data and analyses to both the Executive Branch and the Congress for use in policy and legislative formulation and it plans also to publish materials for public distribution.

(End of Text)

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EXCHANGE OF LETTERS BETWEEN SEC CHAIRMAN RODERICK HILLS AND COMMERCE
SECRETARY ELLIOT RICHARDSON ON PROPOSED LEGISLATION CONCERNING
QUESTIONABLE CORPORATE PAYMENTS ABROAD
(TEXT)

(For report on exchange of letters, see DER 117, A-6. For text of letter from Richardson to Sen. Proxmire, see DER 116, B-1)

June 16, 1976

The Honorable Elliot L. Richardson
The Secretary of Commerce
Washington, D. C. 20230

Dear Mr. Secretary:

I was pleased to learn that the President and the Task Force support the Commission's proposed legislation submitted to the Senate Committee on Banking, Housing and Urban Affairs on May 12, 1976. Our proposal seems to have attracted considerable support in Congress as well, and presently appears to be the only one over which no substantial disagreement exists. I therefore am hopeful that the Congress will move swiftly to enact it while consideration is being given to the Administration's proposal and others. We will be prepared to offer our comments on the Administration's proposal when called upon.

Your letter of June 11, 1976, to Senator Proxmire seems to contain a curious criticism of the manner in which the Securities and Exchange Commission has dealt with matters involving questionable or illegal corporate payments. We consider your comments to be particularly unfortunate since neither you nor anyone on your staff previously discussed them with us.

You suggest that the Commission's enforcement policies in this area "may be based on tenuous legal grounds." This may reflect a failure to distinguish between some disclosures made voluntarily by certain corporations and the disclosures we have required under the federal securities laws. The Commission has to date

brought seventeen actions in the United States District Court alleging that the named defendants have violated applicable provisions of the federal securities laws by failing to disclose material domestic or foreign payments. In none of the cases that arose during their respective tenures did Mr. Garrett or Mr. Sommer, whose statements you quote, express opposition to the institution of the actions. All of the actions have been concluded by the entry of final judgments of permanent injunction against the corporate defendants, consented to by them.

The Department of Justice and Department of State expressed an interest in certain of these actions, and neither those departments nor any other branch of government previously has criticized the Commission's handling of these cases or the legal theories on which they were based. The Commission is concerned that your comments may cast an ambiguous cloud over our activities and that they may be erroneously cited by those who may be the subject of current or future enforcement actions.

You also characterize the present SEC policy as one of "continued zeal or militancy," apparently suggesting an antagonism to prior Commission action that could have been more responsibly raised in discussion directly with me or our staff.

You go on to indicate that "it may be asked whether the SEC, in its expansive definition of materiality, has not raised serious questions as to the purpose and scope of the securities laws and the statutory role of the Commission."

That your letter was delivered on the same day that the Supreme Court of the United States expressly endorsed the Commission's standard of materiality in TSC Industries, Inc. v. Northway, Inc. (No. 74-1471 June 14, 1976), slip op. at 11, n. 10, is perhaps of slight significance. Again, however, the more important point is that you seem to have challenged the Commission's action on a broad front without either identifying the in-

stances to which you refer or offering the Commission an opportunity to respond.

Your decision to use the Task Force report to broadly criticize the Commission and ambiguously challenge the authority under which we have acted is unfounded, inappropriate and ill-timed. It is our firm belief that the Commission's report to the Senate Committee on Banking, Housing and Urban Affairs on "Questionable and Illegal Corporate Payments and Practices" presents a responsible analysis of how the Commission is proceeding in this area and that our actions, so described, are entirely within our statutory authority.

If you believe we are incorrect, we would appreciate a more useful articulation of the problems you perceive.

Sincerely,

/s/ Roderick M. Hills
Chairman

cc: Members of the White
House Task Force on
Questionable Corporate
Payments Abroad

June 17, 1976

Honorable Roderick M. Hills
Chairman
Securities and Exchange Commission
Washington, D. C. 20549

Dear Rod:

Thank you for your letter of June 16, 1976 regarding my letter of June 11 to Senator Proxmire. I

sincerely regret that certain language in my letter has been construed as potentially undercutting the legitimate ongoing enforcement activities of the SEC. That, as, I am sure you appreciate, was certainly not my intent.

The purpose of the analysis set forth in my letter was to demonstrate that debate has existed and may continue regarding the proper scope of SEC enforcement under the doctrine of "materiality." I personally did not and do not wish to take a particular side in such a debate nor to affect in any way the seventeen enforcement actions already undertaken and successfully concluded by the SEC. For reasons stated in my letter to Senator Proxmire--above and beyond those pertaining to the "materiality" debate--I do believe that new legislation as proposed by President Ford is required to supplement and complement SEC activities if we are to deter fully, in the future, questionable or improper payments.

You know I feel that you and your fellow Commissioners, and the staff of the SEC, deserve great credit for taking a forceful position at the vanguard of those seeking to assure that the business standards of all American corporations comport with our national ethic. Further, I am particularly pleased that the President has decided to endorse the legislation which you proposed on May 12 to assure greater corporate accountability.

I would not want any misunderstanding my letter may have caused to interfere with our continued cooperation in the pursuit of adequate measures to restore and maintain confidence in American business conduct.

With warm regard,

Sincerely,

/s/ Elliot L. Richardson

-- End of Text --

-- End of Section B --

6-18-76

Legislation—Rulings—Fiscal Administration

(No. 119) G - 1

ACCOUNTING: INDUSTRY GIVES GENERAL APPROVAL TO PROPOSED STANDARD ON DEFERRED COMPENSATION, ASKS SOME CHANGES

Industry has given general approval to the concept of the proposed Standard 415 on Accounting for the Cost of Deferred Compensation, which would provide criteria for the measurement of the cost of deferred employee compensation and the assignment of such cost to cost account periods (DER 68, G-7, J-5)

The Council of Defense and Space Industry Associations, for instance, supported the major concept contained in the proposed Standard that deferred compensation costs shall be assigned to current cost accounting periods whenever a valid obligation has been incurred. It also supported the concept that the cost of deferred compensation to be paid in the future should be measured by the present value of the future benefits to be paid.

However, the Council, in common with several others of the approximately 15 comments received to date on the proposed Standard, found an inconsistency in the wording of paragraphs 415, 40(a), 415.50(a)(5), 415.50(b) and those contained in 415.50(d)(3) and (e)(3).

It stated that the first two paragraphs "clearly provide" that deferred compensation costs may be deemed to be incurred in and assignable to a current cost accounting period in which the award is made if certain conditions are met. Among these conditions is the reasonable probability that certain events will occur if the terms of the award require that these events must occur before an employee is entitled to receive the benefits. It cited "a stated period of service after award" as an example of such an event.

The third of the above paragraphs contains a further condition which requires that the cost of deferred compensation must be assigned to the period in which paid, if any of the conditions in 415.50(a) are not met.

The Council found 415.50(d)(3) and (e)(3) inconsistent with the three first listed paragraphs noted above and suggests that apparently the latter two have been included in an attempt to incorporate the provisions of Accounting Principles Board Opinion No. 12 (APB 12) into the proposed Standard.

CODSIA observed, however, that APB 12 is to permit incurrence and assignment of deferred compensation costs in the current period of award "unless it is evident that future services expected to be received by the employer are commensurate with the payments or a portion of the payments to be made." Under APB 12, a portion or all of the costs could be charged currently.

The Council found that paragraph 415.50(d)(3) of the proposed Standard "seems to imply that no costs would be charged currently and all costs would be assigned to future periods, where the award is conditioned upon a stated period of service following the award. APB 12 appears to imply that only the portion of the award that is applicable to future services, that is, the portion subject to variation for future services would not be assigned to the current period."

It suggested revising the Standard to remove the contradiction.

Among the paragraphs of the proposed Standard that CODSIA finds unnecessarily restrictive is 415.50(d)(3) which provides that any under-estimation of cost (due to an over-estimation of forfeitures) will not be recovered until paid. The belief was expressed that if a revised estimate results in an additional cost, it should be assigned to the cost accounting period in which the revision was made.

Allis-Chalmers found the proposed Standard providing a satisfactory method of assigning costs to contracts when the deferral period is short term, but finds that when applied to longer periods of future service, which could involve periods of up to 20 years, it "provides little or no recovery of costs applicable to the period of contract manufacture and delivery.

"The cost to monitor the program over long periods is another increase in the administrative burden while allowing only minimal costs to be applied to the contract."

While the Westinghouse Electric Corp. is in agreement with the purpose of the Standard ("and that it is a vast improvement over the present ASPR provisions"), it is similarly critical of some of what CODSIA criticized as contradictory coverage within the Standard.

It expressed the belief that if the Cost Accounting Standards Board believes that an allocation of certain costs over several years is required, it does not feel that such an allocation of costs should be made on a pro rata basis since the circumstances leading to the award occurred in the year of the award. It suggested that the cost would best be assigned entirely to the year of the award.

The December 15, 1975 CASB staff research paper contained a provision providing for amortizing over a ten year period the costs accumulated prior to the effective date of the Standard but not previously charged to contract costs. Westinghouse noted that the provision was dropped in the April 7, 1976 formal draft, and suggested that it be reinstated because "it is a vehicle for assigning previously uncharged costs over a reasonable period. Otherwise, records of these previously uncharged costs may in some instances be required for periods up to 40 years after the date of the award."

Armco Steel Corp. commented that the inclusion of a definition of deferred compensation that excludes normal year-end accruals for salaries, wages, and bonuses paid within a reasonable time after the end of a cost accounting period "is a definite improvement and eliminates many of our problems associated with this Standard," although it is still opposed to the use of present value of future awards as the assignable cost to the current accounting period.

Harold V. Braun, a CPA from Northridge, Calif., saw the proposed Standard as resulting in more work for the contractors and subcontractors, but "I do not foresee this effort being large, relative to the total costs and size of the particular contractor."

He suggested a minimum six month period before the Standard be made effective and that it be made effective with the beginning of the contractor's fiscal year in order to simplify the calculations of the amount of costs allocable to a specific year.

This latter, he observed, will also permit prime and subcontractors to modify their deferred compensation plans, since some of the plans are contingent upon profits and the amount recoverable in a particular year may influence the amount the contractor decides to award in a particular year.

The Energy Research and Development Administration warned that the dictum in the proposed Standard for accrual of the cost of deferred compensation creates a potential for overallocation in view of the fact that allowance of such cost under the Federal Procurement Regulations principles has been, for many years, predicted on a cash basis.

It suggested that the CASB consider the establishment of a transition procedure to accommodate the problem of overallocation, "a problem that inevitably arises on the change from a cash to accrual basis for purposes of cost recognition."

The provisions of the FPR specify that the cost of options to employees to buy stock of the contractor is unallowable, but even if the cost of options was allowable, ERDA recommended that "no cost be recognized until such time as the option is exercised, notwithstanding the provisions of 415.50(e)(2), which generally provide for recognition of the cost of options upon their award by the contractor to the employee." This recommendation is predicated, it was explained, on the fact that an option cost is not actually incurred until exercised by the holder.

Both U. S. Steel and Shell Oil observed that they anticipate no serious problems in complying with the proposed Standard.

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PENSIONS: PLAN FAVORING WOMEN STRUCK DOWN BY COURT OF APPEALS

A pension plan favoring women is illegal, even though the plan's disparities may have been intended "to compensate for... disabilities which females face in American society," the U. S. Court of Appeals for the Fourth Circuit rules.

The appeals court affirms the holding of the U. S. District Court for Maryland that a retirement plan established by the Flynn & Emrich Company of Baltimore unlawfully discriminates against male employees in violation of Title VII of the 1964 Civil Rights Act. The opinion is by Judge Winter, joined by Chief Judge Haynsworth. Senior Judge Bryan dissents.

Judge Winter finds that the employer has failed to prove that the disparities in favor of females in the pension plan are justified by business necessity, and in fact, has not met the broader test of showing that there is a rational basis to justify the discrimination between males and females. The court orders that two males, Vincent Chastang and Frank Ugiansky, be paid to similarly situated females who had retired.

In 1943, the company established a noncontributory retirement plan for salaried employees. While the plan permits early retirement for both male and female employees, the court notes that prior to 1970 males faced greater obstacles than females in qualifying for full benefits in the event they selected early retirement.

Under the plan's provisions, beginning at the end of a female employee's second year of employment, 10 percent of her proportionate share of the fund set up by the plan would become vested for each year of her employment. For example, at the end of 11 years, 100 percent of a woman's proportionate interest in the fund would have become nonforfeitable, and she would receive full benefits if she retired at any time thereafter.

However, only 5 percent of a male employee's proportionate interest in the fund would become nonforfeitable for each year of employment after the first two years. In addition, the court points out that after a man had accumulated a 50 percent nonforfeitable interest in his proportionate share of the fund, the percentage would not increase unless he worked until age 65, at which time he became entitled to full benefits based upon a 100 percent vested interest.

Chastang was employed by the company from 1937 to 1968 when he retired at the age of 52. Ugiansky was hired by the company in 1951 and retired in 1969, at the age of 42. Each man only received 50 percent of his proportionate share of the retirement fund.

Judge Winter cites the Supreme Court's 1971 decision in Phillips v. Martin Marietta (400 U. S. 542) for the proposition that under Title VII disparate treatment on the basis of sex in terms and conditions of employment can only be sustained if the employer is able to demonstrate that the disparity is required either by "business necessity" or by a bona fide occupational qualification. In the present case there was no claim that only females can perform the duties of the jobs covered by the plan, so only the "business necessity" test is relevant.

The company contended that the "business necessity" test is inapplicable to sexual, as distinguished from racial, discrimination "where the difference in treatment of employees of different sexes is justified as a means of redressing the disparity between the economic and physical capabilities of men and women."

The court states that unlike in cases involving the Equal Protection and Due Process Clauses of the U.S. Constitution, which require only that a "rational basis" for sex discrimination be shown, Title VII precludes all discrimination on the basis of sex unless justified by a compelling business reason.

The only justification put forth by the company for the disparity in the pension plan is that because of lack of physical strength women are unable to qualify for higher-paying manual labor jobs, and therefore should be favored in the plan, the court says.

Rejecting this argument, the court states: "But the plan at issue does not apply to manual laborers; it only applies to clerical and office workers. As the district court observed, 'It is a non sequitur to justify a discriminatory practice... on the basis that male manual foundry workers earn more than female office workers when the males who are discriminated against under the retirement plan are not the manual foundry workers but the male supervisory and office personnel.' Since the disparity in benefits does not meet even a rational basis test, it must be held in violation of Title VII.

"We find no other business necessity to justify the disparate treatment. The company's concern to compensate women because they generally earn less than men is belied by its failure to extend benefits to female foundry workers, the lowest-paid of the female employees."

The company also argued that the award of damages equal to the two male employees' total proportionate share of the retirement fund, less the amount they actually received, constitutes an improper retroactive application of Title VII. Flynn & Emrich asserted that the recovery should be limited to those benefits which were earned subsequent to the effective date of the 1964 Civil Rights Act.

Despite the Third Circuit's holding in Rosen v. Public Service Electric & Gas Co. (11 FEP Cases 330), the appeals court declares:

"The reduction of their (Chastang and Ugiansky) interest (in the fund) occurred by invoking the forfeiture provisions which became effective upon their early retirement. It is true that authorization for forfeiture existed from December 31, 1943--the date on which the plan was established--but the possibility of forfeiture was inchoate and not effective until they elected early retirement. Plaintiffs' early retirement did not take place until after the effective date of the Act. Thus, we see no retroactive application of the Act."

The Rosen case held that a group of male retirees were entitled to increased pension benefits for work performed after the effective date of Title VII because the plan discriminated on the basis of sex. However, the Third Circuit ruled that the males were not entitled to increased benefits for work performed prior to the effective date of the Act.

Turning to other issues in the case, the appeals court finds that the district court erred when it dismissed from the lawsuit the corporate trustee of the plan. The lower court had dismissed the Equitable Trust Company on the grounds that it "was little more than a nominal trustee," had "limited control over the administration of the fund," and was "a mere passive participant in the discrimination at the direction of the Trust Committee." Conceding that these findings may be correct, the appeals court states that Title VII makes no distinction between "active" and "passive" participants in acts of discrimination. However, because of Equitable's passive role in the unlawful discrimination, the court rules that it is not liable for damages, but should instead bear its share of the plaintiffs' court costs.

Finally, the appeals court sustains the district court's refusal to award Chastang and Ugiansky their attorneys' fees. The appeals court finds that there are special circumstances present that would make an award of attorneys' fees unjust in the present case.

It states: "Although the company was the originator of the illegal discrimination, it originated it on December 31, 1942, when such discrimination was not illegal. Having established the plan, the company did not retain an unrestricted right to amend the plan. It could accomplish an amendment only with the concurrence of a majority of the five members of the committee named by the company to administer it. Notwithstanding that the Act became effective on July 2, 1965, EEOC did not take the position that differences in optional or compulsory retirement ages based on sex violated Title VII until February 21, 1968. Even so, on September 13, 1968, general counsel to EEOC gave an opinion that retirement plans in conflict with the Commission's guidelines because they discriminated on the basis of sex could be gradually adjusted to bring them into conformity with the guidelines and that the judgment of the parties as to a proper schedule for adjustment 'would carry great weight.'

"The company, with the concurrence of a majority of the committee, caused the plan to be amended on December 8, 1970, to obviate the sex discrimination. . . Plaintiffs brought their suits on June 2, 1971, on their own behalf and not representing any class.

"We cannot say that it (the company) failed to act with reasonable dispatch as soon as a murky area of the law was clarified. It redressed its unintentional violation of the Act, and from the chronology of events we cannot infer that plaintiffs' law suits were a contributing factor."

Dissenting Judge Bryan finds fault with the majority's retroactive application of Title VII to the pension plan's benefits for the years before the statute became effective. He argues that the plan's payments are in no respect similar to the employment seniority rights which have been the subject of recent Title VII litigation. Judge Bryan would vacate the order of the district court insofar as it directs the company to pay Chastang and Ugiansky the 50 percent reduction of their benefits for the years preceding July 2, 1965--the effective date of the 1964 Civil Rights Act.

(Chastang v. Flynn and Emrich Company, et al.; Ugiansky v. Flynn and Emrich Company, et al.; CA 4, Nos. 74-2171, 74-2172, 74-2173, 74-2174, June 10, 1976.)

- 0 -

ACCOUNTING: CAS BOARD ISSUES MODIFIED INTERPRETATION
NO. 1 TO ITS STANDARD ON CONSISTENCY IN ALLOCATING COSTS

The Cost Accounting Standards Board today issued a somewhat modified Interpretation No. 1 to its Standard 402, "Consistency in Allocating Costs Incurred for the Same Purpose."

The interpretation is the board's first formal issuance of this type and reflects the board's past stated willingness to issue such a document where there is a question sufficiently serious and widespread that the board feels such action is needed.

The interpretation deals with the way Part 402 applies to the treatment of costs incurred in preparing, submitting, and supporting proposals--whether under the standard all such costs are incurred for the same purpose, in like circumstances.

Some of the points raised and recommendations contained in the 32 written comments on the proposed interpretation are accepted were by the board and appropriate modification to the draft proposal made; some were rejected with explanations in the prefatory comments preceding the interpretation.

Some of the commentators suggested the deletion or modification of the words "specific requirement"; others believed the provision should be retained as appropriate. Continuing in the belief that the "specific requirement" provision is the distinguishing characteristic of the Interpretation, the board has retained the phrase.

The board accommodated the suggestion that proposals prepared in order to comply with other contract provisions should be considered to be specifically required under the Interpretation.

The final paragraph in the February 4, 1976 proposed Interpretation has been revised to give recognition to the fact that some contractors' accounting practices now provide that all proposal costs are pooled and allocated indirectly, etc.

While acknowledging the possibility that some contractors may have to refine somewhat their present practices for distributing incurred labor costs, the board disagrees that whatever refinements may be necessary should be difficult or impractical to develop.

For purposes of clarification the board deleted the words in the introductory comments. "The contracting parties can determine that. . ." from the interpretation.

The text of the board's interpretation and the introductory remarks accompanying it are in Section J.

- 0 -

TAX REFORM: SENATE LIBERALS LOSE FIRST ROUND;
TAX SHELTERS AMENDMENT DEFEATED BY 46 TO 33 VOTE

Senate liberals lost the first round of their fight to strengthen a controversial tax revision bill, but were scrapping to regain lost momentum when the Senate adjourned for the weekend.

By a 46-33 vote, the Senate defeated late June 17 a liberal proposal to prevent wealthy individuals from using deductions from certain investments to reduce taxes on unrelated income, such as salaries and professional fees. The amendment was identical to tax shelter curbs approved by the House, except that restrictions would not apply to residential real estate ventures.

After losing this skirmish, liberals, who have forged an alliance with the Senate Budget Committee, counterattacked with an amendment to extend through September 1977 all existing individual and business tax reductions that are due to expire June 30. The bill (HR 10612) would terminate half of the individual cuts July 1, 1977.

The move, if successful, would put pressure on the Senate to close so-called tax loopholes to pay for the additional tax reduction. The Senate Finance Committee voted to end some of the tax cuts early so the bill wouldn't violate a congressional budget resolution. If the Senate votes to fully extend the reduction, it would have to raise more revenue through "reform" or be vulnerable to the charge of "busting" its own budget.

Adoption of the amendment also would represent a victory for Chairman Edmund Muskie (D-Maine) and the Budget Committee. The panel is trying to bring the tax bill in line with assumptions of the budget resolution--specifically, full extension of tax cuts through fiscal 1977 and \$2 billion in new revenues through tax reform. It would be a setback for Senate Finance Committee Chairman Russell B. Long (D-La) who claims that the Budget Committee can't tell his panel or the Senate what to do.

Long and his allies launched a minifilibuster to postpone a vote until next week. Muskie claimed to have the votes to pass the proposal.

During hours of haggling, Long argued that the amendment, offered by Muskie, would put the bill in violation of Congress' budget resolution. Needling the Maine Senator, he repeatedly referred to it as "Muskie's budget-buster."

But, Muskie claimed that Congress would not let the tax cut expire and would be faced next year with a bigger deficit unless it realistically addressed the issue now. He said the Senate could offset the \$1.7 billion cost by approving some of the tax tightening amendments pushed by liberals.

In an early Long victory, the Senate rejected part of the liberal package to raise roughly \$400 million a year by curbing real estate, farming, oil and gas, movie, sports, and equipment leasing tax shelters. Under the proposal, known as a "Limitation on Artificial Losses" (LAL), deductions from investments in these areas would be limited to the amount of related income.

Opponents asserted LAL would hurt the economy, cost jobs, and enormously complicate tax laws. They also claimed it favored persons already in a certain business over those investing in an area for the first time.

"It is totally unfair to say that if you are in a business, you can write off your losses against your income in that business, but if it is a perfectly legitimate business and you do not happen to be in it but you want to get in it, you cannot write off your losses," declared Sen. Bob Packwood (D-Ore).

"Those that have, get," Long said.

The Finance Committee bill would attack only the most flagrant tax shelters by prohibiting an investor from claiming deductions in excess of the amount he personally stands to lose. It also would make many investment writeoffs subject to an increased minimum tax.

But it is too early to say that some form of LAL won't be in the bill. Liberals plan to offer variations of their initial proposal.

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TAX REFORM: SEN. HASKELL OFFERS AMENDMENTS TO REDUCE BUSINESS INCENTIVES BY \$13.5 BILLION

Sen. Floyd Haskell (D-Colo) on June 17 introduced a package of amendments which would cut Social Security taxes for the average worker by \$115 per year and also substantially reduce taxes for small businesses.

Haskell, a member of the Finance Committee, proposes to finance the reduction through the repeal of several business tax incentives worth \$15.3 billion a year. He introduced his amendments to the House-passed tax reform bill, HR 10612, now before the Senate.

"On its way to reporting out what I think is a thoroughly bad bill, the Senate Finance Committee raided the paychecks of working Americans," Haskell said. "To finance new tax loopholes and a tax cut for the wealthiest 1 percent of Americans, the committee approved an early end to the \$35 individual tax credit and a delay in extending the retirement credit for older citizens."

Haskell said he hopes to repeal five "artificial deductions," those which have "absolutely no relation to actual business expenses and which, along with other special subsidies, have cut the corporate share of federal revenues by over 50 percent in the last 20 years."

"First to go should be the investment tax credit through which the Treasury pays for 10 percent of all equipment purchases by businesses," said Haskell. "The tab for this subsidy runs \$8 billion a year to U.S. taxpayers and is growing."

"There is a major exception to this repeal provision: I would retain the investment tax credit for small businesses and family farms. A generation of tax policy in this country has worked to the disadvantage of small businesses and to the very great advantage of large businesses. Yet it is the small business sector which is the most competitive and which provides most of the nation's jobs. Help for that sector fosters both jobs and competition.

"The family farmer has taken a beating, too, in recent years. Farm prices have not begun to keep pace with inflation which has hit the so-called farm inputs -- everything from fertilizer to tractors. There is ample justification for retaining the investment tax credit for these two groups."

Haskell's amendment would also repeal two forms of "rapid depreciation": the Domestic International Sales Corporation provision, and four kinds of subsidies which allow natural resource industries to exclude from taxation a large portion of their incomes.

"My amendment provides that we use the bulk of this revenue -- \$13.3 billion -- to ease the burden of social security taxes," the senator said. "This is the tax which falls hardest on the lower and middle income wage earner. It is deducted in a flat amount from every paycheck, regardless of size, and is therefore regressive, not progressive. It is the single biggest tax many Americans pay.

"By allocating \$13.3 billion to the social security trust fund, we can save the average worker \$115 per year. Employers will save a like amount for each \$12,000-per-year employee. To that extent, it will be cheaper for businesses to hire people than to buy machines which replace people."

Haskell targets the remaining \$2 billion of revenue raised by repealing the "big business subsidies" to cut taxes for small businesses, which he described as hard-pressed in many ways.

"The small business does not have access to capital markets and must rely for expansion on retained earnings," he said. "Second, it does not have the simple advantage of size and can therefore be squeezed out by larger firms. As we have seen repeatedly, business subsidies are typically designed for use by giant corporations, not small ones. But corporations of all sizes are treated identically for tax rate purposes.

Haskell said his amendment would correct that by extending the surtax exemption from \$50,000 to \$100,000. Under present rates, a small business would pay \$34,500 on \$100,000 of taxable income. Under Haskell's amendment it would pay \$23,000, a savings of \$11,500.

"My amendment offers several advantages," Haskell contended. "It would eliminate five of the most outrageous and least justifiable tax subsidies. It would target direct and immediate tax relief to low and middle income families and all employers through reduced social security withholding rates. And it would give small businesses a substantial tax cut."

Haskell said the tax cuts "are important but equally important is the move toward tax fairness."

"It is not so much the tax burden to which most people object as the fact that the burden falls unevenly and that some privileged taxpayers escape it completely," he said. "My amendment will change both the tax system and the way American taxpayers perceive that system."

-- End of Section.G --

NEW TAX DECISIONS AND RULINGS

U. S. Tax Court

TRAVEL EXPENSES--The taxpayer belonged to a local union in Washington, D. C., and lived near Washington. Because of a shortage of work in the Washington area, he was sent by his union to a job in Lusby, Maryland. He continued to live at home and drove to and from Lusby each working day. His first job at Lusby lasted five months, after which he received additional assignments extending over a continuous period of more than two years before his employment terminated due to an injury. The Commissioner concedes that the cost of driving between the taxpayer's home and Lusby was deductible if the taxpayer's employment was temporary in nature.

Held: On the facts of this case, the taxpayer's employment was temporary during his first job and indefinite thereafter.-- USTC (Tannewald, J.); Norwood v. Comr., 66 T.C. No. 45, 6/15/76.

Partial Text of Opinion: We are again faced with the troublesome question of how to deal with travel expenses (not involving an overnight stay) which partake of the character of commuting expenses. See William B. Turner, 56 T.C. 27 (1971), vacated and remanded on respondent's motion by an unpublished order (2d Cir. March 21, 1972). Respondent has chosen, however, to frame the issue before us in classical terms, namely, whether petitioner's employment in Lusby was "temporary" or "indefinite." Peurifoy v. Commissioner, 358 U.S. 59 (1958), affg. per curiam 254 F. 2d 483 (4th Cir. 1957) * * * As we view respondent's position in this case, he concedes that to the extent that we determine petitioner's employment at Lusby was temporary, Washington, D. C., was petitioner's principal place of employment and the expenses in question are deductible as ordinary and necessary business expenses under section 162(a). * * * Under the foregoing circumstances, our decision in Turner simply has no bearing herein. * * *

Where employment is temporary, some otherwise personal expenses connected with such employment may be considered to arise from the exigencies of business and not from the taxpayer's personal choice to live at a distance from his work. Employment is considered temporary if it "can be expected to last for only a short period of time." * * * Even if it is known that a particular job may or will terminate at some future date, that job is not temporary if it is expected to last for a substantial or indefinite period of time. * * * Employment which is originally temporary may become indefinite due to changed circumstances, or simply by the passage of time. * * * No single element is determinative of the ultimate factual issue of temporariness, and there are no rules of thumb, durational or otherwise. Each case turns on its own facts. * * *

In this case, petitioner had been working out of a Washington, D. C., local for several years when a shortage of work caused him to accept a referral to Lusby. Initially, he expected this assignment to last about six months; in fact, it lasted five. There was no reason in his experience to expect that this first job would result in his receiving further employment on the same project. * * * His employment at Lusby was, therefore, "temporary in contemplation at the time of its acceptance." * * * This temporary quality persisted while he remained on his initial assignment. In March 1972, however, his situation changed significantly.

Rather than being laid off as expected, with the rest of his crew, petitioner was asked to remain as foreman for another job. At that time, he must have realized that Bechtel valued his services and was willing to have him continue in its employ. After accepting the foreman's job, petitioner knew that he would continue working for Bechtel through the anticipated nine-month duration of that particular assignment, and, we believe, could reasonably have expected to be rehired for further jobs on the same project -- a project which he knew was a large one and would take a substantial amount of time to complete. The fact that petitioner thought that each particular assignment would be of short duration does not belie this conclusion; such subjective evidence, standing against the objective facts revealed by the record herein, is insufficient to carry petitioner's burden of proof. * * *

In fact, petitioner spent a total of more than three years continuously working on the Lusby site. There was every reason to believe he could have worked even longer if he had not been injured. This substantial actual duration is an additional persuasive reason for concluding that petitioner's employment with Bechtel was "indeterminate in fact as it develop[ed]," * * * without regard to the fact that it consisted of a series of shorter assignments. * * *

In the circumstances of this case, petitioner is entitled to deduct the expense of traveling to and from Lusby incurred up to March 1972, when his first job ended, and not thereafter.

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U. S. Tax Court

GROSS ESTATE--The decedent died while he was entitled to receive a legacy under the will of his wife who had predeceased him by 11 days. Three months after the decedent's death his executors disclaimed the legacy on behalf of his estate.

Held: The legacy is not includable in the decedent's gross estate.--USTC (Fay, J.); Hoenig v. Comr., 66 T.C. No. 46, 6/15/76.

Partial Text of Opinion: The decedent, Edward E. Hoenig, died while he was entitled to receive a legacy under the will of his wife, Ethel, who had predeceased him by eleven days. Three months after the decedent's death his executor executed an instrument purporting to disclaim the legacy on behalf of his estate.

Section 2001, Internal Revenue Code of 1954, as amended, imposes a transfer tax upon the termination by death of any of the legal incidents of property through which the use or economic enjoyment of that property may be controlled. * * *

At issue is whether the legacy disclaimed by the decedent's executors is to be included in his gross estate for purposes of section 2001.

If the legacy is not to be included in the decedent's gross estate, it must be established as a threshold matter that under the law of New York, the disclaimer of the legacy by the decedent's executors prevented title to the property bequeathed from vesting in him. * * *

Under the common law of New York, a testamentary legacy is an offer to the legatee of the property bequeathed to him. Pending an affirmative act demonstrating his acceptance of the legacy, the legatee is free to disclaim it, provided he does so soon enough after the death of the testator and the probate of his will that the property rights of others not be prejudiced by the disclaimer. If the legatee fails to act affirmatively within such a span of time, he is conclusively presumed to have accepted the legacy. * * *

If a legacy is accepted, the legatee's title to the property bequeathed to him relates back to the date of the testator's death. If, on the other hand, the legacy is disclaimed, title is deemed never to have vested in the legatee. * * *

We must decide if under the law of New York the executor of a deceased legatee can disclaim a testamentary legacy.

A statutory enactment currently in force in New York authorizes the executor of a testamentary legatee to disclaim legacies to which the legatee may have been entitled at the time of his death. N.Y. Est., Powers & Trusts, sec. 3-3.10, (McKinney Supp. 1975). Being effective as of November 3, 1971, that statute is inapplicable in this instance, * * * [the decedent having died on May 6, 1970], but the Surrogate's Court, New York County, has held that under common law the executor of a testamentary legatee is vested with authority similar to that conferred upon him by the statute. In Re Klosk's Estate, 169 N.Y. Law Journal 21 (Feb. 14, 1973).

Under Commissioner v. Estate of Bosch, 387 U.S. 456 (1967), we are not bound to follow Klosk in applying the law of New York; we shall do so in this instance, however, owing to the special competence of the Surrogate's Court and to the significant authority which supports its holding. * * *

Section 3-3.10, supra, establishes procedures for the disclaimer of a testamentary legacy. Those procedures, however, have no application in this instance. In Re Klosk's Estate, supra. The common law of New York prescribes no specific procedure for the disclaimer of a testamentary legacy, * * * other than to require that it be effected by an affirmative act. In Re Wilson's Estate, [298 N.Y. 398, 83 N.E. 2d 852 (1949)].

Having first obtained the consent of the sole party whose property interest would be affected by the action which they proposed to take [i.e., Jeanne, the Hoenigs' only child], the executor of the decedent's estate executed an instrument plainly purporting to disclaim the legacy to which the decedent was entitled under Ethel's will. Theretofore, neither the decedent nor his executors had accepted distributions of the property bequeathed to him, nor had they otherwise purported to exercise dominion or control over it. In our opinion the disclaimer was effective under the common law of New York and prevented title to the property bequeathed to the decedent from ever having vested in him.

If disclaiming a legacy prevents title to the property bequeathed from vesting in the legatee under applicable state law, Federal law will recognize the effect of the disclaimer for purposes of section 2001 under certain circumstances. * * * A legacy effectively disclaimed under state law will be excluded from the gross estate of the legatee if the disclaimer has been made within a reasonable time as understood in Federal precedents. * * *

A reasonable time does not necessarily terminate upon the death of the legatee where, as in this instance, applicable state law authorizes his executor to disclaim the legacy. * * *

A reasonable time may be deemed to have elapsed if benefits have been derived from the legacy, * * * or if the legatee has waited for events to disclose whether acceptance or disclaimer is the most advantageous course to be pursued. Cf. Pauline Keinath, 58 T.C. 352, 359 (1972), revd. on other grounds 480 F.2d 57 (8th Cir. 1973).

In this instance neither the decedent nor his executors accepted any distributions out of the legacy which was subsequently disclaimed; nor did any of them otherwise purport to exercise dominion or control over it; nor was there any waiting upon events. From the moment of Ethel's death it was apparent that the decedent could nowise benefit from the legacy to which he was entitled under her will. Whether the decedent accepted or rejected the legacy, it would be applied upon his death, which was expected shortly, to the benefit of Jeanne, the common object of his and Ethel's bounty. Reason therefore dictated from the first that the legacy be disclaimed. * * * This was done in compliance with the law of New York within the relatively brief period of four months from Ethel's death.

Respondent maintains that the disclaimer under consideration was part of a scheme in avoidance of taxation and for that reason should not be recognized for Federal estate tax purposes. This contention implies an incongruity of form and substance such as was found to exist in Pauline Keinath, supra. The disclaimer there in issue was so long delayed that it was deemed for purposes of Federal law to have been preceded by an acceptance. We therefore held that the disclaimer was in substance a transfer by the legatee of the property which had been bequeathed to him.

The form of the disclaimer now being considered was, in contrast, wholly consonant with its substance. Under the circumstances it would be unwarranted to withhold recognition from the disclaimer merely because the tax imposed under section 2001 might consequently be reduced. * * *

We therefore hold that the legacy to which the decedent was entitled under the will of his wife and which was disclaimed by his executors subsequent to his death is not includable in his gross estate for purposes of the Federal estate tax.

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U.S. Tax Court

LOSSES -- The taxpayers undertook to obtain mineral leases from all or most of the landowners in two large areas. They obtained leases from some landowners but not from others.

Held: (1) The costs allocable to unsuccessful negotiations are deductible as losses incurred in transactions entered into for profit.

(2) In the absence of objections from the Commissioner or specific evidence, the taxpayers' method of allocation of expenses between successful and unsuccessful lease negotiations on the basis of the respective acreages involved, is accepted. -- USTC (Hall, J.); Larsen v. Comr., 66 T.C. No. 47, 6/16/76.

Partial Text of Opinion: Respondent determined the following income tax deficiencies for petitioners in the following years:

| Petitioner | Year | Deficiency |
|------------|------|-------------|
| Larsen | 1968 | \$12,144.91 |
| | 1969 | 4,490.55 |
| | 1970 | 4,399.76 |
| Williams | 1968 | 12,301.35 |
| | 1969 | 5,862.83 |
| | 1970 | 3,137.89 |

These consolidated cases were submitted fully stipulated under Rule 122. Concessions having been made by the parties, the sole issue remaining is whether expenses incurred in connection with unsuccessful attempts to acquire oil and gas leases are deductible or instead must be capitalized as part of the cost of other oil and gas leases obtained in the same general leasing operation.

Petitioners Vincent T. and June Larsen were husband and wife during the years in issue, but were divorced at the time they filed their petition. June Larsen resided in Billings, Montana, when the petition was filed, and Vincent and respondent have stipulated, in accordance with section 7482(b) (2), that appeal will be to the United States Court of Appeals for the Ninth Circuit.

Petitioners Langdon G. and Joyce Williams resided in Billings, Montana, when they filed their petition. June Larsen and Joyce Williams are parties solely because they filed joint returns with their husbands, and Vincent Larsen and Langdon Williams will hereinafter be referred to as petitioners or as Larsen and Williams.

Larsen and Williams are geologists. During the years in issue they were involved in the acquisition and disposition of oil and gas leases in two projects hereinafter referred to as the Cannon Ball River Project and the Hannover Project.

Larsen and Williams, relying on geological information available to them, were able to interest two oil and gas brokers, J. O. Norsworthy and J. W. Reger, in associating with them for the purposes of acquiring oil and gas leases covering a substantial area. They planned thereafter to assign the leases to others for cash in excess of the cost of the leases plus retaining an overriding royalty interest.

During 1968 Larsen and Williams located an area, predominantly in Grant County, North Dakota, along the Cannon Ball River, hereinafter referred to as the Cannon Ball River Project, which they concluded might be developed into a possible oil and gas leasing project. As originally contemplated, the Cannon Ball River Project involved 775,000 acres, 175,000 of which were owned by the Northern Pacific Railroad. In 1968, Larsen, Williams, J. O. Norsworthy and J. W. Reger ("Larsen & Williams") attempted to acquire oil and gas leases on 600,000 acres (all of the 775,000 acres except for the 175,000 owned by the Railroad). Larsen & Williams succeeded in acquiring approximately 125,000 acres checkerboarded throughout the Project by the end of 1970. These leases were assigned by Larsen & Williams to Helmerick & Payne, Inc., for cash plus the retention by Larsen & Williams of an overriding royalty interest.

To acquire the oil and gas leases in the Cannon Ball River Project, Larsen & Williams hired landmen

who determined the owners of the minerals in the area and contacted them. Larsen & Williams incurred the following expenses (primarily for landmen) in acquiring some leases and in unsuccessfully attempting to acquire other leases in the Cannon Ball River Project:

| | 1968 | 1969 |
|------------------|--------------------|--------------------|
| Recording costs | \$ 2,650.25 | \$ 887.00 |
| Bank charges | 663.41 | 948.81 |
| Office expense | 112.46 | 2,529.30 |
| Notary and title | 10,083.67 | 1,604.15 |
| Commissions paid | 24,904.12 | 6,667.50 |
| Travel expense | 6,270.12 | 5,451.37 |
| Filing fees | -0- | 150.00 |
| Rentals | -0- | 19,833.03 |
| Total | \$44,684.03 | \$38,071.26 |

"Commissions paid" (except for \$5,000 paid to a Mr. Goodell) were fees paid to landmen on a daily charge basis and were payable whether or not the landmen's services resulted in acquisition of oil and gas leases. Through the efforts of the landmen, Larsen & Williams were able to obtain oil and gas leases covering approximately 125,000 acres within the Cannon Ball River Project.

"Notary and title" included title fees paid to title companies to determine the owners of the mineral interests in the Cannon Ball River Project, including the owners from whom Larsen & Williams were unable to obtain oil and gas leases.

Petitioners Larsen and Williams were also involved in an oil venture in Oliver County, North Dakota, known as the Hannover Project. The petitioners, who were associated with two other oil and gas brokers (not Norsworthy and Reger), originally contemplated acquiring oil and gas leases on 160,000 acres. During 1968 each petitioner's share of expenses paid (primarily for landmen) in acquiring leases and in unsuccessfully trying to acquire other leases in the Hannover Project was \$6,350.58.

Petitioners contend that they are entitled to a loss deduction or a business expense deduction for expenses incurred in unsuccessful attempts to acquire oil and gas leases. Respondent asserts that such expenses are capital expenses which must be added to the bases of oil and gas leases which were acquired. We hold that the expenses incurred attributable to the unsuccessful attempts to acquire leases are deductible under section 165(a) and (c) as losses incurred in a transaction entered into for profit. We therefore do not reach petitioners' alternative argument for a business expense deduction.

The parties agree that the expenses of acquiring specific oil and gas leases are capital expenses which are added to the cost bases of the leases acquired. * * *

The parties also agree that where expenses are incurred in an unsuccessful attempt to acquire an oil and gas lease, the expenses are deductible as a loss. Section 165(a) and (c). * * * The respondent has so stated in Rev. Rul. 71-191, 1971-1 C.B. 77. * * *

The issue in these cases, then, is a narrow one: Where expenses are incurred both for successful and unsuccessful attempts to acquire oil and gas leases in the same area, must all the expenses be capitalized and added to the bases of the leases acquired, or may petitioners deduct as a loss those expenses attributable to the unsuccessful attempts to acquire leases, and capitalize only

those expenses incurred in connection with leases actually acquired? We are cited no authority directly in point, but we hold for petitioners.

Petitioners argue that each lease or attempted lease is a separate property, as that term is defined in section 614 and section 1.614-1(a), Income Tax Regs., that the expenses incurred in successfully acquiring each separate property are properly capitalized and added to the basis of that property, and that the expenses of attempting and failing to acquire each separate property are deductible losses. We do not, however, see any purpose borrowing here from the technical aggregation rules governing the depletion allowance. Expenses incurred in unsuccessfully attempting to lease specific acreage from a specific landowner constitutes a loss, in our opinion, regardless of whether the acreage would or would not qualify as a separate "property" under section 614(a).

Respondent asserts that if petitioners' position were adopted by this Court, then in any transaction, lease or sale, where a taxpayer hires a third party to find property to lease or to find a purchaser for the sale of property, and the third party contacts more than one potential lessor or purchaser, the taxpayer would be entitled to expense a portion of the commissions paid to the third party, and such a result would present an administrative impossibility. No such result follows from our holding herein. Costs of sale of a parcel include costs of unsuccessful contacts, just as costs of a lease include costs of initially fruitless bargaining. Costs neither of sale nor lease include costs allocable to selling or leasing other nearby properties.

There is no logic in the respondent's position that if you seek one lease and don't get it, you can deduct your expenses under section 165 (Rev. Rul. 71-191, supra), but if you seek two leases and obtain only one, you cannot deduct the expenses connected with the lease you didn't get but must add them to the expenses of the lease you did get. We conclude that petitioners are entitled to deduct the expenses attributable to the leases they sought but failed to get. Each lease sought was a separate and severable transaction covering specific acreage, entered into or sought to be entered into between petitioners and the owner of such acreage. If expenses are incurred with respect to one parcel and no lease is obtained, the loss is just as real regardless of whether petitioners were or were not more successful in obtaining leases on nearby acreage.

The next problem is to determine the amount of those allowable expenses. Petitioners attempted to lease all 600,000 acres in the Cannon Ball River Project and all 160,000 acres in the Hannover Project. Petitioners acquired only 125,000 acres in the Cannon Ball River Project and alleged (but failed to stipulate) that they acquired 70,000 acres in the Hannover Project.

The records are such that it is not possible to establish the exact dollar amounts of the expenses attributable to the leases petitioners acquired. Petitioners therefore propose that the expenses to be deducted be allocated in the proportion that the acres petitioners were unable to acquire bear to the total acres, i. e. 475,000/600,000 times expenses incurred in the case of the Cannon Ball River Project and 90,000/160,000 times expenses incurred in the case of the Hannover Project. We do not consider this to be necessarily the best method of allocation, because, for example, it may well be that the costs of successfully leasing a parcel may substantially exceed those of unsuccessfully leasing one. However, respondent makes no issue of petitioners' allocation

method, and in the absence of any further evidence, we find this to be a reasonable approach to the allocation under the circumstances, subject to proof of the acres acquired in Hannover. The expenses referred to in the case of the Cannon Ball River Project are bank charges, office expense, notary and title, commissions paid (except \$5,000 paid Goodell), travel expense and filing fees, and in the case of the Hannover Project, the expenses were \$6,350.58 for each petitioner. The petitioners will be permitted to present proof of the number of acres acquired in the Hannover Project in connection with the Rule 115 hearing.

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U.S. Court of Appeals, First Circuit

GROSS ESTATE--The decedent husband possessed all the incidents of ownership in, and was the beneficiary of, two insurance policies on the life of the decedent wife. The husband feloniously shot and killed the wife and then killed himself. In an action brought in the state probate court by the executor of the husband's estate, that court held that the wife's estate had no interest in the policies or proceeds thereof, and that under *Slocum v. Metropolitan Life Insurance Co.*, 245 Mass. 565, 139 N. 816, the husband could not benefit from his felonious act and was not entitled to the proceeds of the policies. The probate court directed that the proceeds be paid to the three children of the deceased couple.

Held: The decedent wife's estate is liable for the estate tax on the value of the insurance policies. --CA 1 (*Coffin, J.*); *Draper v. Comr.*, No. 75-1409 and No. 75-1410, 6/14/76. (Rev'g USTC, DER 71 of 1975)

Partial Text of Opinion: On June 15, 1969, Harry E. Draper feloniously shot and killed his wife, Elizabeth C. Draper, and then shot himself, resulting in his own death on July 10, 1969. At the time of Elizabeth's death, Harry was the owner and named beneficiary of two insurance policies on her life. Because "[i]t would be contrary to public policy to permit a beneficiary who has feloniously taken the life of the insured to recover on the policy", *Slocum v. Metropolitan Life Insurance Co.*, 245 Mass. 565, 567 (1923); see *New York Mutual Life Insurance Co. v. Armstrong*, 117 U.S. 591, 600 (1886), the Probate Court held Harry to be estopped from receiving the proceeds, awarding them instead to the Drapers' three daughters. We are asked to adjudge whether this tragedy and the subsequent disposition, generated a tax liability in the estate of either Harry or Elizabeth, or no tax liability at all.

The facts are stipulated and somewhat sparse. On February 24, 1955, Harry purchased the policies, each in the face amount of \$50,000, from the John Hancock Mutual Life Insurance Company. He designated himself beneficiary, paid all premiums, and retained all incidents of ownership. Printed clauses in both policies providing for payment to the "executors or the administrators of the Insured" if no beneficiary were living at the insured's death were struck out and replaced with language requiring payment in such case to "Owner and Holder". At Elizabeth's death, these policies had a total net face value of \$78,345.68.

Harry's will, after bequests of tangible personal property to his wife and children, provided for the residue to be paid into the "Harry E. Draper Insurance Trust", the terms of which are not in evidence. Elizabeth's will, after provisions for her personal effects to her daughters and for her remaining tangible personal property to Harry,

created for the residue a trust under which Harry would receive the net income during his life; on his death the fund would be divided among her daughters, each daughter receiving income until age 30, at which time she would inherit her share of the principal.

In June, 1972, the executors of Harry's estate filed a petition in the Essex County, Massachusetts, Probate Court seeking a decree declaring to whom and in what amounts the proceeds of the policies were payable. The insurer had refused to turn over the proceeds to Harry's estate absent general releases from all parties in interest, but it answered this Probate petition "by way of interpleader," stating that while "it admits liability for the proceeds," it was unable to ascertain how to distribute them properly under Massachusetts law; and that "this respondent is merely a stakeholder in these proceedings, and is willing to pay into Court the said proceeds. . . ." John Hancock was allowed to turn the money over to the court.

In a terse decree without opinion, the Probate Court decided, in January 1973, that "as a result of his having feloniously taken the life of Elizabeth C. Draper, Harry E. Draper and his estate are estopped from receiving the proceeds . . . ; that the Estate of the late Elizabeth C. Draper has no interest in the aforesaid insurance proceeds, she merely being the insured and not the owner of said policies. . . ." The court then decreed, "in the exercise of its equity powers", that the proceeds would be distributed one-third to the deceased's eldest daughter, who was over 30 years old; and one-third each to the two younger daughters, except that they would enjoy only the income from their shares until they reached 30. Further provisions governing what should happen in the event either of the younger daughters died before reaching 30 tracked the terms of Elizabeth C. Draper's will.

In May, 1973, the Commissioner issued deficiency notices, taxing both estates for the full value of the insurance proceeds; in April, 1975, the Tax Court found that the proceeds should be included in Harry's estate, but not in Elizabeth's.

We first examine the appropriateness of taxing Harry's estate. The law of Massachusetts, embodied in the Slocum case (and following venerable United States Supreme Court precedent), establishes that Harry could not have the money. The Massachusetts Probate Court decreed that the money, instead, would go to the daughters. The parties agree that Harry's estate did not in fact dispose of the money, and whatever claim the daughters had could not arise through Harry. How, then, could tax liability be said to exist in Harry's estate?

The Tax Court reasoned that although Harry was estopped from receiving the proceeds, he always remained "owner and holder" of the policy, and the value of the policy was the value of the proceeds. We believe that this is unrealistic. The estate tax is imposed upon "the transfer of the taxable estate," 26 U.S.C. §2001. Nothing of value (with respect to the insurance in question) was transferred upon Harry's death. The policies were of no value to Harry or anyone inheriting from him, because the operation of the Slocum principle estopped him and his heirs from receiving the proceeds. Nor did a transfer of the proceeds take place by reason of Harry's death; their disposition would not have been altered had Harry remained alive.

The Probate Court found Elizabeth had "no interest" in the policies. Elizabeth's estate asks us to infer from this statement that the Probate Court's award of

the proceeds to the daughters, "in the exercise of its equity powers", generated no tax in her estate either. While this is an attractive approach with considerable surface plausibility, we do not believe that the question is so simple. There remain to be investigated the underlying rights and liabilities of the various parties involved. This is a question of Massachusetts law.

It is simple enough for equity to pronounce that the perpetrator of a wrongful act should not derive profit thereby; but the estoppel of the wrongdoer does not eliminate the problem of deciding who shall benefit from his wrongful act. The felonious slaying here could have generated a number of different claimants. Analytically, the first question is whether the insurance company might not receive the benefit, through being absolved of liability on the contract. Although John Hancock chose to pay out the amount of the policy, the issue will be considered, as it has important bearing on the ultimate resolution of the case.

The general rule is that the insurer remains liable. The American Law Institute Restatement of the Law of Restitution, §189(1), states it as follows:

"If the beneficiary of a life insurance policy murders the insured, he holds his interest under the policy upon a constructive trust for the estate of the insured." But it appears that this formulation may be based upon the assumption that the insured has some legal interest in the contract. Thus in Slocum the insured had retained an interest in the policy, and the court held the estate's administrators could still sue despite an 1894 Massachusetts statute giving the beneficiary a cause of action. See also Cleaver v. Mutual Reserve Fund Life Ass'n, [1892] 1 Q.B. 147 (Court of Appeal 1891). It will be apparent that these decisions do not expressly settle the situation where the contracting party is the one to whom receipt of the proceeds is barred equity. No Massachusetts decisions addressing this precise question appear to exist, but the legal commentary we have discovered on the subject is of the unanimous view that in such a case there would be no liability on the insurer. * * *

Thus the ALI, in Comment (e) (3), would recognize the following exception to liability on the part of the insurer:

"Where no one except the beneficiary or one claiming through him has any interest in the policy, and the beneficiary murders the insured, the insurer is under no liability on the policy. If the policy is taken out by the beneficiary, and the beneficiary at the time when he takes out the policy does not intend to murder the insured, but he later murders the insured, the insurer is under no liability upon the policy. In such a case it is against public policy to permit the beneficiary to profit by the murder, but there is no reason why the estate of the insured should be entitled to the proceeds. . . ."

We find this asserted principle troubling, at least with respect to this case. Contrary to the Comment's assertion, there is significant reason, at least under contemporary standards, why the insured here should receive the proceeds. As wife, mother and homemaker, she contributed in a very real sense to making payments on those policies possible, in the course of a marriage of close to thirty years, during which she raised three children.

Professor Scott, whose treatise (Trusts, 3d ed. 1967) parallels the Restatement, states that the exception to insurer liability applies where "the beneficiary takes out the policy and pays the premiums." § 494.2, at 3531. The exception cannot be based, however, upon the ab-

sence of the right to control the distribution of the proceeds, for Scott would apply the general rule of liability even if the insured (being the owner) had not reserved the power to change the beneficiary of the policy. § 494.1, at 3527. Thus the primary, if not the sole differentiating feature is who paid the premiums. In the context of the present case, at least, this appears to us an artificial distinction. The family economic unit is normally composed of both parents. If it is more often the husband who actually earns the salary, the wife participates by taking responsibilities at home, freeing the husband's time for his job. Indeed, the fact that there clearly is an "insurable interest" in the wife reflects this relationship. If both parents work, the availability of money for the premiums—even if only one signs the check—reflects the income of both. Or perhaps one parent may have independent resources. Further, the taking out of insurance presumably reflects a joint decision to divert money that otherwise might have been used by the parents themselves.

In the present case, money was paid to the insurer over a period of fourteen years. Moreover, the apparent purpose of the insurance was ultimately to provide for the children. They were the likely objects of Harry's insurance trust into which the proceeds would have gone had both mother and father died natural deaths. They were also clearly appropriate as recipients under the circumstances as they occurred. There seems to be no sense in saying that they should receive nothing because their father took their mother's life.

The equitable balance might well be different absent the existence of a closely interdependent, reciprocally supportive relationship between the owner-beneficiary and the insured, or, possibly, meaningful heirs for ultimate distribution. If no constructive trust were appropriate, liability would indeed be erased.

But in this case we do not believe that Massachusetts law would tolerate a denial of liability. We agree with the Tax Court that Slocum stands for the broad general proposition that the insurer should normally remain liable. At page 568 the Supreme Judicial Court quotes with apparent approval the following extract from Lord Esher in *Cleaver*:

"That the person who commits murder, or any person claiming under him or her, should be allowed to benefit by his or her criminal act, would no doubt be contrary to public policy. But this doctrine ought not to be stretched beyond what is necessary for the protection of the public; and, if the matter can be dealt with so that such person should not be benefited, I do not see any reason why the [insurers] in such case should be allowed to say, though they might have received premiums perhaps for thirty years and still retained the same, that public policy forbade their paying the sum of money which they had contracted to pay."

We believe that the Supreme Judicial Court, seeing no persuasive reason to alter this rule, would apply it to the Draper contract. We therefore think that John Hancock's tendering of the policy proceeds into court was neither charity nor public relations, but performance of a legal obligation.

To whom did the insurer owe the obligation? Technically, it was to Harry, as the contracting party. But it follows from Slocum that, in the words of the Restatement, § 189(1), "he holds his interests under the policy upon a constructive trust for the estate of the insured". This is merely the law's way of saying that under the circumstances equity treats the contract as for the benefit of the insured's estate and not for the

wrongdoer. The "trustee" exists only to make the new obligation fit within the legal construct adopted to accomplish the purpose. At Elizabeth's death all rights and duties were irrevocably fixed. Nothing of legal significance happened thereafter. Slocum required the proceeds to be distributed only to those claiming through Elizabeth.

While our analysis is engrafted upon the event, we look upon it as being consistent with the Probate Court's disposition. We agree with that court's analysis that Elizabeth, being the insured and not the owner, had no legal interest in the policies, it following that her estate had no such interest in the proceeds. This disclaimer and the disposition actually made fit comfortably with our conclusion that upon Elizabeth's death state law accorded to her the equitable right to dictate the distribution of the policy proceeds.

In one sense it was the state court itself which dictated the distribution, and the Probate Court decree can be read as claiming the power to distribute outside the terms of Elizabeth's will. It may well be that Elizabeth's lack of legal interest during her lifetime freed the court to look beyond the will. But while the Probate Court may have, "in the exercise of its equity powers", wide discretion, it must be that this action is reviewable; and the limits to the Probate Court's power, it seems to us, must be set by Elizabeth's reconstructed intent. If this is so, the focal nature of Elizabeth's estate is inescapable, and whatever the criteria under which state law rationalizes the result, the disposition retains the hallmarks of a testamentary disposition or a transfer pursuant to the laws of intestate succession. In each, public policy requires that someone, because of a relationship with the deceased, take part of the property. Here, the distribution did not vary from the will, but even if it had, the insured would have remained the linchpin. Since it is the relationship to the deceased which guides the transfer, it should be a taxable event for federal estate tax purposes. The distribution of the proceeds in accordance with Elizabeth's will, as if Harry had predeceased her, amounted to a constructive receipt by her administrators. This right brought the money into the gross estate for federal tax purposes under § 2042(1), which covers "the amount receivable by the executor as insurance under policies on the life of the decedent".

The fact that the Probate Court did not include the proceeds in Elizabeth's probate estate does not alter this analysis. It is axiomatic that federal law determines which state-created rights and interests are to be taxed, * * * and it is not uncommon for the federal gross estate to include items outside the probate estate. Here, although the proceeds physically by passed Elizabeth's probate estate, the underlying Massachusetts law which controlled their allocation dictated that it was through her equitable claim that the daughters took. Elizabeth's estate is accordingly liable for the estate tax.

It is tempting to treat the proceeds as awarded independently to the daughters, thus avoiding an estate tax; they have, after all, already suffered considerably from this tragedy. However, we are convinced that a ruling that the proceeds did not benefit Elizabeth's estate would be tantamount to a ruling that the insurer here was under no liability to produce them in the first place. Such a ruling, under the circumstances of cases like this, would be contrary to Massachusetts law, at least as we read the Slocum case, and would not serve sound policy.

Full Text of Concurrence: (Campbell, J.)

In holding Elizabeth's estate liable for federal estate taxes, the court decides on the authority of *Slocum v. Metropolitan Life Insurance Co.*, 245 Mass. 565 (1923), that Massachusetts law would not tolerate a denial of liability by the insurer. It seems to me that the present facts are quite different from *Slocum*, and while the Supreme Judicial Court might extend *Slocum* as the court suggests it might equally adopt the view of the commentators cited by the court that an insurer is in no event liable to one who is neither an owner nor a beneficiary of a life insurance policy. I prefer to leave the development of the law in this area to the state courts:

I accept the court's result here, however, because in the state proceedings the insurer, the representatives of both estate, and the Probate Court evidently took for granted that the insurer was liable. In the absence of any case law to the contrary, it seems fair to adopt this assumption of liability. And once we assume the insurer was liable, I agree that it must be liable to the estate of

the insured (viewed as if the murderer had died first) and that the estate is therefore taxable. The only alternative would be to turn the Probate Court into a kind of charitable foundation, with discretion vested in the judge to determine the most deserving beneficiaries, an approach that Massachusetts would be most unlikely to approve.

A point that may have been overlooked is the likelihood that the policy's paid-up value when Elizabeth died would not be held upon a constructive trust but would continue to belong to Harry despite his crime, falling into his estate at his death a month later. As policy owner, Harry presumably could have converted the policy into a certain sum at any time without killing the beneficiary. I do not read *Slocum* to deprive him of that much of the value of the policy because of his wife's murder, since that much of the value was not generated by the crime. It should follow that the cash value of the policy is taxable to the husband's estate and only the remainder to the wife's. Apparently, however, the Government never pursued this theory--perhaps for some good reason--and at this stage, given the posture of all parties, I concur in the court's disposition.

-- End of Section H --

COST ACCOUNTING STANDARDS BOARD'S INTERPRETATION OF STANDARD ON
CONSISTENCY IN ALLOCATING COSTS INCURRED FOR SAME PURPOSE
(TEXT)

Title 4—Accounts

CHAPTER III—COST ACCOUNTING
STANDARDS BOARD

PART 402—COST ACCOUNTING STAND-
ARD—CONSISTENCY IN ALLOCATING
COSTS INCURRED FOR THE SAME PUR-
POSE

Interpretation of Standard

Interpretation No. 1 to Part 402, Cost Accounting Standard, Consistency in Allocating Costs Incurred for the Same Purpose, is being published today by the Cost Accounting Standards Board pursuant to Section 719 of the Defense Production Act of 1950, as amended. (Pub. L. 91-379, 50 U.S.C. App. 2168). The interpretation deals with the application of § 402.40 of Part 402 to proposal costs. Section 402.40 provides that, "All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives."

A number of questions had been raised by both the Government and contractors as to how Cost Accounting Standard 402 is to be applied to the accounting for proposal costs and, particularly, as to whether all costs incurred in preparing proposals are incurred for the same purpose, in like circumstances. A proposed interpretation was published in the FEDERAL REGISTER of February 4, 1976, with an invitation to interested parties to submit written comments if the proposed interpretation did not respond fully, or did not respond clearly enough, to what the Board understood to be the questions which had arisen. The Board also supplemented the invitation in the FEDERAL REGISTER by sending copies of the proposed interpretation to several hundred organizations and individuals. The Board received 32 written comments from companies, Government agencies, industry and professional associations, and others. All of these comments have been carefully considered by the Board. The issues of particular significance which were discussed by respondents in connection with the proposed interpretation are summarized below, together with explanations of the changes made in the interpretation being published today. The Board takes this opportunity to express its appreciation for the helpful suggestions and criticisms that were received.

(1) *Specific requirement provision.* Several commentators, while suggesting changes to the proposed interpretation published on February 4, 1976, commended the Board for recognizing the problem with respect to the application of § 402.40 of Part 402 to the costs incurred in preparing proposals and believed that the interpretation would resolve a longstanding area of controversy. The most prevalent comments received dealt with costs incurred in preparing a follow-on proposal which is not specifically required by an existing contract.

Many commentators suggested that the words "specific requirement" be deleted and that, in lieu thereof, words such as "related to," "arising from," "identified with," or "directly associated with,"

be used. Other commentators, while agreeing that the "specific requirement" provision should be retained, suggested an expansion to also cover proposals "related to" existing contracts such as proposals for follow-on contracts. Still other commentators, however, believed that the "specific requirement" provision was appropriate and should be retained without addition or other change.

In the February 4, 1976, publication of the proposed interpretation, the distinguishing characteristic noted by the Board for determining if circumstances can be considered to be different with respect to costs incurred in preparing two proposals was whether one proposal was prepared pursuant to a specific requirement of an existing contract while the other was not. The Board continues in the belief that the "specific requirement" provision is the distinguishing characteristic and, accordingly, has retained this provision in the interpretation being published today.

Several commentators suggested that proposals prepared in order to comply with other contract provisions, such as when the Government exercises an unpriced option or when an option is repriced, should be considered to be specifically required under the interpretation. The Board believes that the interpretation being published today accommodates this suggestion.

One commentator suggested that the Board's intent be clarified with respect to whether only proposals required by line items in a contract are considered to be specifically required by the contract. The Board intended that, while the "specific requirement" could be a line item in a contract, it need not be. Proposals specifically required by any other provisions of a contract, such as the requirement in the Changes clause of Standard Form 32, that any "claim by the contractor for adjustment under this clause must be asserted within 30 days from the date of receipt by the contractor of the notification of change," are considered to be specifically required under the interpretation.

(2) *Indirect allocation of all proposal costs.* A few commentators recommended clarification of the final paragraph in the proposed interpretation as published on February 4, 1976. One commentator stated that the paragraph could be interpreted as authorizing contractors to allocate all proposal costs indirectly while another commentator believed that the subject of indirect allocation of all proposal costs should be developed later as a separate issue. The paragraph has been revised (a) to give recognition to the fact that some contractors' accounting practices now provide that all proposal costs are pooled and allocated indirectly and (b) to make it clear that, in this respect, no change in a contractor's accounting practice or allocation method is required by this interpretation if the cost accounting practice is being followed consistently and if the allocation method provides an equitable distribution to all final cost objectives.

(3) *Determination of cost accounting practices by contracting officer.* A few commentators stated that the words, "specific requirement of an existing contract" would place contracting officers in the position of determining cost accounting practices because they could determine whether there would be a specific requirement in a contract.

Contracting officers now decide for almost every contract whether to include or exclude specific contractual requirements covering a wide variety of activities. The Board believes that inclusion or exclusion of a specific requirement in a contract may influence the cost accounting practice being followed but the decision to include or exclude the requirement is not the determinant of the cost accounting practice.

(4) *Prospective application.* Two commentators suggested that, under this interpretation, certain proposal costs which some contractors have allocated directly to contracts will have to be allocated indirectly. One of the commentators recommended that, consequently, the interpretation should be applied on a prospective basis only.

Cost Accounting Standard 402, which became effective July 1, 1972, states that, "All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives." Interpretation No. 1 to Part 402 recognizes that the circumstances involved in preparing certain proposals are different from the circumstances involved in preparing other proposals. The interpretation explains when, under the Standard, certain proposal costs are consequently deemed to have been incurred in unlike circumstances and therefore may be accounted for differently.

Although the interpretation is being provided to explain in greater detail how Cost Accounting Standard 402 applies to costs incurred in preparing proposals, the Standard from its inception has applied to these costs in this way. As to any individual contractor, Standard 402 has applied to such costs from whatever date that Standard became applicable to that contractor. The commentator's recommendation therefore has not been accepted. In view of the widespread uncertainty over the application of Standard 402 to proposal costs, however, the Board believes that any failures to follow the Standard in this respect have been inadvertent. The Board also believes that any adjustments should be made with due consideration to the Board's statement on materiality.

(5) *Accounting for the cost of proposals for follow-on contracts.* Several commentators stated that the interpretation would create cost accounting problems with respect to accounting for the cost of proposals for follow-on contracts. The statement was made that a follow-on proposal is prepared by employees assigned full time to the on-going program and that it would be most difficult and impractical to attempt to separate their labor costs for preparing follow-on

proposals from their other labor costs of the on-going program.

The Board recognizes the possibility that some contractors may have to refine somewhat their present practices for distributing incurred labor costs in order to separate the costs of preparing proposals for a follow-on contract from the costs of an existing contract. The Board does not agree, however, that whatever refinements may be necessary should be difficult or impractical to develop.

(6) *Other comments.* One commentator suggested that it be clearly stated in the interpretation that proposal costs allocated direct to contracts will have overhead and General and Administrative expenses (including indirect proposal costs) applied. The Board agrees that proposal costs allocated direct to a contract are no different than any other costs allocated direct to that contract but believes this is self-evident and that no change in the interpretation is required.

Another commentator suggested that the word "bid" be added to the interpretation in conjunction with the word "proposal." The Board intends that the interpretation apply to a "proposal" as defined in 4 CFR, Part 400.

A few commentators requested clarification of the wording of the introductory comments and the proposed interpretation published on February 4, 1976. The introductory comments stated that, "Costs . . . are incurred in different circumstances . . ." whereas the proposed interpretation stated that, "The contracting parties can determine that the circumstances are different . . ."

Accordingly, the Board has deleted the words, "The contracting parties can determine that . . ." from the interpretation being published today.

Another commentator suggested that the phrase, "to all work of the contractor," in the last sentence of the third paragraph of the interpretation be clarified because some companies have several indirect cost pools for proposal costs, one for each major product line within a division. The commentator believed that the phrase could be misinterpreted as limiting the number of such indirect cost pools to only one pool for each division. It is not the intent of the Board to change, through this interpretation, any of the established cost accounting practices now being followed by contractors with respect to the pooling and allocation of indirect proposal costs. Accordingly, if it is the contractor's established cost accounting practice to pool and allocate indirect proposal costs by product groupings, he may continue to do so.

One commentator requested a statement in the interpretation with respect to solicited and unsolicited proposals, particularly as to "whether one or the other is properly included in the direct or indirect charge category." The determination as to like or unlike circumstances does not depend on whether a proposal is solicited or unsolicited. The test is whether the proposal was specifically required by an existing contract.

Therefore, the following Appendix is added to Part 402:

APPENDIX—INTERPRETATION No. 1

Part 402, Cost Accounting Standard, Con-

-- End of Text --

(Federal Register, June 18, 1976, pp. 24691--24692)

-- End of Section J --

sistency in Allocating Costs Incurred for the Same Purpose, provides, in Section 402.40, that ". . . no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective."

This interpretation deals with the way Part 402 applies to the treatment of costs incurred in preparing, submitting, and supporting proposals. In essence, it is addressed to whether or not, under the Standard, all such costs are incurred for the same purpose, in like circumstances.

Under Part 402, costs incurred in preparing, submitting, and supporting proposals pursuant to a specific requirement of an existing contract are considered to have been incurred in different circumstances from the circumstances under which costs are incurred in preparing proposals which do not result from such specific requirement. The circumstances are different because the costs of preparing proposals specifically required by the provisions of an existing contract relate only to that contract while other proposal costs relate to all work of the contractor.

This interpretation does not preclude the allocation, as indirect costs, of costs incurred in preparing all proposals. The cost accounting practices used by the contractor, however, must be followed consistently and the method used to reallocate such costs, of course, must provide an equitable distribution to all final cost objectives.

(Secs. 103, 84 Stat. 796 (50 U.S.C. App. 2168))

ARTHUR SCHOENHAUT,
Executive Secretary.

6-18-76

Production—Distribution—Foreign Trade

(No. 119) L - 1

FUTURES TRADING: CFTC ADVISORY PANEL URGES
MOVE AWAY FROM FIXED SPECULATIVE POSITION LIMITS

The Commodity Futures Trading Commission's Advisory Committee on the Economic Role of Contract Markets recommended on June 17 a gradual shift away from fixed speculative position limits as a futures market regulatory tool.

The Advisory Committee said market abuse may be prevented more effectively through improving futures contract terms and through an improved monitoring and surveillance effort conducted jointly by CFTC and the futures market exchanges.

In a report to the commission of its deliberations and conclusions, the Advisory panel said; "Speculative position limits should not play a major role in the CFTC's future regulatory program. These limits have serious shortcomings, in that they have no control over the activities of large hedgers, and virtually no control during the crucial delivery months.

"In the long run, speculative position limits should be supplanted by an improved monitoring and surveillance program designed to achieve orderly liquidation of expiring contract months. In the short run, speculative position limit levels should be substantially increased and the hedging definition should be broadened to improve commercial access to the markets," the committee said.

It concluded, "Speculative position limits are not a very powerful tool for the CFTC in its futures market regulatory role, nor are they likely to be. They provide little regulatory help for the majority of the commodities regulated by CFTC. Even for those commodities where the strongest case can be made for speculative position limits, they provide almost no help in the crucial delivery months."

The committee's other major conclusions and recommendations include:

- Properly functioning futures markets provide important economic benefits to the public and serve an important economic purpose, particularly through providing an institutional framework for competitive price discovery and for risk-shifting.
- Presuming that futures trading provides economic benefit to the public, the committee concurs with the commission's approach that a contract market designation should not be denied unless trading in the contract for which designation is sought would be contrary to the public interest. The concept of economic purpose should be a factor in the commission's determination of the public interest.
- In developing regulatory policy, one of the most productive areas for investment of commission resources is to see that contract markets improve their contract terms and conditions. Proper contract terms and conditions can be more effective in preventing market abuse than any regulatory action after an abuse has occurred.
- Essential elements of any contract for futures delivery are those relating to: number, location, and characteristics of delivery points; locational differentials; deliverable qualities; quality differentials. These provisions should mirror the marketing pattern of the cash commodity underlying the futures contract as closely as practicable. These provisions are particularly significant with respect to contracts on commodities which have limited storage life, major variations in quality, and/or a low value-to-weight ratio.

The Advisory Committee made the following judgments on delivery points:

-- "The contract must permit sufficient delivery capability to facilitate convergency of cash and futures without distortion.

-- "Delivery points should not be added or changed unless this is necessary either to permit sufficient delivery capability or to significantly increase the net economic benefits of the contract.

-- "When commercial differences between delivery points are not stable, the committee favors the 'safety valve' concept, in which the added delivery points are discounted by slightly more than the normal range of commercial differences. This reduces delivery uncertainty but provides the alternate delivery points to prevent any major market distortion.

-- "Proliferation of contracts should not concern the commission. Market users should be left free to decide which contract to use when more than one is available. The stimulus of interexchange competition can lead to better contracts.

-- "Daily speculative trading limits should be changed to daily limits on net position change. The daily trading limits may reduce liquidity during the later hours of daily trading. With a net position change limit, a speculator would be unable to build-up a big position and force an aberration in the market, but he would be free to "take the other side" throughout the most active trading day.

-- "Foreign traders can and should be accorded full access to U.S. futures markets, as we wish to have full access to theirs. Such access can be adequately policed by disclosure of foreign activities under the reporting requirements, and through the rules of the various exchanges and the CFTC. When those rules are not adequate, they may have to be addressed in international consultations.

-- "Daily price limits serve important purposes, but also hamper the price discovery process and present traders with the risk of being 'locked in.' The committee believes the limits have had a tendency to be too narrow, and that exchanges should be encouraged to examine the practicality of broadening them. The impact of such broadening on market liquidity, price discovery, and clearing house viability should be carefully evaluated over time.

-- "The Advisory Committee sees no reason to alter the existing commission policy on aggregation of accounts."

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**BANKING: REP. REUSS SLAMS FOMC
FOR DECISION TO KEEP MINUTES SECRET**

House Banking Committee Chairman Henry Reuss (D-Wis) criticizes sharply the May 24 action of the Federal Open Market Committee, which voted to keep secret further minutes on its meetings.

"For 40 years, since the beginning of the statutory Open Market Committee, it has made available detailed minutes (called Memoranda of Discussion) of its monthly meetings," Reuss said. "This complete record has been an invaluable help to journalists, economists, historians and to members of Congress themselves."

As a typical example of these detailed minutes of an FOMC meeting, Reuss pointed to the Memorandum of Discussion for the meeting that convened at 9:30 O'clock Tuesday morning, May 26, 1970 (the most recent, since FOMC releases are delayed five years.) The 55-page record contains a verbatim transcript of statements of a dozen Open Market Committee members, plus fascinating material from an even larger number of Federal Reserve officials present at the meeting.

All this, Reuss stated, is apparently ended by the terse one-line statement in the Open Market Committee's release of May 24, 1976: "...the Committee voted to discontinue its Memoranda of Discussion. The May 24 OMC release mentioned that the traditional summary of action (called Record of Policy Actions) would be expanded "to include more information concerning members' views." "Unfortunately," Reuss said, "the Record of Policy Actions for the meeting of April 20, 1976, which accompanied the May 24 release, is the usual sketchy 15-page summary--sanitized, bland, and thoroughly uninformative, with no mention of who said what. With the rest of the government rapidly moving toward more openness, it is discouraging to see the Fed retreating into even greater secrecy."

-- End of Section L --

**GOV'T CONTRACTS: HERCULES, INC. IS AWARDED
\$1.3 MILLION FOR WORK ON SPARROW ROCKET MOTORS**

The Navy has awarded Hercules, Inc., of Wilmington, Del., a \$1,368,000 modification to a previously awarded firm fixed price exercise of option contract for rocket motors for the AIM-7F SPARROW missile, with work to be performed in Rocket Center, W. Va. The Naval Air Systems Command is the contracting activity. (N00019-76-C-0307)

Other contracts announced by the Defense Department on June 17 include:

DEFENSE SUPPLY AGENCY

Toyad Corporation **/, Latrobe, Pa*/, is being awarded a \$1,148,939 firm fixed price contract for foam rubber bed mattresses, following competition in which 18 bids were solicited and one bid was received. The Defense Personnel Support Center is the contracting activity. (DSA100-76-C-1478)

ARMY

Vicon Construction Company, Lincoln Park, N.J. */, is being awarded a \$23,300,000 firm fixed price contract for construction of reinforced concrete box conduit in the open sections of the existing conduit systems thru Hartford, CT, at the Park River Local Protection Project, following competition in which 189 bids were solicited and 11 bids were received. The U.S. Army Corps of Engineers, New England Division, Waltham, Mass., is the contracting activity. (DA-CW-33-76-C-0098)

Federal Electric International, Inc., Paramus, N.J. is being awarded a \$2,939,847 cost plus award fee contract, of which \$341,000 is being obligated today, for non-personal services for the operation and maintenance of the Area Maintenance and Supply Facility-Europe (AMSF-E) in support of the U.S. Army Communications Command, following competition in which 45 bids were solicited and nine bids were received. The Procurement Division, Headquarters, Fort Huachuca, Ariz., is the contracting activity. (DA-EA-18-76-C-0117)

Hercules, Inc., Wilmington, is being awarded a \$3,006,497 modification to a previously awarded cost plus fixed fee contract for the maintenance and modernization of Sunflower Army Ammunition Plant, Lawrence, Kan. The U.S. Army Armament Command, Rock Island, Ill., is the contracting activity. (DA-AA-09-71-C-0336)

Hughes Aircraft Company, Culver City, Calif. is being awarded a \$1,897,442 firm fixed price contract for improved technical documentation and training on turrets and associated material for M60A1, M60A2, M551, M551A1 and M728 track vehicles, following competition in which seven bids were solicited and seven bids were received. Work will be performed in Los Angeles. The U.S. Army Armament Command, Rock Island, is the contracting activity. (DA-AA-09-76-C-2079)

NAVY

A.A. Beiro Construction Company, Inc., Alexandria, Va, is receiving a \$2,923,000 fixed price contract for the construction of an airmen's dormitory at the Andrews Air Force Base, Camp Springs, Md. The Naval Facilities Engineering Command, through the Commanding Officer, Chesapeake Division, is awarding the contract following competition in which eight bids were received. (N62477-75-C-0123)

Henry W. Tom, Construction Incorporated, San Francisco, is receiving a \$1,934,987 fixed price contract for the construction of a reserve training building at the Armed Forces Reserve Center, Fresno. The Naval Facilities Engineering Command, through the Commanding Officer, Western Division, is awarding the contract following

competition in which one bid was received. (N62474-75-C-6703)

Automation Industries, Inc., Vitro Services Division, Fort Walton Beach, Fla., is being awarded a \$1,970,617 modification to an existing cost plus firm fixed price contract for engineering and technical support for the installation of physical security systems at world-wide military installations. The Naval Electronic Systems Command is the contracting activity. (N00039-76-C-0028)

Tymshare, Inc., Arlington, Va., is being awarded a \$1,800,000 negotiated fixed price requirements contract for computer time sharing services for development of the Manpower and Personnel Management Information System. The Naval Regional Procurement Office, Washington, D.C., is the contracting activity. (N00600-76-D-1148)

General Dynamics Corporation, Pomona Division, Pomona, Calif., is being awarded a \$43,967,054 negotiated cost plus award fee contract for Standard Missile Units (Type 2), related tooling and test equipment, with options for additional test equipment and flight test services. The Naval Sea Systems Command is the contracting activity. (N00024-76-C-5115)

Lockheed Aircraft Corporation, Lockheed California Company, Burbank, */ is being awarded a \$3,000,000 modification to a previously awarded fixed price contract which provides for additional advance procurement funding for the P-3C aircraft. The Naval Air Systems Command is the contracting activity. (N00019-76-C-0433)

Aeronutronics Overseas Service, Inc., Willow Grove, Pa. */, is being awarded a \$1,300,001 modification to a previously awarded fixed price contract which provides for additional contract funding for equipment and services to support a precision measurement equipment laboratory for the SIDEWINDER missile. The Naval Air Systems Command is the contracting activity. (N00019-76-C-0315)

*/ Denotes labor surplus area
**/ Denotes small business firm

- 0 -

**METRIC SYSTEM: VOLUNTARY CONVERSION
TO HIGHLIGHT WEIGHTS-MEASURES CONFERENCE**

The Commerce Department's National Bureau of Standards provides the secretariat for the Conference. Harold F. Wollin, chief of NBS' Office of Weights and Measures, is the Conference executive secretary.

As a special event to commemorate the 75th anniversary of the National Bureau of Standards, the Conference will meet Wednesday, July 14, at NBS headquarters in Gaithersburg, Md. There will be a general session in the morning and a tour of NBS laboratories in the afternoon. John Byington, recently appointed chairman of the Consumer Product Safety Commission by President Ford, will be the featured speaker at the NBS session.

Others speakers on the Wednesday program will be Dr. Betsy Ancker-Johnson, Assistant Secretary of Commerce for Science and Technology; Dr. Ernest Ambler, Acting Director of NBS; Young D. Hance, Secretary of Agriculture for Maryland, and Dr. F. Karl Willenbrock, Director of NBS' Institute for Applied Technology.

The metric theme for this year's meeting was provided last December when President Ford signed the Metric Conversion Act of 1975. This Act established as national policy the encouragement and coordination of a voluntary changeover to the metric system.

The Act establishes a 17-member U.S. Metric Board, to be appointed by the President. One of the members will be selected from a list of qualified individuals recommended by the National Conference on Weights and Measures and standards making organizations.

The Act also instructs the Secretary of Commerce to consult with the National Conference on Weights and Measures to assure that State and local weights and measures officials are "appropriately involved in metric conversion activities" and are assisted in efforts to amend weights and measures laws.

One item on the meeting's agenda will be to set a timetable for developing model codes for regulating weighing and measuring devices that are all metric. Another item is the issue created by the introduction of automated processes to supermarket inventory and checkout systems.

Harold F. Wollin, chief of the National Bureau of Standards' Office of Weights and Measures, is the conference executive secretary.

As a special event to commemorate the 75th anniversary of NBS, the conference will meet on July 14, at NBS headquarters in Gaithersburg, Md. There will be a general session in the morning and a tour of NBS laboratories in the afternoon. John Byington, recently appointed chairman of the Consumer Product Safety Commission by President Ford, will be the featured speaker at the NBS session.

Other speakers on the program will be Betsy Ancker-Johnson, Assistant Secretary of Commerce for Science and Technology; Ernest Ambler, Acting Director of NBS; Young D. Hance, Secretary of Agriculture for Maryland, and F. Karl Willenbrock, Director of NBS' Institute for Applied Technology.

The metric theme for this year's meeting was provided last December when President Ford signed the Metric Conversion Act of 1975. This Act established as national policy the encouragement and coordination of a voluntary changeover to the metric system.

The Act establishes a 17-member U. S. Metric Board, to be appointed by the President. One of the members will be selected from a list of qualified individuals recommended by the National Conference on Weights and Measures and Standards making organizations.

The Act also instructs the Secretary of Commerce to consult with the National Conference on Weights and Measures to assure that State and local weights and measures officials are "appropriately involved in metric conversion activities" and are assisted in efforts to amend weights and measures laws.

One item on the meeting's agenda will be a timetable for developing model codes for regulating weighing and measuring devices that are all metric. Another item is the issue created by the introduction of automated processes to supermarket inventory and checkout systems.

- 0 -

AUTO SAFETY: DOT ADVISORY COUNCIL TO SPONSOR 3-DAY HIGHWAY SYMPOSIUM

The Department of Transportation's National Motor Vehicle Safety Advisory Council will sponsor a three-day symposium on highway safety July 12-14 in Washington, D.C.

Government officials, industry representatives, highway safety specialists and researchers are among the 200 persons expected to participate in the symposium.

The meetings, which are open to the public, will be held in the Federal Aviation Administration auditorium, Seventh and Independence Ave., S.W., beginning at 9 a.m. each day.

Herb Aikin of the Ministry of Transport and Communications in Ontario, Canada, will speak on Ontario's recently enacted safety belt usage law the second day, of the conference.

Recent data on air bag and belt restraint system effectiveness will be presented by Dr. Russell Smith of the National Highway Traffic Safety Administration's research and development office.

Richard G. Babbitt, American Safety Equipment Corp., will discuss new developments in safety belt design.

The first day of the meeting will focus on the safety of large trucks and the need for motor vehicle safety standards for these trucks. Among the scheduled speakers are Peter Griskivich of the Motor Vehicle Manufacturers Association, Henry Wakeland of the National Transportation Safety Board, Ralph V. Durham, of the International Brotherhood of Teamsters, and Arthur Fox of the Professional Drivers Council (PROD).

The symposium's third session on July 14, dealing with public policy and the politics of regulation, will look at the next 10 years of motor vehicle safety regulations.

Stuart M. Statler, minority chief counsel, Permanent Subcommittee on Investigations, Senate Government Operations Committee, will speak on congressional action to reform federal regulations.

Others who will present papers on safety regulation policy and politics include Lowell Dodge, special counsel, Subcommittee on Oversight and Investigations, House Interstate and Foreign Commerce Committee; William D. Eberle, president of the Motor Vehicle Manufacturers Association; and Judith Connor, Assistant DOT Secretary for Environment, Safety and Consumer Affairs.

The council, created by the National Traffic and Motor Vehicle Safety Act of 1966, advises the secretary of transportation on federal motor vehicle safety standards and programs administered by the National Highway Traffic Safety Administration.

The symposium is being held in lieu of the council's annual International Congress on Automotive Safety. That conference is planned for Boston in July 1977.

- 0 -

POSTAL SERVICE: USPS TO OPERATE ON HOLIDAY SCHEDULE ON JULY 4-5

The U.S. Postal Service will operate on a holiday schedule, Sunday, July 4, and Monday, July 5, 1976, in observance of the nation's 200th anniversary.

There will be no regular residential or business mail delivery on either July 4 or July 5. But in some areas, holiday lockbox service and special delivery will be available on both Sunday and Monday.

Mail will be collected from U.S. mail boxes designated with one or two white stars as late in the day as possible to meet established first-class mail service standards. Collecting will also be made from most residential boxes.

Normal weekend mail service will be provided on Saturday, July 3.

- 0 -

ANTITRUST: NRC TO HOLD HEARING ON PROPOSED NUCLEAR PLANTS IN FLORIDA

An antitrust hearing will be held on the application of Florida Power + Light Co. for licenses to build and operate two proposed nuclear power plants in Florida, the Nuclear Regulatory Commission's Atomic Safety and Licensing Board has announced.

The board has scheduled a prehearing conference to begin at 10 a.m. on July 7 at 7915 Eastern Ave., Silver Spring, Md.

In July 1975, the company submitted a portion of an application containing the information requested by the Attorney General for the required antitrust review. At that time, final decisions had not been reached with respect to site selection.

Following publication of the Attorney General's advice, two petitions to intervene and requests for hearing were filed. One was a joint petition filed by the Florida Municipal Utilities Association, the Fort Pierce Utility Authority of the City of Fort Pierce, the Gainesville-Alachua County Regional Electrical Water and Sewer Utilities, the Lake Worth Utilities Authority, the Utilities Commission of the City of New Smyrna Beach, the Orlando Utilities Commission and the Sebring Utilities Commission, and the 15 Florida cities.

The second petition was filed by Seminole Electric Cooperative and six of its members, Clay Electric Cooperative, Inc., Glades Electric Cooperative, Inc., Lee County Electric Cooperative, Inc. Okefenokee Rural Electrical Membership Corporation, Peace River Electric Cooperative, Inc., and Suwannee Valley Electric Cooperative, Inc.

The Atomic Safety and Licensing Board appointed to rule on the petitions determined that there will be a hearing and granted intervention to both groups.

The notice of hearing stated that members of the public who may wish to state their views on the antitrust aspects of the case by way of limited appearance are requested to inform the Secretary, Nuclear Regulatory Commission, Washington, D.C. 20555. A person making a limited appearance does not become a party to the proceeding but may state his position and raise questions at the hearing which he would like to have answered to the extent they are within the scope of the antitrust proceeding.

The purpose of the July 7 prehearing conference of the parties is to prepare for the later hearing. Matters to be dealt with include discussion of contentions, pending motions, identification of issues, need for discovery, and a schedule for further actions in the proceeding.

The conference is open to the public. However, limited appearance statements will not be received until the later evidentiary hearing.

- 0 -

PRODUCT SAFETY: PERCOLATORS, TRACTORS, WEED CUTTERS REPORTED TO SAFETY AGENCY

Potentially hazardous electric percolators, garden tractors, and weed cutters were reported to the Consumer Product Safety Commission.

Corning Glass Works, Corning, N.Y., notified the agency that as many as 360,000 of its Corning Electromatic Percolators may cause thermal burns because of a separation of the glass and stainless steel casing due to epoxy failure.

Massey-Ferguson, Des Moines, reported a potential failure of the split screen located on the outer face of the engine flywheel on an undetermined number of its garden tractors, with a possible resulting laceration hazard.

True Temper of Cleveland, notified the CPSC that there is a possible hazard of consumers being struck by flying blades and shafts from its standup model weed cutters. The firm said the potential defect involves the handle disengaging from the shaft of the cutter.

- 0 -

PRODUCT SAFETY: AMERICAN MOTORS TO NOTIFY 22,420 PACER OWNERS OF DEFECT

American Motors Corporation is notifying owners of 22,420 Pacers manufactured for the 1976 model year that the rear seats in the cars may not meet federal safety standards.

AMC announced June 11 that the hinge which holds the folding rear seat in an upright position may need strengthening, although there have been no reports of the seats falling forward, or accidents or injuries as a result of the suspected defect. The manufacturer said the affected cars were built between December 4, 1975, and March 19, 1976. Dealers will inspect the cars and make the necessary corrections at no cost to the owners, AMC said.

- 0 -

PRODUCT SAFETY: GOOD MANUFACTURING PRACTICES THEME OF ANNUAL PRODUCT LIABILITY CONFERENCE

Good manufacturing practices will be explored in depth at the seventh annual Product Liability Prevention Conference to be held August 23-25 under the auspices of New Jersey Institute of Technology's Division of Continuing Engineering Studies at the Sheraton Heights Hotel, Hasbrouck Heights, N.J.

With them "GMP . . . Or Else," PLP-76's emphasis will be entirely on newly promulgated good manufacturing practices for consumer, health, and nuclear products, and on the Magnuson-Moss Warranty Act.

The regulation fee, which covers a banquet, lunches, and a copy of the proceedings of the conference, is \$325 for sponsor organization members and \$350 for all others.

Additional information is available from Professor Richard M. Jacobs, New Jersey Institute of Technology, 323 High St., Newark, N.J. 07102; telephone: (201)645-5340.

- 0 -

SCIENCE: PHYSICISTS REPORT FINDING EVIDENCE FOR NEW SUPERHEAVY ELEMENTS

A team of scientists have found evidence for new natural elements, the first discovered in nature since 1925.

Dr. Thomas C. Cahill, a visiting professor from the University of California at Davis, announced the discovery June 17 at a meeting of the American Physical Society in Quebec.

Using a sophisticated particle accelerator, the team of physicists said that they found the new elements to be superheavy weighing more than uranium, the heaviest known element to date.

If the new findings are substantiated, they would affect present theories of the origin of elements and the geological history of the earth, the National Science Foundation said.

The discovery capped a seven-year effort by Robert V. Gentry of Oak Ridge National Laboratory in Tennessee, working under NSF and Energy Research and Development Administration (ERDA) funds.

Gentry discovered the new elements in minute quantities in clumps of mica rock. Experiments performed at Florida State University's Tandem Accelerator Laboratory involved sending energetic beams of protons through ancient crystals from thorium-bearing rocks. The proton bombardment of the crystals resulted in x-rays matching those predicted for the new elements, with atomic numbers of 116 and 126.

The experiments yielding the x-ray evidence were designed largely at the University of California at Davis by Cahill and Dr. Robert G. Flocchini.

The most dramatic aspect of the discovery, the scientists said, is that the superheavy elements were found in extremely ancient rocks. This indicates that they possess considerable stability. Many nuclear theorists had predicted much shorter lives for these elements, although scientists have theorized for a long time that elements considerably heavier and with much higher charge might exist.

The evidence for these new elements will be published by the scientists in the July 5, 1976 Bicentennial issue of the Physical Review Letters, a publication of the American Institute of Physics.

The scientists said if their work is substantiated, they would name one of the newly discovered elements "Bicentennium."

- 0 -

FOREIGN TRADE: FINAL COUNTERVAILING DUTY DETERMINATION ANNOUNCED FOR FINNISH CHEESE

Assistant Treasury Secretary David Macdonald has announced that the final determination in the countervailing duty investigation of cheese from Finland is that bounties or grants exist with regard to such cheese.

Such bounties or grants applicable to emmenthaler, which constitutes 70 percent of total Finnish cheese exported to the U. S., have been substantially reduced. This reduction was accomplished by virtue of the significant lowering of payments made by the Finnish Government on the export of emmenthaler cheese. Additional duties on Finnish cheese are therefore being waived under the provisions of the Trade Act of 1974.

On December 16, 1975 a preliminary affirmative determination on cheese from Finland was published in the "Federal Register." Interested persons were given an opportunity to submit written comments on the preliminary determination. No information was received to change the basis for the preliminary determination that the consumer subsidy, basic support subsidy, and freight subsidy constitute bounties or grants.

Accordingly, Treasury said, this final determination indicates that bounties or grants within the meaning of the Countervailing Duty Law, are being paid or bestowed on the manufacture, production or exportation of cheese from Finland. Based on the price adjustment made on emmenthaler cheese and on the condition that imports of other cheeses not exceed historic marketing levels, a temporary waiver of countervailing duties under section 331 of the Trade Act of 1974 has been issued for cheese.

In 1975, imports of cheese from Finland were valued at approximately \$10.1 million.

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TELEPHONES: FCC BEGINS INQUIRY INTO RECORDING DEVICES FOR POSSIBLE RULE CHANGE

The Federal Communications Commission has begun an inquiry into the use of recording devices in connection with telephone service in order to determine the need for a possible change in its regulations.

Under present FCC regulations, recording devices can be used in two-way telephone conversations using MTS (message Telecommunications Service) or WATS (Wide Area Telecommunications Service) provided: acoustic or inductive-type recorders are not used, an automatic beep tone warning device is used, and the recorder is capable of being disconnected or switched off at the will of the user.

Although it was steadfast in its belief in the policy of giving the utmost protection to privacy in telephone conversations, the commission said its efforts toward implementing and enforcing that policy need new scrutiny, and invited comments on the following issues:

- Whether the use of acoustic and/or inductive recorders should be permitted.
- Whether some warning technique other than, or in addition to, the beep tone should be used to protect privacy.
- Whether new or additional methods of enforcement of the beep tone requirement are needed, and if so, the methods to be employed.
- Whether additional exceptions to the beep tone requirements should be granted.
- Whether the beep tone requirement is enforceable.
- Whether the present rule induces a false sense of security in the telephone-using public.
- The definition and nature of the privacy interest to be protected.

Those exempted from the beep tone requirement include: FCC licensed broadcast stations when a two-way conversation is recorded solely for broadcast; two-way conversations recorded by the U. S. Secret Service that

concerns the safety and security of the President, members of his immediate family, or the White House; and recording equipment used at United States Department of Defense Command Centers to record emergency communications transmitted in part over the command centers' private line network.

The commission noted that its purpose in prescribing the beep tone requirements was to assure that recording of two-way telephone conversations using interstate or foreign MTS service or facilities was done only with the full knowledge and consent of all the conversing parties.

It said while it initially required that the beep tone be provided by the telephone company, its recent decision in Docket 19528, that eliminated the need for interconnecting arrangements when using FCC certified equipment, made the requirement that the carrier provide the beep tone impractical in many instances. It said therefore it recently ruled that the customer may now provide the beep tone.

The commission added that it recently denied a petition by Communication Certification Laboratory (CCL), seeking elimination of the beep tone requirement. CCL stated that the beep tone requirement was unenforceable and its continuance served only to induce a false sense of security in the telephone-using public.

FCC said these and other issues concerning the desirability and enforceability of the beep tone convinced it that a reexamination of its beep tone ruling was in order. Comments on the matter are due by July 23 and reply comments are due by August 13.

- 0 -

HOUSING: APPROVAL OF MODEL STATE MORTGAGE GUARANTY BILL HAILED AS MAJOR DEVELOPMENT

President Max Karl of the Mortgage Insurance Companies of America today hailed the approval of a model state mortgage guaranty insurance bill by the National Association of Insurance Commissioners as a major development in the evolution of the private mortgage insurance industry.

Approximately 17 states have enacted mortgage guaranty insurance laws and regulations since 1957, although the other states have permitted mortgage insurance through regulations under casualty and property insurance laws. Approval of the model law will encourage other states to enact separate mortgage guaranty insurance laws, Karl said.

The action of the NAIC at its annual meeting in New Orleans last week followed several years' work by the NAIC task force on mortgage guaranty insurance in the development of the model law. Assisting the NAIC task force was an advisory committee consisting of six representatives of member companies of the Mortgage Insurance Companies of America.

The model law follows the pattern of existing state laws by limiting private mortgage insurance activity primarily to single family residences; however, the model law would permit up to five percent of insurance in force to be on mortgages secured by residential structures of five units or more. To provide geographical diversity of risk the model law would prohibit a mortgage insurance company (MIC) from having more than 20 percent of its insurance in force in any one Standard Metropolitan Statistical Area.

To avoid conflicts of interest between MICs and lenders, the model law would prohibit MICs from maintaining deposits (other than normal checking accounts) with lenders for whom the MIC insures mortgages. The model bill requires that 50 cents of every earned premium dollar be placed in a 10 year reserve to be withdrawn before that time only if actual incurred losses exceed 35 percent of the corresponding earned premiums, and the insurance commissioner of the state where the MIC is domiciled concurs in the withdrawal.

-- End of Section M --

6-18-76

Business Statistics—Trends—Forecasts

(No. 119) N - 1

PROFITS: BEFORE-TAX PROFITS CLIMBED
7.8 PERCENT DURING FIRST QUARTER

Before-tax book profits of U.S. corporations advanced 7.8 percent--or \$10.4 billion --in the first quarter of 1976 to a seasonally adjusted annual rate of \$142.8 billion, the Bureau of Economic Analysis reported today. Corporate profits from current production rose 9.9 percent, or \$11.2 billion, to \$123.9 billion at an adjusted annual rate.

The figures on first-quarter profits have been revised since BEA's preliminary report on profits was issued a month ago, showing pretax profits had risen by 6.3 percent, or \$8.4 billion, and corporate profits from current production, by 8.1 percent, or \$9.1 billion.

BEA also said other revised data for January-March show "real" Gross National Product increased 8.7 percent at an annual rate instead of by 8.5 percent, as indicated in the last report on output.

In its report on profits, BEA said inventory profits--which are excluded from profits from current production but included in before-tax profits--declined during the first three months of 1976, so that profits from current production showed a more substantial gain than pretax profits.

The profits tax liability component of the pretax book profits total rose to an adjusted rate of \$57.1 billion--revised up from \$56.5 billion--as against a rate of \$52.5 billion in the fourth quarter of 1975.

After-tax profits climbed 7.2 percent, or \$5.8 billion, to a rate of \$85.7 billion, having shown a 1.4 percent rise in the fourth quarter. Earlier estimates of after-tax profits had put the first-quarter increase at 5.5 percent, or \$4.4 billion.

Dividends were up \$200 million in the first period to \$33.3 billion at an annual rate and were not revised from the preliminary report, but undistributed profits reflected an upward adjustment to \$52.4 billion from the \$51.0 billion total indicated a month ago. Undistributed profits rose \$5.6 billion during the first quarter.

Domestic profits from current production rose \$9.8 billion to \$116.8 billion instead of rising \$8.5 billion to \$115.5 billion, as reported earlier.

Profits of financial corporations were up \$1.1 billion to \$16.4 billion while those of nonfinancial firms increased \$8.7 billion to \$100.4 billion. The foreign component of profits--as measured by the net inflow of branch profits and dividends from the rest of the world--rose \$1.2 billion to \$1,620.4 billion to reflect additional data on investment income from abroad. The GNP implicit price deflator--one measure of inflation--rose at an annual rate of 3.6 percent in the first period, slightly above the 3.5 percent rate indicated in the earlier report on GNP.

Gross Domestic Product, at \$1,607.7 billion, was not changed from the preceding report.

(Tables on following pages)

| FORM BE-481 (8-21-76) | | Table 1 NATIONAL INCOME BY TYPE OF INCOME (Billions of dollars) | | | | | | | U.S. DEPARTMENT OF COMMERCE BUREAU OF ECONOMIC ANALYSIS | |
|--|---------|---|---------|-------------------------------------|---------|---------|---------|---------|--|--|
| | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | |
| | | | | I | II | III | IV | | | |
| | | | | Seasonally adjusted at annual rates | | | | | | |
| National income | 1,067.3 | 1,141.1 | 1,207.8 | 1,155.2 | 1,180.8 | 1,232.5 | 1,262.6 | 1,303.3 | | |
| Compensation of employees | 797.7 | 873.0 | 921.4 | 897.1 | 905.4 | 928.2 | 955.1 | 982.6 | | |
| Wages and salaries | 700.9 | 763.1 | 801.6 | 781.0 | 787.6 | 807.3 | 830.7 | 851.5 | | |
| Private | 552.3 | 603.0 | 627.3 | 611.7 | 615.0 | 631.9 | 650.5 | 668.8 | | |
| Military | 22.1 | 22.3 | 23.0 | 22.9 | 22.8 | 22.8 | 23.6 | 23.6 | | |
| Government civilian | 126.5 | 137.7 | 151.3 | 146.4 | 149.7 | 152.6 | 156.5 | 159.0 | | |
| Supplements to wages and salaries | 96.8 | 110.0 | 119.8 | 116.1 | 117.8 | 120.9 | 124.4 | 131.1 | | |
| Employer contributions for social insurance | 49.3 | 55.5 | 58.5 | 57.1 | 57.5 | 58.9 | 60.6 | 65.0 | | |
| Other labor income | 47.5 | 54.5 | 61.3 | 59.0 | 60.3 | 62.0 | 63.8 | 66.1 | | |
| Proprietors' income with inventory valuation and capital consumption adjustments | 91.7 | 85.1 | 83.3 | 79.6 | 78.6 | 88.0 | 87.1 | 85.0 | | |
| Farm | 32.4 | 25.6 | 24.6 | 21.0 | 20.1 | 29.3 | 28.2 | 25.3 | | |
| Nonfarm | 59.3 | 59.5 | 58.7 | 58.6 | 58.5 | 58.7 | 58.9 | 59.7 | | |
| Rental income of persons with capital consumption adjustment | 21.3 | 21.0 | 21.1 | 20.8 | 20.5 | 20.9 | 22.0 | 22.7 | | |
| Corporate profits with inventory valuation and capital consumption adjustments | 100.2 | 91.3 | 100.3 | 78.9 | 96.6 | 113.1 | 112.7 | 123.9 | | |
| Profits before tax | 117.0 | 132.1 | 116.8 | 97.1 | 108.2 | 129.5 | 132.4 | 142.8 | | |
| Profits tax liability | 48.2 | 52.6 | 45.6 | 37.5 | 41.6 | 50.7 | 52.5 | 57.1 | | |
| Profits after tax | 68.8 | 79.5 | 71.2 | 59.6 | 66.6 | 78.8 | 79.9 | 85.7 | | |
| Dividends | 27.8 | 31.1 | 32.8 | 32.1 | 32.6 | 33.5 | 33.1 | 33.3 | | |
| Undistributed profits | 40.9 | 48.4 | 38.4 | 27.5 | 34.0 | 45.3 | 46.8 | 52.4 | | |
| Inventory valuation adjustment | -18.4 | -38.5 | -10.8 | -13.7 | -6.6 | -9.9 | -13.1 | -11.4 | | |
| Capital consumption adjustment | 1.6 | -2.3 | -5.7 | -4.5 | -5.0 | -6.5 | -6.6 | -7.6 | | |
| Net interest | 56.3 | 70.7 | 81.6 | 78.7 | 79.7 | 82.2 | 85.7 | 89.2 | | |

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| FORM BE-729 (8-21-76) | | Table 2 GROSS DOMESTIC PRODUCT OF NONFINANCIAL CORPORATE BUSINESS | | | | | | | U.S. DEPARTMENT OF COMMERCE BUREAU OF ECONOMIC ANALYSIS | |
|---|-------|--|-------|-------------------------------------|-------|-------|-------|-------|--|--|
| | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | |
| | | | | I | II | III | IV | | | |
| | | | | Seasonally adjusted at annual rates | | | | | | |
| Gross domestic product of nonfinancial corporate business | 751.9 | 808.7 | 864.1 | 816.4 | 845.1 | 886.2 | 908.5 | 938.7 | | |
| Capital consumption allowances with capital consumption adjustment | 68.7 | 78.3 | 89.0 | 85.0 | 87.3 | 91.0 | 92.9 | 95.1 | | |
| Net domestic product | 683.2 | 730.4 | 775.0 | 731.4 | 757.8 | 795.3 | 815.6 | 843.6 | | |
| Indirect business taxes plus transfer payments less subsidies | 80.6 | 86.0 | 93.2 | 88.5 | 91.6 | 95.5 | 97.2 | 95.9 | | |
| Domestic income | 602.6 | 644.4 | 681.8 | 642.9 | 666.2 | 699.8 | 718.4 | 747.7 | | |
| Compensation of employees | 502.2 | 549.5 | 568.7 | 554.4 | 556.9 | 572.7 | 590.9 | 610.0 | | |
| Wages and salaries | 435.7 | 474.3 | 488.5 | 476.5 | 478.1 | 491.8 | 507.5 | 521.7 | | |
| Supplements to wages and salaries | 66.6 | 75.2 | 80.3 | 78.0 | 78.8 | 80.9 | 83.4 | 88.3 | | |
| Corporate profits with inventory valuation and capital consumption adjustments | 75.9 | 63.2 | 78.8 | 55.3 | 75.7 | 92.7 | 91.7 | 100.4 | | |
| Profits before tax | 92.8 | 103.8 | 94.7 | 73.1 | 86.8 | 108.5 | 110.5 | 118.5 | | |
| Profits tax liability | 39.1 | 42.7 | 35.9 | 27.1 | 32.0 | 41.6 | 42.8 | 46.8 | | |
| Profits after tax | 53.7 | 61.1 | 58.8 | 46.0 | 54.8 | 66.8 | 67.7 | 71.6 | | |
| Dividends | 24.5 | 30.5 | 30.8 | 30.1 | 30.7 | 31.3 | 31.2 | 29.7 | | |
| Undistributed profits | 29.2 | 30.6 | 28.0 | 15.9 | 24.0 | 35.5 | 36.5 | 41.9 | | |
| Inventory valuation adjustment | -18.4 | -38.5 | -10.8 | -13.7 | -6.6 | -9.9 | -13.1 | -11.4 | | |
| Capital consumption adjustment | 1.6 | -2.1 | -5.1 | -4.1 | -4.5 | -5.9 | -5.8 | -6.7 | | |
| Net interest | 24.5 | 31.7 | 34.3 | 33.2 | 33.6 | 34.4 | 35.8 | 37.3 | | |
| Gross domestic product of nonfinancial corporate business | 717.7 | 697.6 | 680.4 | 654.0 | 671.8 | 695.0 | 700.8 | 716.1 | | |
| Current dollar cost and profit per unit of constant dollar gross domestic product | 1.048 | 1.159 | 1.270 | 1.248 | 1.258 | 1.275 | 1.296 | 1.311 | | |
| Capital consumption allowances with capital consumption adjustment | .096 | .112 | .131 | .130 | .130 | .131 | .133 | .133 | | |
| Net domestic product | .952 | 1.047 | 1.139 | 1.118 | 1.128 | 1.144 | 1.164 | 1.178 | | |
| Indirect business taxes plus transfer payments less subsidies | .112 | .123 | .137 | .135 | .136 | .137 | .139 | .134 | | |
| Domestic income | .840 | .924 | 1.002 | .983 | .992 | 1.007 | 1.025 | 1.044 | | |
| Compensation of employees | .700 | .788 | .836 | .848 | .829 | .824 | .843 | .852 | | |
| Corporate profits with inventory valuation and capital consumption adjustments | .106 | .091 | .116 | .085 | .113 | .133 | .131 | .140 | | |
| Profits tax liability | .055 | .061 | .053 | .041 | .048 | .060 | .061 | .065 | | |
| Profits after tax with inventory valuation and capital consumption adjustments | .051 | .029 | .063 | .043 | .065 | .073 | .070 | .075 | | |
| Net interest | .034 | .045 | .050 | .051 | .050 | .050 | .051 | .052 | | |

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SOURCE: Bureau of Economic Analysis

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| FORM BE-821 (2-19-76) | | Table 3 CORPORATE PROFITS BY INDUSTRY (Billions of dollars) | | | | | | | U.S. DEPARTMENT OF COMMERCE BUREAU OF ECONOMIC ANALYSIS | |
|--|-------|---|-------|-------------------------------------|-------|-------|-------|-------|--|--|
| | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | |
| | | | | I | II | III | IV | I | | |
| | | | | Seasonally adjusted at annual rates | | | | | | |
| Corporate profits with inventory valuation and capital consumption adjustments | 100.2 | 91.3 | 100.3 | 78.9 | 96.6 | 113.1 | 112.7 | 123.9 | | |
| Domestic industries | 93.4 | 80.2 | 94.4 | 73.1 | 90.7 | 106.9 | 107.0 | 116.8 | | |
| Financial | 17.4 | 17.1 | 15.6 | 17.8 | 15.0 | 14.2 | 15.3 | 16.4 | | |
| Nonfinancial | 75.9 | 63.2 | 78.8 | 55.3 | 75.7 | 92.7 | 91.7 | 100.4 | | |
| Rest of the world | 6.8 | 11.0 | 5.9 | 5.8 | 5.8 | 6.2 | 5.8 | 7.0 | | |
| Corporate profits with inventory valuation adjustment and without capital consumption adjustment | 98.6 | 93.6 | 106.0 | 83.4 | 101.6 | 119.6 | 119.3 | 131.4 | | |
| Domestic industries | 91.7 | 82.5 | 100.1 | 77.6 | 95.7 | 113.4 | 113.6 | 124.4 | | |
| Financial | 17.4 | 17.3 | 16.2 | 18.3 | 15.5 | 14.9 | 16.1 | 17.4 | | |
| Federal Reserve banks | 4.5 | 5.7 | 5.7 | 5.7 | 5.7 | 5.4 | 5.8 | 6.0 | | |
| Other | 12.9 | 11.5 | 10.5 | 12.5 | 9.9 | 9.4 | 10.3 | 11.3 | | |
| Nonfinancial | 74.3 | 65.3 | 83.9 | 59.3 | 80.2 | 98.6 | 97.4 | 107.1 | | |
| Manufacturing | 43.8 | 37.4 | 45.2 | 30.0 | 43.5 | 54.6 | 52.8 | 59.5 | | |
| Nondurable goods | 19.9 | 25.6 | 27.4 | 21.1 | 27.5 | 30.1 | 30.9 | 34.3 | | |
| Food and kindred products | 2.2 | 3.3 | 6.6 | 5.9 | 7.1 | 6.9 | 6.4 | 7.9 | | |
| Chemicals and allied products | 5.5 | 5.3 | 6.3 | 4.4 | 5.9 | 7.5 | 7.4 | 8.5 | | |
| Petroleum and coal products | 5.1 | 8.9 | 6.3 | 5.2 | 7.0 | 6.0 | 6.8 | 7.6 | | |
| Other | 7.0 | 8.2 | 8.3 | 5.6 | 7.5 | 9.8 | 10.2 | 10.3 | | |
| Durable goods | 24.0 | 11.8 | 17.8 | 8.9 | 16.0 | 24.5 | 21.9 | 25.2 | | |
| Primary metal industries | 2.0 | 3.5 | 2.1 | 3.9 | 1.7 | 1.4 | 1.2 | 1.7 | | |
| Fabricated metal products | 2.4 | .9 | 2.7 | 1.5 | 2.7 | 3.4 | 3.0 | 3.2 | | |
| Machinery, except electrical | 4.5 | 1.8 | 4.8 | 3.4 | 4.7 | 5.8 | 5.3 | 6.2 | | |
| Electrical equipment and supplies | 2.7 | .9 | 2.0 | 1.2 | 2.2 | 2.5 | 2.2 | 2.8 | | |
| Motor vehicles and equipment | 5.8 | 1.0 | 2.0 | -2.2 | 1.1 | 4.9 | 4.2 | 6.2 | | |
| Other | 6.6 | 3.7 | 4.3 | 1.0 | 3.6 | 6.5 | 6.0 | 5.0 | | |
| Wholesale and retail trade | 14.4 | 13.4 | 21.9 | 16.3 | 21.0 | 25.1 | 25.4 | 30.4 | | |
| Transportation, communication, and electric, gas, and sanitary services | 8.5 | 7.0 | 8.8 | 5.1 | 7.9 | 11.3 | 11.0 | 9.5 | | |
| Other | 7.6 | 7.5 | 7.9 | 7.9 | 7.8 | 7.6 | 8.2 | 7.7 | | |
| Rest of the world | 6.8 | 11.0 | 5.9 | 5.8 | 5.8 | 6.2 | 5.8 | 7.0 | | |

| FORM BE-764 (2-19-76) | | Table 4 NATIONAL INCOME WITHOUT CAPITAL CONSUMPTION ADJUSTMENT BY INDUSTRY (Billions of dollars) | | | | | | | U.S. DEPARTMENT OF COMMERCE BUREAU OF ECONOMIC ANALYSIS | |
|---|---------|--|---------|-------------------------------------|---------|---------|---------|---------|--|--|
| | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | |
| | | | | I | II | III | IV | I | | |
| | | | | Seasonally adjusted at annual rates | | | | | | |
| National income without capital consumption adjustment .. | 1,075.7 | 1,157.5 | 1,231.6 | 1,176.1 | 1,203.8 | 1,257.8 | 1,288.7 | 1,331.3 | | |
| Domestic income | 1,066.7 | 1,143.1 | 1,221.1 | 1,166.4 | 1,193.7 | 1,246.1 | 1,278.0 | 1,318.6 | | |
| Agriculture, forestry, and fisheries | 47.8 | 43.8 | 44.7 | 40.6 | 39.8 | 49.4 | 48.8 | 46.7 | | |
| Mining and contract construction | 68.7 | 74.6 | 74.3 | 74.5 | 73.1 | 74.0 | 75.6 | 76.4 | | |
| Manufacturing | 281.6 | 294.2 | 303.1 | 280.7 | 295.0 | 314.4 | 322.2 | 339.6 | | |
| Nondurable goods | 106.6 | 119.0 | 124.9 | 114.2 | 122.3 | 129.2 | 134.0 | 141.1 | | |
| Durable goods | 175.0 | 175.3 | 178.1 | 166.5 | 172.7 | 185.2 | 188.1 | 198.5 | | |
| Transportation | 41.6 | 45.1 | 44.4 | 41.7 | 42.5 | 45.8 | 47.7 | 48.6 | | |
| Communication | 21.8 | 23.8 | 25.6 | 24.3 | 25.3 | 26.3 | 26.5 | 27.5 | | |
| Electric, gas, and sanitary services | 18.8 | 20.0 | 24.6 | 23.0 | 24.2 | 25.4 | 25.8 | 25.2 | | |
| Wholesale and retail trade | 162.6 | 178.5 | 201.1 | 190.9 | 197.6 | 205.5 | 210.4 | 220.5 | | |
| Finance, insurance, and real estate | 121.2 | 130.3 | 139.0 | 137.7 | 136.7 | 137.9 | 143.7 | 148.4 | | |
| Services | 136.9 | 152.7 | 167.3 | 161.9 | 164.7 | 169.0 | 173.7 | 178.5 | | |
| Government and government enterprises .. | 165.8 | 180.0 | 197.1 | 191.2 | 195.0 | 198.4 | 203.7 | 207.1 | | |
| Rest of the world | 9.0 | 14.4 | 10.5 | 9.6 | 10.0 | 11.6 | 10.7 | 12.7 | | |

SOURCE: Bureau of Economic Analysis

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USCOMM-DC 81201-PT77

FORM BE-679
(2-23-76)Table 5
GROSS NATIONAL PRODUCT AND DISPOSITION OF PERSONAL INCOMEU.S. DEPARTMENT OF COMMERCE
BUREAU OF ECONOMIC ANALYSIS

| GROSS NATIONAL PRODUCT | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | | | 1973 | 1974 | 1975 | 1975 | | | | 1976 | | | | | | | | | | | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---|---|------|---|-------------------------------------|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | | | I | II | III | IV | I | I | I | II | | | | III | IV | I | I | I | I | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | Seasonally adjusted at annual rates | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | Billions of current dollars | | | | | | | | | | | | | | | |
| Billions of 1972 dollars | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross national product (GNP) | 1306.3 | 1406.9 | 1498.9 | 1433.6 | 1460.6 | 1528.5 | 1572.9 | 1620.4 | 1233.4 | 1210.7 | 1186.1 | 1158.6 | 1168.1 | 1201.5 | 1216.2 | 1241.8 | | | | | | | | | | | | | | | | | | | | |
| Personal consumption expenditures | 808.5 | 885.9 | 963.8 | 926.4 | 950.3 | 977.4 | 1001.0 | 1029.6 | 766.3 | 759.8 | 766.9 | 752.3 | 764.1 | 771.6 | 779.4 | 794.5 | | | | | | | | | | | | | | | | | | | | |
| Durable goods | 122.9 | 121.9 | 128.1 | 118.9 | 123.8 | 131.8 | 137.6 | 145.9 | 120.9 | 112.5 | 109.5 | 104.0 | 106.5 | 112.3 | 115.3 | 120.8 | | | | | | | | | | | | | | | | | | | | |
| Nondurable goods | 334.4 | 375.7 | 409.8 | 394.1 | 404.8 | 416.4 | 423.7 | 430.8 | 309.6 | 303.0 | 306.6 | 300.8 | 306.9 | 308.0 | 310.7 | 315.7 | | | | | | | | | | | | | | | | | | | | |
| Services | 351.3 | 388.3 | 426.0 | 413.4 | 421.6 | 429.2 | 439.7 | 452.9 | 335.8 | 344.4 | 350.7 | 347.5 | 350.8 | 351.2 | 353.3 | 358.0 | | | | | | | | | | | | | | | | | | | | |
| Gross private domestic investment | 220.5 | 212.2 | 182.6 | 168.7 | 161.4 | 194.9 | 205.4 | 232.2 | 207.4 | 180.0 | 138.3 | 129.7 | 124.1 | 147.8 | 151.4 | 168.1 | | | | | | | | | | | | | | | | | | | | |
| Fixed investment | 203.0 | 202.5 | 197.3 | 193.5 | 191.1 | 197.1 | 207.4 | 216.7 | 191.4 | 172.2 | 148.8 | 148.7 | 144.8 | 148.7 | 153.0 | 157.5 | | | | | | | | | | | | | | | | | | | | |
| Nonresidential | 136.5 | 147.9 | 148.5 | 149.3 | 146.1 | 146.7 | 151.9 | 158.1 | 131.3 | 127.5 | 112.2 | 115.2 | 110.8 | 110.6 | 112.3 | 115.6 | | | | | | | | | | | | | | | | | | | | |
| Structures | 49.0 | 54.4 | 52.7 | 54.9 | 51.1 | 51.2 | 53.6 | 55.5 | 45.3 | 42.7 | 37.2 | 38.9 | 36.2 | 36.2 | 37.4 | 38.5 | | | | | | | | | | | | | | | | | | | | |
| Producers' durable equipment | 87.5 | 93.5 | 95.8 | 94.4 | 95.0 | 95.6 | 98.3 | 102.6 | 85.9 | 84.9 | 75.1 | 76.3 | 74.7 | 74.5 | 74.9 | 77.0 | | | | | | | | | | | | | | | | | | | | |
| Residential | 66.5 | 54.6 | 48.7 | 44.2 | 45.0 | 50.4 | 55.4 | 58.6 | 60.1 | 44.7 | 36.6 | 33.6 | 34.0 | 38.0 | 40.7 | 42.0 | | | | | | | | | | | | | | | | | | | | |
| Nonfarm structures | 64.7 | 52.2 | 46.8 | 42.6 | 43.1 | 48.2 | 53.3 | 56.5 | 58.4 | 42.6 | 35.0 | 32.3 | 32.4 | 36.2 | 39.0 | 40.2 | | | | | | | | | | | | | | | | | | | | |
| Farm structures | .6 | 1.0 | .6 | .4 | .5 | .8 | .7 | .7 | .5 | .8 | .4 | .3 | .4 | .6 | .5 | .5 | | | | | | | | | | | | | | | | | | | | |
| Producers' durable equipment | 1.2 | 1.3 | 1.3 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.2 | 1.3 | 1.1 | 1.0 | 1.1 | 1.2 | 1.2 | 1.2 | | | | | | | | | | | | | | | | | | | | |
| Change in business inventories | 17.5 | 9.7 | -14.6 | -24.8 | -29.6 | -2.1 | -2.0 | 15.5 | 16.0 | 7.7 | -10.5 | -19.0 | -20.7 | -8 | -1.6 | 10.7 | | | | | | | | | | | | | | | | | | | | |
| Nonfarm | 14.1 | 11.6 | -16.5 | -23.3 | -29.6 | -5.7 | -7.5 | 11.3 | 13.6 | 8.5 | -11.8 | -17.9 | -20.6 | -3.3 | -5.3 | 7.8 | | | | | | | | | | | | | | | | | | | | |
| Farm | 3.5 | -1.9 | 1.9 | -1.5 | -1 | 3.6 | 5.6 | 4.2 | 2.4 | -8 | 1.3 | -1.2 | -1 | 2.5 | 3.7 | 2.9 | | | | | | | | | | | | | | | | | | | | |
| Net exports of goods and services | 7.4 | 7.7 | 21.3 | 17.3 | 24.2 | 22.1 | 21.7 | 9.3 | 7.2 | 16.6 | 23.4 | 21.5 | 24.9 | 23.5 | 23.8 | 17.4 | | | | | | | | | | | | | | | | | | | | |
| Exports | 101.5 | 144.2 | 147.8 | 148.2 | 140.7 | 148.5 | 153.8 | 154.2 | 87.6 | 97.6 | 90.6 | 90.7 | 86.8 | 90.8 | 94.0 | 93.8 | | | | | | | | | | | | | | | | | | | | |
| Imports | 94.2 | 136.5 | 126.5 | 130.9 | 116.4 | 126.4 | 132.1 | 144.9 | 80.4 | 81.0 | 67.2 | 69.2 | 62.0 | 67.3 | 70.2 | 76.4 | | | | | | | | | | | | | | | | | | | | |
| Government purchases of goods and services | 269.9 | 301.1 | 331.2 | 321.2 | 324.7 | 334.1 | 344.8 | 349.2 | 252.5 | 254.3 | 257.6 | 255.1 | 254.9 | 258.7 | 261.6 | 261.7 | | | | | | | | | | | | | | | | | | | | |
| Federal | 102.0 | 111.7 | 123.2 | 119.4 | 119.2 | 124.2 | 129.9 | 131.1 | 96.1 | 95.0 | 94.3 | 93.7 | 92.4 | 94.9 | 96.1 | 95.8 | | | | | | | | | | | | | | | | | | | | |
| National defense | 73.4 | 77.4 | 84.0 | 81.4 | 82.1 | 84.9 | 87.4 | 87.0 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Nondefense | 28.6 | 34.3 | 39.2 | 38.0 | 37.1 | 39.3 | 42.5 | 44.1 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| State and local | 168.0 | 189.4 | 208.0 | 201.9 | 205.5 | 209.9 | 214.8 | 218.1 | 156.3 | 159.3 | 163.3 | 161.4 | 162.5 | 163.8 | 165.5 | 165.9 | | | | | | | | | | | | | | | | | | | | |
| Addenda: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Final sales (GNP less change in business inventories) | 1288.8 | 1397.2 | 1513.5 | 1458.4 | 1490.2 | 1530.6 | 1574.9 | 1604.9 | 1217.3 | 1203.0 | 1196.6 | 1177.6 | 1188.7 | 1202.4 | 1217.8 | 1231.1 | | | | | | | | | | | | | | | | | | | | |
| Gross domestic product (GNP less rest-of-world sector) | 1297.3 | 1392.5 | 1488.4 | 1424.0 | 1450.6 | 1516.9 | 1562.2 | 1607.7 | 1225.7 | 1203.7 | 1181.3 | 1154.3 | 1163.5 | 1196.1 | 1211.3 | 1236.1 | | | | | | | | | | | | | | | | | | | | |
| Implicit price deflator, index numbers, 1972 = 100: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GNP | 105.92 | 116.20 | 126.37 | 123.74 | 125.04 | 127.21 | 129.33 | 130.49 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Gross domestic product | 105.8 | 115.7 | 126.0 | 123.4 | 124.7 | 126.8 | 129.0 | 130.1 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Gross domestic business product | 105.6 | 115.8 | 126.6 | 124.0 | 125.3 | 127.5 | 129.5 | 130.5 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Change from preceding period, percent at annual rate: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GNP | 11.5 | 7.7 | 6.5 | -2.1 | 7.7 | 19.9 | 12.1 | 12.6 | 5.3 | -1.8 | -2.0 | -9.2 | 3.3 | 12.0 | 5.0 | 8.7 | | | | | | | | | | | | | | | | | | | | |
| Gross domestic product | 11.4 | 7.3 | 6.9 | -7 | 7.7 | 19.6 | 12.5 | 12.2 | 5.3 | -1.8 | -1.9 | -8.5 | 3.2 | 11.7 | 5.2 | 8.4 | | | | | | | | | | | | | | | | | | | | |
| GNP implicit price deflator | 5.9 | 9.7 | 8.8 | 7.8 | 4.3 | 7.1 | 6.8 | 3.6 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Gross domestic product implicit price deflator | 5.8 | 9.3 | 8.9 | 8.5 | 4.3 | 7.1 | 7.0 | 3.5 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Gross domestic business product implicit price deflator | 5.6 | 9.7 | 9.3 | 9.3 | 4.2 | 7.2 | 6.4 | 3.1 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| GNP chain price index | 6.0 | 9.7 | 8.8 | 8.2 | 4.3 | 7.3 | 6.9 | 3.9 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| GNP fixed-weighted price index | 6.0 | 9.7 | 8.8 | 7.8 | 4.4 | 7.3 | 7.2 | 3.9 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| DISPOSITION OF PERSONAL INCOME | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Personal income | 1054.3 | 1154.7 | 1245.9 | 1203.6 | 1223.8 | 1261.7 | 1294.5 | 1325.2 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Less: Personal tax and nontax payments | 151.2 | 171.2 | 169.2 | 179.6 | 142.1 | 174.6 | 180.5 | 184.4 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Equals: Disposable personal income | 903.1 | 983.6 | 1076.7 | 1024.0 | 1081.7 | 1087.1 | 1114.0 | 1140.7 | 856.0 | 843.5 | 856.7 | 831.6 | 869.8 | 858.2 | 867.3 | 880.3 | | | | | | | | | | | | | | | | | | | | |
| Less: Personal outlays | 830.4 | 909.5 | 987.8 | 950.4 | 974.2 | 1001.3 | 1025.4 | 1054.5 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Equals: Personal saving | 72.7 | 74.0 | 88.9 | 73.6 | 107.5 | 85.9 | 88.6 | 86.2 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |
| Per capita disposable personal income, dollars | 4,292 | 4,642 | 5,040 | 4,808 | 5,070 | 5,083 | 5,197 | 5,313 | 4,068 | 3,981 | 4,010 | 3,905 | 4,077 | 4,012 | 4,047 | 4,100 | | | | | | | | | | | | | | | | | | | | |
| Personal saving as a percentage of disposable personal income | 8.0 | 7.5 | 8.3 | 7.2 | 9.9 | 7.9 | 7.9 | 7.6 | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | | | | | | | | | | | | | | | | | | | | |

SOURCE: Bureau of Economic Analysis

UFGM-LDC 91811-976

RETAIL SALES: VOLUME ROSE 2% TO ADJUSTED TOTAL
OF \$12.5 BILLION DURING WEEK ENDED JUNE 12

Retail sales in the aggregate rose 2 percent during the week ended June 12 to \$12.5 billion seasonally adjusted and were 11 percent above the week ended June 14, 1975, the Census Bureau reports. Sales of durables rose 4 percent during the latest reporting week to \$4.1 billion and were 20 percent above a year earlier while sales of nondurables edged up 1 percent to \$8.4 billion -- and were 7 percent above the year-ago level.

Total sales excluding the automotive group rose 1 percent to \$10.0 billion -- 8 percent above the corresponding week in 1975.

For the four most recent weeks, the year-to-year adjusted sales increase amounted to 10 percent, reflecting gains of 19 percent in durables and 7 percent in nondurables sales.

Total sales excluding the automotive group were up 8 percent from the corresponding period in 1975.

Disregarding seasonal adjustment, total retail sales advanced 5 percent in the week ended June 12 to \$12.8 billion, or 9 percent above the year-earlier level. Durables sales climbed 11 percent during the week and 17 percent over the year to \$4.4 billion while nondurables sales rose 2 percent to \$8.4 billion during the seven-day period and were 5 percent above the year-ago level.

Total sales excluding the automotive group moved up 3 percent in the most recent reporting week to \$10.1 billion and were 5 percent above a year earlier.

Changes in retail sales, by type of establishment, ranged from a 1 percent decline in food store sales during the reporting week to a 13 percent increase in sales by automotive dealers. Building materials, hardware, and farm equipment stores and gasoline service stations also recorded substantial gains -- of 11 percent and 9 percent, respectively.

(Table on following page)

ESTIMATED WEEKLY SALES OF RETAIL STORES IN THE UNITED STATES: 1976

(Weeks ended March 6, 1976 through June 12, 1976)

| Kind of business | Sales for week ended-- (millions of dollars) | | | | | | | | | | | | | | | Year-ago Percent change | | | |
|--|---|-------------------------|-------------------------|-------------------------|------------------------|-------------------------|-------------------------|-------------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|--------|----------------------------|-----------------|-----------------|-----------------|
| | | | | | | | | | | | REVISED ⁶ | | | | | June ¹ .12 | Current week | Last 4 weeks | Year to date |
| | Mar. ³ 6 | Mar. ³ 13 | Mar. ³ 20 | Mar. ³ 27 | Apr. ³ 3 | Apr. ³ 10 | Apr. ² 17 | Apr. ² 24 | May ² 1 | May ² 8 | May ² 15 | May ² 22 | May ² 29 | June ¹ 5 | | | | | |
| Data ADJUSTED for seasonal variations ⁷ | | | | | | | | | | | | | | | | | | | |
| Retail stores, total..... | 12,124 | 12,013 | 12,265 | 12,126 | 12,414 | 12,531 | 12,243 | 12,379 | 12,197 | 12,230 | 12,380 | 12,191 | 12,519 | 12,267 | 12,515 | +11 | +10 | +12 | |
| Total (excl. automotive group)..... | 9,895 | 9,732 | 9,974 | 9,810 | 10,000 | 10,105 | 9,967 | 10,044 | 9,738 | 9,875 | 9,944 | 9,810 | 10,172 | 9,928 | 10,055 | +8 | +8 | +9 | |
| Durable goods stores, total..... | 3,890 | 3,934 | 3,983 | 4,016 | 4,289 | 4,173 | 3,953 | 3,989 | 3,950 | 4,053 | 4,117 | 4,072 | 4,078 | 3,970 | 4,134 | +20 | +19 | +21 | |
| Nondurable goods stores, total..... | 8,234 | 8,079 | 8,282 | 8,110 | 8,125 | 8,358 | 8,290 | 8,390 | 8,247 | 8,177 | 8,263 | 8,119 | 8,441 | 8,297 | 8,381 | +7 | +7 | +9 | |
| Data NOT ADJUSTED for seasonal variations | | | | | | | | | | | | | | | | | | | |
| Retail stores, total..... | 11,181 | 11,299 | 11,664 | 11,769 | 12,437 | 12,260 | 12,702 | 12,138 | 12,557 | 12,716 | 12,491 | 12,533 | 13,044 | 12,179 | 12,804 | +9 | +10 | +12 | |
| Total (excl. automotive group)..... | 9,121 | 9,043 | 9,297 | 9,268 | 9,716 | 9,827 | 10,239 | 9,590 | 9,697 | 10,279 | 9,889 | 9,935 | 10,242 | 9,821 | 10,142 | +5 | +7 | +9 | |
| Durable goods stores, total..... | 3,474 | 3,737 | 3,887 | 4,072 | 4,418 | 4,052 | 4,064 | 4,176 | 4,491 | 4,179 | 4,319 | 4,341 | 4,620 | 3,990 | 4,415 | +17 | +18 | +22 | |
| Nondurable goods stores, total..... | 7,707 | 7,562 | 7,777 | 7,697 | 8,019 | 8,208 | 8,638 | 7,962 | 8,066 | 8,537 | 8,172 | 8,192 | 8,424 | 8,189 | 8,389 | +5 | +6 | +8 | |
| Food stores, total..... | 2,647 | 2,537 | 2,555 | 2,496 | 2,653 | 2,618 | 2,776 | 2,443 | 2,538 | 2,711 | 2,590 | 2,574 | 2,688 | 2,668 | 2,652 | +2 | +3 | +6 | |
| Grocery stores..... | 2,479 | 2,354 | 2,375 | 2,319 | 2,472 | 2,429 | 2,576 | 2,262 | 2,362 | 2,528 | 2,412 | 2,401 | 2,510 | 2,487 | 2,466 | +2 | +3 | +6 | |
| Group II ⁴ | 1,417 | 1,345 | 1,356 | 1,318 | 1,417 | 1,399 | 1,479 | 1,276 | 1,362 | 1,441 | 1,359 | 1,350 | 1,408 | 1,435 | 1,393 | +5 | +6 | +7 | |
| Eating and drinking places..... | 966 | 924 | 950 | 935 | 945 | 965 | 967 | 973 | 981 | 1,033 | 1,033 | 1,031 | 1,050 | 1,045 | 1,070 | +8 | +9 | +11 | |
| GAP ⁵ , total..... | 2,550 | 2,621 | 2,731 | 2,811 | 2,929 | 3,003 | 3,184 | 2,920 | 2,889 | 3,051 | 2,887 | 2,870 | 2,892 | 2,807 | 2,929 | 0 | +2 | +9 | |
| General mdse. group with nonstores ⁴ | 1,623 | 1,665 | 1,730 | 1,799 | 1,836 | 1,944 | 2,050 | 1,914 | 1,873 | 1,944 | 1,837 | 1,831 | 1,851 | 1,816 | 1,895 | +1 | +1 | +9 | |
| Department stores..... | 985 | 1,014 | 1,083 | 1,148 | 1,153 | 1,234 | 1,330 | 1,223 | 1,214 | 1,266 | 1,185 | 1,191 | 1,214 | 1,199 | 1,258 | +3 | +3 | +11 | |
| Apparel and accessory stores, total..... | 437 | 456 | 466 | 476 | 515 | 534 | 621 | 517 | 484 | 557 | 501 | 489 | 485 | 471 | 500 | -8 | -3 | +7 | |
| Furniture, home furnishings and equipment stores, total..... | 490 | 500 | 535 | 536 | 578 | 525 | 513 | 489 | 532 | 550 | 549 | 550 | 536 | 520 | 534 | +7 | +11 | +14 | |
| Bldg. materials, hardware, farm equipment dealers, total..... | 588 | 638 | 664 | 695 | 782 | 712 | 738 | 785 | 764 | 787 | 796 | 817 | 844 | 745 | 830 | +12 | +13 | +14 | |
| Automotive dealers, total..... | 2,060 | 2,256 | 2,367 | 2,501 | 2,721 | 2,433 | 2,463 | 2,548 | 2,860 | 2,437 | 2,602 | 2,598 | 2,802 | 2,338 | 2,662 | +26 | +23 | +28 | |
| Gasoline service stations..... | 856 | 832 | 846 | 832 | 853 | 905 | 897 | 877 | 879 | 897 | 893 | 929 | 936 | 917 | 997 | +12 | +9 | +9 | |
| Drug and proprietary stores..... | 363 | 355 | 364 | 347 | 367 | 398 | 391 | 357 | 370 | 386 | 352 | 351 | 355 | 369 | 371 | +1 | +4 | +9 | |

¹ADVANCE estimates. ²PRELIMINARY estimates. ³FINAL estimates. ⁴Grocery stores of firms operating 11 or more retail stores. ⁵Includes stores in the general merchandise, apparel, and furniture and appliance groups; these are stores specializing in the department store types of merchandise. ⁶Nonstores are establishments primarily selling merchandise through coin-operated vending machines, by house-to-house canvass, and from mail order. ⁷Factors were developed using a ratio to moving average method. Adjustments for more detailed kinds of business are generally less reliable because of the more pronounced effects of irregular influences. Note that seasonal adjustments are approximations based on past experience and will be less precise to the extent that current buying patterns have changed. ⁸Estimates shown in this report for the weeks of May 8th through June 5th, 1976, have been revised to correct processing errors contained in previously reported data.

EMPLOYMENT COSTS: WAGES UP 3.8%
DURING SIX MONTHS ENDING IN MARCH

Wage and salary rates of private nonfarm workers rose 3.8 percent nationally during the six months ended March 1976, according to a new statistical series introduced today by the Bureau of Labor Statistics.

Wage rates advanced at almost identical paces in the fourth quarter of 1975 and the first quarter of 1976. In the three months ending December 1975, pay rates moved up 1.8 percent, compared with a 1.9 percent gain in the January-March 1976 period. When broken down by occupation group, however, greater variations were evident between wage movements in the two three-month periods.

The new series -- the Employment Cost Index (ECI) -- is designed to measure changes in the rate of compensation of a standard mix of labor services much like the Consumer Price Index measures price changes in a selected sample of goods and services. BLS notes, however, that ECI currently includes only wage and salary rates. It will be gradually expanded to include employer outlays for fringe benefits, providing an index of changes in all compensation for the total civilian economy.

Initially, the index will be published on a quarterly basis. After it is broadened to include all compensation it will be released monthly. Early releases will show percent changes in rates of pay, but after sufficient data is accumulated results will be presented in the form of indexes, BLS says. The Bureau also says that seasonally adjusted data will eventually become available.

ECI provides for the first time a measure of pay change unaffected by shifts in employment levels in different industries, occupations, and regions, and in the volume of overtime. BLS emphasizes, however, that the index is not a measure of total cost of employing labor or the level of well-being of workers.

During the September 1975-March 1976 period, blue collar workers generally received larger percentage increases in pay than white collar workers. The biggest gainers were service workers, with pay boosts of 5.3 percent. Managers and administrators received the smallest adjustments -- only 2.6 percent.

Workers in the western section of the nation received increases totaling 5.5 percent during the six months, while those in the nation's Northeast quadrant gained pay boosts of only 2.4 percent. Wage gains were higher for Western and Southern employees in the first quarter 1976 than they had been in the last quarter of 1975. The opposite was true of workers in the Northeast and North Central region of the nation.

During the six months, workers in metropolitan and nonmetropolitan areas received virtually identical pay increases of 3.8 percent and 3.7 percent, respectively. Workers under collective bargaining agreements gained 4.1 percent during the six months, somewhat better than the 3.7 percent gained by workers not covered by collective bargaining.

(Table on following page)

Wage and salary rate changes in Employment Cost Index,
September 1975 to March 1976

| Series | Percent change for | | |
|---|--------------------|---------------|--------------------|
| | 3 months ended in- | | 6 months ended in- |
| | December 1975 | March 1976 | March 1976 |
| All private nonfarm workers ... | 1.8 | 1.9 | 3.8 |
| <u>Workers, by occupational group</u> | | | |
| Professional, technical, and kindred workers | 1.7 | 1.4 | 3.1 |
| Managers and administrators, except farm | 1.3 | 1.3 | 2.6 |
| Clerical and kindred workers | 1.8 | 2.2 | 4.0 |
| Craft and kindred workers... | 1.8 | 1.9 | 3.7 |
| Operatives, except trans- port | 2.2 | 2.8 | 5.0 |
| Transport equipment operatives. | 1.7 | 1.2 | 3.0 |
| Laborers, except farm | 2.4 | 2.1 | 4.5 |
| Service workers, except private household..... | 3.3 | 1.9 | 5.3 |
| <u>Workers, by industry division</u> | | | |
| Manufacturing | 2.1 | 1.9 | 4.0 |
| Transportation and public utilities..... | 2.6 | 1.9 | 4.6 |
| Wholesale and retail trade.. | 1.8 | 2.2 | 4.1 |
| Services | 1.8 | 1.5 | 3.3 |
| <u>Workers, by region</u> | | | |
| Northeast | 1.4 | 0.9 | 2.4 |
| South | 1.5 | 2.4 | 3.9 |
| North Central | 2.3 | 1.5 | 3.7 |
| West | 2.1 | 3.3 | 5.5 |
| <u>Workers, by bargaining status</u> | | | |
| Occupations covered by collective bargaining agreements | 2.4 | 1.6 | 4.1 |
| Occupations not covered by collective bargaining agreements | 1.6 | 2.0 | 3.7 |
| <u>Workers, by area</u> | | | |
| Metropolitan areas..... | 1.9 | 1.9 | 3.8 |
| Nonmetropolitan areas | 1.6 | 2.2 | 3.7 |

NOTE: Statistics are not annualized or seasonally adjusted.

SOURCE: Bureau of Labor Statistics

DEMOCRATIC PARTY PLATFORM ADOPTED BY 153-MEMBER DEMOCRATIC PLATFORM COMMITTEE
(TEXT)

PREAMBLE

We meet to adopt a Democratic platform, and to nominate Democratic candidates for President and Vice President of the United States, almost 200 years from the day that our revolutionary founders declared this country's independence from the British crown.

The founder of the Democratic Party-Thomas Jefferson of Virginia - set forth the reasons for this separation and expressed the basic tenets of democratic government: That all persons are created equal, that they are endowed by their Creator with certain unalienable rights, that among these are Life, Liberty, and the Pursuit of Happiness -- That to secure these rights, Governments are instituted among People, deriving their just powers from the consent of the governed.

These truths may still be self-evident, but they have been tragically abused by our national government during the past eight years.

Two Republican Administrations have both misused and mismanaged the powers of national government, obstructing the pursuit of economic and social opportunity, causing needless hardship and despair among millions of our fellow citizens.

Two Republican Administrations have betrayed the people's trust and have created suspicion and distrust of government through illegal and unconstitutional actions.

We acknowledge that no political party, nor any President or Vice President, possesses answers to all of the problems that face us as a nation, but neither do we concede that every human problem is beyond our control. We recognize further that the present distrust of government cannot be transformed easily into confidence.

It is within our powers to recapture, in the governing of this nation, the basic tenets of fairness, equality, opportunity and rule of law that motivated our revolutionary founders.

We do pledge a government that has as its guiding concern, the needs and aspirations of all the people, rather than the perquisites and special privilege of the few.

We do pledge a government that listens, that is truthful, and that is not afraid to admit its mistakes.

We do pledge a government that will be committed to a fairer distribution of wealth, income and power.

We do pledge a government in which the new Democratic President will work closely with the leaders of the Congress on a regular, systematic basis so that the people can see the results of unity. Our President will use his office to communicate purpose and a strategy for movement. He will enunciate goals which are shared within the executive branch.

We do pledge a government in which the Democratic members in both houses of Congress will seek a unity of purpose on the principles of the party.

Now, as we enter our 200th years as a Nation, we as a party, with a sense of our own limitations, but also with a sense of our obligations, pledge a reaffirmation of this nation's founding principles.

In this platform of the Democratic Party, we present a clear alternative to the failures of preceding administrations and a projection of the common future to which we aspire: a world at peace; a just society of equals; a society without violence; a society in consonance with its natural environment, affording freedom to the individual and the opportunity to develop to the fullest human potential.

I. FULL EMPLOYMENT,
PRICE STABILITY AND BALANCED GROWTH

The Democratic Party's concern for human dignity and freedom has been directed at increasing the economic opportunities for all our citizens and reducing the economic deprivation and inequities that have stained the record of American democracy.

Today, millions of people are unemployed. Unemployment represents mental anxiety, fear of harassment over unpaid bills, idle hours, loss of self-esteem, strained family relationships, deprivation of children and youth, alcoholism, drug abuse and crime. A job is a key measure of a person's place in society-whether as a full-fledged participant or on the outside. Jobs are the solution to poverty, hunger and other basic needs of workers and their families. Jobs enable a person to translate legal rights of equality into reality.

Our industrial capacity is also wastefully underutilized. There are houses to build, urban centers to rebuild, roads and railroads to construct and repair, rivers to clean, and new sources of energy to develop. Something is wrong when there is work to be done, and the people who are willing to do it are without jobs. What we have lacked is leadership.

REPUBLICAN MISMANAGEMENT

During the past 25 years, the American economy has suffered five major recessions, all under Republican Administrations. During the past eight years, we have had two costly recessions with continuing unprecedented peacetime inflation. "Stagflation" has become a new word in our language just as it has become a product of Republican economic policy. Never before have we had soaring inflation in the midst of a major recession.

Stagnation, waste and human suffering are the legacy left to the American people by Republican economic policies. During the past five years, U.S. economic growth has averaged only 1 1/2 percent per year compared with an historical average of about 4 percent. Because of this shortfall, the nation has lost some \$500 billion in the production of goods and services, and, if Republican rule continues, we can expect to lose another \$600-\$800 billion by 1980.

Ten million people are unemployed right now, and twenty to thirty million were jobless at some time in each of the last two years. For major groups in the labor force--minorities, women, youth, older workers, farm, factory and construction workers--unemployment has been, and remains, at depression levels.

The rising cost of food, clothing, housing, energy and health care has eroded the income of the average American family, and has pushed persons on fixed incomes to the brink of economic disaster. Since 1970, the annual rate of inflation has averaged more than 6 percent and is projected by the Ford Administration to continue at an unprecedented peacetime rate of 6 to 7 percent until 1978.

The depressed production and high unemployment rates of the Nixon-Ford Administrations have produced federal deficits totalling \$242 billion. Those who should be working and paying taxes are collecting unemployment compensation or other welfare payments in order to survive. For every one percent increase in the unemployment rate-- for every one million Americans out of work-- we all pay \$3 billion more in unemployment compensation and \$2 billion in welfare and related costs, and lose \$14 billion in taxes.

In fiscal 1976, \$76 billion was lost to the federal government through increased recession-related expenditures and lost revenues. In addition, state and local governments lost \$27 billion in revenues. A return to full employment will eliminate such deficits. With prudent management of existing programs, full employment revenue will permit the financing of national Democratic initiatives.

For millions of Americans, the Republican Party has substituted welfare for work. Huge sums will be spent on food stamps and medical care for families of the unemployed. Social insurance costs are greatly increased. This year alone the federal government will spend nearly \$20 billion on unemployment compensation. In contrast, spending on job development is only \$2 1/2 billion. The goal of the new Democratic administration will be to turn unemployment checks into pay checks.

WHAT DEMOCRATS CAN ACHIEVE

In contrast to the record of Republican mismanagement, the most recent eight years of Democratic leadership, under John F. Kennedy and Lyndon B. Johnson, produced economic growth that was virtually uninterrupted. The unemployment rate dropped from 6.7 percent in 1961 to 3.6 percent in 1968, and most segments of the population benefited. Inflation increased at an average annual rate of only 2 percent, and the purchasing power of the average family steadily increased. In 1960, about 40 billion people were living in poverty. Over the next eight years, 14-1/2 million people moved out of poverty because of training opportunities, increased jobs and higher incomes. Since 1968, the number of persons living in poverty has remained virtually unchanged.

We have met the goals of full employment with stable prices in the past and can do it again. The Democratic Party is committed to the right of all adult Americans willing, able and seeking work to have opportunities for useful jobs at living wages. To make that commitment meaningful, we pledge ourselves to the support of legislation that will make every responsible effort to reduce adult unemployment to 3 percent within 4 years.

MODERNIZING ECONOMIC POLICY

To meet our goals we must set annual targets for employment, production and price stability; the Federal Reserve must be made a full partner in national economic decisions and become responsive to the economic goals of Congress and the President; credit must be generally available at reasonable interest rates; tax, spending and credit policies must be carefully coordinated with our economic goals, and coordinated within the framework of national economic planning.

Of special importance is the need for national economic planning capability. This planning capability should provide roles for Congress and the Executive as equal partners in the process and provide for full participation by the private sector, and state and local government. Government must plan ahead just like any business, and this type of planning can be implemented without the creation of a new bureaucracy but rather through the well-defined use of existing bodies and techniques. If we do not plan, but continue to react to crisis after crisis, our economic performance will be further eroded.

FULL EMPLOYMENT POLICIES

Institutional reforms and the use of conventional tax, spending and credit policies must be accompanied by a broad range of carefully-targeted employment programs that will reduce unemployment in the private sector, and in regions, states and groups that have special employment problems.

The lack of formal coordination among federal, state and local governments is a major obstacle to full employment. The absence of economic policy coordination is particularly visible during times of high unemployment. Recessions reduce tax revenues, and increase unemployment-related expenditures for state and local governments. To maintain balanced budgets or reduce budget deficits these governments are forced to increase taxes and cut services--actions that directly undermine federal efforts to stimulate the economy.

Consistent and coherent economic policy requires federal anti-recession grant programs to state and local governments, accompanied by public employment, public works projects and direct stimulus to the private sector. In each case, the programs should be phased in automatically when unemployment rises and phased out as it declines.

Even during periods of normal economic growth there are communities and regions of the country--particularly central cities and rural areas--that do not fully participate in national economic prosperity. The Democratic Party has supported national economic policies which have consciously sought to aid regions in the nation which have been afflicted with poverty, or newer regions which have needed resources for development.

These policies were soundly conceived and have been successful. Today, we have different areas and regions in economic decline and once again face a problem of balanced economic growth. To restore balance, national economic policy should be designed to target federal resources in areas of greatest need.

To make low interest loans to businesses and state and local governments for the purpose of encouraging private sector investment in chronically depressed areas, we endorse consideration of programs such as a domestic development bank or federally insured taxable state and local bonds, with adequate funding, proper management and public disclosure.

Special problems faced by young people, especially minorities, entering the labor force persist regardless of the state of the economy. To meet the needs of youth, we should consolidate existing youth employment programs; improve training, apprenticeship, internship and job-counseling programs at the high school and college levels; and permit youth participation in public employment projects.

There are people who will be especially difficult to employ. Special means for training and locating jobs for these people in the private sector, and, to the extent required, in public employment, should be established. Every effort should be made to create jobs in the private sector. Clearly, useful public jobs are far superior to welfare and unemployment payments. The federal government has the responsibility to ensure that all Americans able, willing and seeking work are provided opportunities for useful jobs.

EQUAL EMPLOYMENT OPPORTUNITY

We must be absolutely certain that no person is excluded from the fullest opportunity for economic and social participation in our society on the basis of sex, age, color, religion or national origin. Minority unemployment has historically been at least double the aggregate unemployment rate, with incomes at two-thirds the national average. Special emphasis must be placed on closing this gap.

Accordingly, we reaffirm this Party's commitment to full and vigorous enforcement of all equal opportunities laws and affirmative action. The principal agencies charged with antidiscrimination enforcement in jobs--the Equal Employment Opportunity Commission, the Department of Labor, and the Justice Department--are locked into such overlapping and uncoordinated strategies that a

greatly improved government-wide system for the delivery of equal job and promotion opportunities must be developed and adequate funding committed to that end. New remedies to provide equal opportunities need exploration.

ANTI-INFLATION POLICIES

The economic and social costs of inflation have been enormous. Inflation is a tax that erodes the income of our workers, distorts business investment decisions, and redistributes income in favor of the rich. Americans on fixed incomes, such as the elderly, are often pushed into poverty by this cruel tax.

The Ford Administration and its economic advisors have been consistently wrong about the sources and cures of the inflation that has plagued our nation and our people. Fighting inflation by curtailing production and increasing unemployment has done nothing to restrain it. With the current high level of unemployment and low level of capacity utilization, we can increase production and employment without rekindling inflation.

A comprehensive anti-inflation policy must be established to assure relative price stability. Such a program should emphasize increased production and productivity and should take other measures to enhance the stability and flexibility of our economy.

The see-saw progress of our economy over the past eight years has disrupted economic growth. Much of the instability has been created by stop-and-go monetary policies. High interest rates and the recurring underutilization of our manufacturing plant and equipment have retarded new investment. The high cost of credit has stifled small business and virtually halted the housing industry. Unemployment in the construction industry has been raised to depression levels and home ownership has been priced beyond the reach of the majority of our people.

Stable economic growth with moderate interest rates will not only place downward pressure on prices through greater efficiency and productivity, but will reduce the prospects for future shortages of supply by increasing the production of essential goods and services and by providing a more predictable environment for business investment.

The government must also work to improve the ability of our economy to respond to change. Competition in the private sector, a re-examination, reform and consolidation of the existing regulatory structure, and promotion of a freer but fair system of international trade will aid in achieving that goal.

At times, direct government involvement in wage and price decisions may be required to ensure price stability. But we do not believe that such involvement requires a comprehensive system of mandatory controls at this time. It will require that business and labor must meet fair standards of wage and price change. A strong domestic council on price and wage stability should be established with particular attention to restraining price increases in those sectors of our economy where prices are "administered" and where price competition does not exist.

The federal government should hold public hearings, investigate and publish facts on price, profit, wage and interest rate increases that seriously threaten national price stability. Such investigations and proper planning can focus public opinion and awareness on the direction of price, profit, wage and interest rate decisions.

Finally, tax policy should be used if necessary to maintain the real income of workers as was done with the 1975 tax cut.

ECONOMIC JUSTICE

The Democratic Party has a long history of opposition to the undue concentration of wealth and economic power. It is estimated that about three-quarters

of the country's total wealth is owned by one-fifth of the people. The rest of our population struggles to make ends meet in the face of rising prices and taxes.

Anti-Trust Enforcement

The next Democratic Administration will commit itself to move vigorously against anti-competitive concentration of power within the business sector. This can be accomplished in part by strengthening the anti-trust laws and insuring adequate commitment and resources for the enforcement of these laws. But we must go beyond this negative remedy to a positive policy for encouraging the development of small business, including the family farm.

Small Businesses

A healthy and growing small business community is a prerequisite for increasing competition and a thriving national economy. While most people would accept this view, the federal government has in the past impeded the growth of small business.

To alleviate the unfavorable conditions for small business, we must make every effort to assure the availability of loans to small business, including direct government loans at reasonable interest rates, particularly to those in greatest need, such as minority-owned businesses. For example, efforts should be made to strengthen minority business programs, and increase minority opportunities for business ownership.

We support similar programs and opportunities for women. Federal contract and procurement opportunities in such areas as housing, transportation and energy should support efforts to increase the volume of minority and small business involvement. Regulatory agencies and the regulated small business must work together to see that federal regulations are met, without applying a strangle-hold on the small firm or farm and with less paperwork and red tape.

Tax Reform

Economic justice will also require a firm commitment to tax reform at all levels. In recent years there has been a shift in the tax burden from the rich to the working people of this country. The Internal Revenue Code offers massive tax welfare to the wealthiest income groups in the population and only higher taxes for the average citizen. In 1973, there were 622 people with adjusted income of \$100,000 or more who still managed to pay no tax. Most families pay between 20 and 25 percent of their incomes in taxes.

We have had endless talk about the need for tax reform and fairness in our federal tax system. It is now time for action.

We pledge the Democratic Party to a complete overhaul of the present tax system, which will review all special tax provisions to ensure that they are justified and distributed equitably among our citizens. A responsible Democratic tax reform program could save over \$5 billion in the first year with larger savings in the future.

We will strengthen the internal revenue tax code so that high income citizens pay a reasonable tax on all economic income.

We will reduce the use of unjustified tax shelters in such areas as oil and gas, tax-loss farming, real estate, and movies.

We will eliminate unnecessary and ineffective tax provisions to business and substituting effective incentives to encourage small business and capital formation in all businesses. Our commitment to full employment and sustained purchasing power will also provide a strong incentive for capital formation.

We will end abuses in the tax treatment of incomes from foreign sources; such as special tax treatment and incentives for multinational corporations that drain jobs and capital from the American economy.

We will overhaul federal estate and gift taxes to provide an effective and equitable structure to promote tax justice and alleviate some of the legitimate problems faced by farmers, small business men and women and others who would otherwise be forced to liquidate assets in order to pay the tax.

We will seek and eliminate provisions that encourage uneconomic corporate mergers and acquisitions.

We will eliminate tax inequities that adversely affect individuals on the basis of sex or marital status.

We will curb expense account deductions.

And we will protect the rights of all taxpayers against oppressive procedures, harassment and invasions of privacy by the Internal Revenue Service.

At present, many federal government tax and expenditure programs have a profound but unintended and undesirable impact on jobs and on where people and business locate. Tax policies and other indirect subsidies have promoted deterioration of cities and regions. These policies should be reversed.

There are other areas of taxation where change is also needed. The Ford Administration's unwise and unfair proposal to raise the regressive social security tax gives new urgency to the Democratic Party's goal of redistributing the burden of the social security tax by raising the wage base for earnings subject to the tax with effective exemptions and deductions to ease the impact on low income workers and two-earner families. Further revision in the Social Security program will be required so that women are treated as individuals.

The Democratic Party should make a reappraisal of the appropriate sources of federal revenues. The historical distribution of the tax burden between corporations and individuals, and among the various types of federal taxes, has changed dramatically in recent years. For example, the corporate tax share of federal revenue has declined from 30 percent in 1954 to 14 percent in 1975.

LABOR STANDARDS AND RIGHTS

The purpose of fair labor standards legislation has been the maintenance of the minimum standards necessary for the health, efficiency and general well-being of workers. Recent inflation has eroded the real value of the current minimum wage. This rapid devaluation of basic income for working people makes a periodic review of the level of the minimum wage essential. Such a review should insure that the minimum wage rate at least keep pace with the increase in the cost of living.

Raising the pay standard for overtime work, additional hiring of part-time persons and flexible work schedules will increase the independence of workers and create additional job opportunities, especially for women. We also support the principle of equal pay for comparable work.

We are committed to full implementation and enforcement of the Equal Credit Opportunity Act.

Over a generation ago this nation established a labor policy whose purpose is to encourage the practice and procedure of collective bargaining and the right of workers to organize to obtain this goal. The Democratic Party is committed to extending the benefit of the policy to all workers and to removing the barriers to its administration. We support the right of public employees and agricultural workers to organize and bargain collectively. We urge the adoption of appropriate federal legislation to ensure this goal.

We will seek to amend the Fair Labor Standards Act to speed up redress of grievances of workers asserting their legal rights.

We will seek to enforce and, where necessary, to amend the National Labor Relations Act to eliminate delays and inequities and to provide for more effective remedies and administration.

We will support the full right of construction workers to picket a job site peacefully.

We will seek repeal of Section 14(b) of the Taft-Hartley Act which allows states to legislate the anti-union open shop.

We will maintain strong support for the process of voluntary arbitration, and we will enact minimum federal standards for workers compensation laws and for eligibility, benefit amounts, benefit duration and other essential features of the unemployment insurance program. Unemployment insurance should cover all wage and salary workers.

The Occupational Safety and Health Act of 1970 should cover all employees and be enforced as intended when the law was enacted. Early and periodic review of its provisions should be made to insure that they are reasonable and workable.

The Democratic Party will also seek to enact a comprehensive mine safety law, utilizing the most effective and independent enforcement by the federal government and support special legislation providing adequate compensation to coal miners and their dependents who have suffered disablement or death as a result of the black lung disease.

We believe these policies will put America back to work, bring balanced growth to our economy and give all Americans an opportunity to share in the expanding prosperity that will come from a new Democratic administration.

II. GOVERNMENT REFORM AND BUSINESS ACCOUNTABILITY

The current Republican Administration did not invent inept government, but it has saddled the country with ineffective government; captive government, subservient to the special pleading of private interests; insensitive government, trampling over the rights of average citizens; and remote government, secretive and unresponsive.

Democrats believe that the cure for these ills is not the abandonment of governmental responsibility for addressing national problems, but the restoration of legitimate popular control over the organs and activities of government.

There must be an ever-increasing accountability of government to the people. The Democratic Party is pledged to the fulfillment of four fundamental citizen rights of governance: the right to competent government; the right to responsive government; the right to integrity in government; the right to fair dealing by government.

THE RIGHT TO COMPETENT GOVERNMENT

The Democratic Party is committed to the adoption of reforms such as zero-based budgeting, mandatory reorganization timetables, and sunset laws which do not jeopardize the implementation of basic human and political rights. These reforms are designed to terminate or merge existing agencies and programs, or to renew them only after assuring elimination of duplication, overlap, and conflicting programs and authorities, and the matching of funding levels to public needs. In addition, we seek flexibility to reflect changing public needs, the use of alternatives to regulation and the elimination of special interest favoritism and bias.

To assure that government remains responsive to the people's elected representatives, the Democratic Party supports stepped-up Congressional agency oversight and program evaluation, including full implementation of the Congressional budget process; an expanded, more forceful role for the General Accounting Office in performing legislative audits for Congress; and restraint by the President in exercising executive privilege designed to withhold necessary information from Congress.

THE RIGHT TO RESPONSIVE GOVERNMENT

To begin to restore the shaken faith of Americans that the government in Washington is their government--responsive to their needs and desires, not the special interests of wealth, entrenched political influence, or bureaucratic self-interest--government decision-making must be opened up to citizen advocacy and participation.

Government decision-making behind closed doors is the natural enemy of the people. The Democratic Party is committed to openness throughout government: at regulatory commissions, advisory committee meetings and at hearings. Public calendars of scheduled meetings between regulators and the regulated, and freedom of information policies, should be designed to facilitate rather than frustrate citizen access to documents and information.

All persons and citizen groups must be given standing to challenge illegal or unconstitutional government action in court and to compel appropriate action. Where a court or an agency finds evidence of government malfeasance or neglect those who brought forward such evidence should be compensated for their reasonable expenses in doing so.

Democrats have long sought -- against fierce Republican and big business opposition -- the creation and maintenance of an independent consumer agency with the staff and power to intervene in regulatory matters on behalf of the consuming and using public. Many states have already demonstrated that such independent public or consumer advocates can win important victories for the public interest in proceedings before state regulatory agencies and courts.

This nation's Civil Service numbers countless strong and effective public servants. It was the resistance of earnest and steadfast federal workers that stemmed the Nixon-Ford efforts to undermine the integrity of the Civil Service. The reorganization of government which we envision will protect the job rights of civil servants and permit them to more effectively serve the public.

The Democratic Party is committed to the review and overhaul of Civil Service laws to assure: insulation from political cronyism, accountability for nonfeasance as well as malfeasance, protection for the public servant who speaks out to identify corruption or failure, performance standards and incentives to reward efficiency and innovation and to assure nondiscrimination and affirmative action in the recruitment, hiring and promotion of civil service employees.

THE RIGHT TO INTEGRITY IN GOVERNMENT

The Democratic Party is pledged to the concept of full public disclosure by major public officials and urges appropriate legislation to effectuate this policy.

We support divestiture of all financial holdings which directly conflict with official responsibilities and the development of uniform standards, review procedures and sanctions to identify and eliminate potential conflicts of interest.

Tough, competent regulatory commissioners with proven commitment to the public interest are urgently needed.

We will seek restrictions on "revolving door" careerism -- the shuttling back and forth of officials between jobs in regulatory or procurement agencies and in regulated industries and government contractors.

All diplomats, federal judges and other major officials should be selected on a basis of qualifications. At all levels of government services, we will recruit, appoint and promote women and minorities.

We support legislation to ensure that the activities of lobbyists be more thoroughly revealed both within the Congress and the Executive agencies.

The Democratic Party has led the fight to take the presidency off the auction block by championing the public financing of presidential elections. The public has responded with enthusiastic use of the \$1 income tax check-off. Similar steps must now be taken for Congressional candidates.

We call for legislative action to provide for partial public financing on a matching basis of the Congressional elections, and the exploration of further reforms to insure the integrity of the electoral process.

THE RIGHT TO FAIR DEALING BY GOVERNMENT

A citizen has the right to expect fair treatment from government. Democrats are determined to find a means to make that right a reality.

An Office of Citizen Advocacy should be established as part of the executive branch, independent of any agency, with full access to agency records and with both the power and the responsibility to investigate complaints.

Freedom of information requirements must be interpreted in keeping with the right of the individual to be free from anonymous accusation or slander. Each citizen has the right to know and to review any information directly concerning him or her held by the government for any purpose whatsoever under the Freedom of Information Act and the Privacy Act of 1974, other than those exceptions set out in the Freedom of Information Act. Such information should be forthcoming promptly, without harassment and at minimal cost to the citizen.

Appropriate remedies must be found for citizens who suffer hardship as the result of abuse of investigative or prosecutorial powers.

BUSINESS ACCOUNTABILITY

The Democratic Party believes that competition is preferable to regulation and that government has a responsibility to seek the removal of unreasonable restraints and barriers to competition, to restore and, where necessary, to stimulate the operation of market forces. Unnecessary regulations should be eliminated or revised, and the burden of excessive paperwork and red tape imposed on citizens and businesses should be removed.

The Democratic Party encourages innovation and efficiency in the private sector.

The Democratic Party also believes that strengthening consumer sovereignty -- the ability of consumers to exercise free choice, to demand satisfaction, and to obtain direct redress of grievances -- is similarly preferable to the present indirect government protection of consumers. However, government must not shirk its responsibility to impose and rigorously enforce regulation where necessary to ensure health, safety and fairness. We reiterate our support for unflinching antitrust enforcement, and for the selection of an Attorney General free of political obligation and committed to rigorous antitrust prosecution.

We shall encourage consumer groups to establish and operate consumer cooperatives that will enable consumers to provide themselves marketplace alternatives and to provide a competitive spur to profit-oriented enterprises.

We support responsible cost saving in the delivery of professional services including the use of low-cost paraprofessionals, efficient group practice and federal standards for state no-fault insurance programs.

We reiterate our support for full funding of neighborhood legal services for the poor.

The Democratic Party is also committed to strengthening the knowledge and bargaining power of consumers through government-support systems for developing objective product performance standards; advertising and labeling requirements for the disclosure of essential

consumer information; and efficient and low-cost redress of consumer complaints including strengthened small claims courts, informal dispute settlement mechanisms, and consumer class actions.

The Democratic Party is committed to making the U. S. Postal Service function properly as an essential public service.

We reaffirm the historic Democratic commitment to assure the wholesomeness of consumer products such as food, chemicals, drugs and cosmetics, and the safety of automobiles, toys and appliances. Regulations demanding safe performance can be developed in a way that minimizes their own costs and actually stimulates product innovation beneficial to consumers.

III. GOVERNMENT AND HUMAN NEEDS

The American people are demanding that their national government act more efficiently and effectively in those areas of urgent human needs such as welfare reform, health care and education.

However, beyond these strong national initiatives, state and local governments must be given an increased, permanent role in administering social programs. The federal government's role should be the constructive one of establishing standards and goals with increased state and local participation.

There is a need for a new blueprint for the public sector, one which identifies and responds to national problems, and recognizes the proper point of administration for both new and existing programs. In shifting administrative responsibility, such programs must meet minimum federal standards.

Government must concentrate, not scatter, its resources. It should not divide our people by inadequate and demeaning programs. The initiatives we propose do not require larger bureaucracy. They do require committed government.

The Democratic Party realizes that accomplishing our goals in the areas of human needs will require time and resources. Additional resources will become available as we implement our full-employment policies. Federal revenues also grow over time. After full-employment has been achieved, \$20 billion of increased revenue will be generated by a fully operating economy each year. The program detailed in the areas of human needs cannot be accomplished immediately, but an orderly beginning can be made and the effort expanded as additional resources become available.

HEALTH CARE

In 1975, national health expenditures averaged \$547 per person -- an almost 40 percent increase in four years. Inflation and recession have combined to erode the effectiveness of the Medicare and Medicaid programs.

An increasingly high proportion of health costs have been shifted back to the elderly. An increasing Republican emphasis on restricting eligibility and services is emasculating basic medical care for older citizens who cannot meet the rising costs of good health.

We need a comprehensive national health insurance system with universal and mandatory coverage. Such a national health insurance system should be financed by a combination of employer-employee shared payroll taxes and general tax revenues. Consideration should be given to developing a means of support for national health insurance that taxes all forms of economic income.

We must achieve all that is practical while we strive for what is ideal, taking intelligent steps to make adequate health services a right for all our people. As resources permit, this system should not discriminate against the mentally ill.

Maximum personal interrelationships between patients and their physicians should be preserved. We

should experiment with new forms of medical care delivery to mold a national health policy that will meet our needs in a fiscally responsible manner.

We must shift our emphasis in both private and public health care away from hospitalization and acute-care services to preventive medicine and the early detection of the major cripplers and killers of the American people. We further support increased federal aid to government laboratories as well as private institutions to seek the cure to heart disease, cancer, sickle cell anemia, paralysis from spinal cord injury, drug addiction and other such afflictions.

National health insurance must also bring about a more responsive consumer-oriented system of health care delivery. Incentives must be used to increase the number of primary health care providers, and shift emphasis away from limited-application, technology-intensive programs. By reducing the barriers to primary preventive care, we can lower the need for costly hospitalization. Communities must be encouraged to avoid duplication of expensive technologies and meet the genuine needs of their populations.

The development of community health centers must be resumed. We must develop new health careers, and promote a better distribution of health care professionals, including the more efficient use of paramedics. All levels of government should concern themselves with increasing the number of doctors and paramedical personnel in the field of primary health care.

A further need is the comprehensive treatment of mental illness, including the development of Community Mental Health Centers that provide comprehensive social services not only to alleviate, but to prevent mental stresses resulting from social isolation and economic dislocation. Of particular importance is improved access to the health care system by underserved population groups.

We must have national health insurance with strong built-in cost and quality controls. Rates for institutional care and physicians' services should be set in advance, prospectively. Alternative approaches to health care delivery, based on prepayment financing, should be encouraged and developed.

Americans are currently spending \$133 billion for health care--8.3% of our Gross National Product. A return to full employment and the maintenance thereafter of stable economic growth will permit the orderly and progressive development of a comprehensive national health insurance program which is federally financed.

Savings will result from the removal of inefficiency and waste in the current multiple public and private insurance programs and the structural integration of the delivery system to eliminate duplication and waste. The cost of such a program need not exceed the share of the GNP this nation currently expends on health care; but the resulting improvement of health service would represent a major improvement in the quality of life enjoyed by Americans at all economic levels.

WELFARE REFORM

Fundamental welfare reform is necessary. The problems with our current chaotic and inequitable system of public assistance are notorious. Existing welfare programs encourage family instability. They have few meaningful work incentives. They do little or nothing for the working poor on substandard incomes. The patchwork of federal, state and local programs encourages unfair variations in benefit levels among the states, and benefits in many states are well below the standards for even lowest-income budgets.

Of the current programs, only Food Stamps give universal coverage to all Americans in financial need. Cash assistance, housing aid and health care subsidies

divided represents into arbitrary categories. People with real needs who do not fit existing categories are ignored altogether.

The current complexity of the welfare structure requires armies of bureaucrats at all levels of government. Food Stamps, Aid to Families with Dependent Children, and Medicaid are burdened by unbelievably complex regulations, statutes and court orders. Both the recipients of these benefits, and the citizen who pays for them, suffer as a result. The fact that our current system is administered and funded at different levels of government makes it difficult to take initiatives to improve the status of the poor.

We should move toward replacement of our existing inadequate and wasteful system with a simplified system of income maintenance, substantially financed by the federal government, which includes a requirement that those able to work be provided with appropriate available jobs or job training opportunities.

Those persons who are physically able to work (other than mothers with dependent children) should be required to accept appropriate available jobs or job training.

This maintenance system should embody certain basic principles. First and most important, it should provide an income floor both for the working poor and the poor not in the labor market.

It must treat stable and broken families equally. It must incorporate a simple schedule of work incentives that guarantees equitable levels of assistance to the working poor. This reform may require an initial additional investment, but it offers the prospect of stabilization of welfare costs over the long run, and the assurance that the objectives of this expenditure will be accomplished.

As an interim step, and as a means of providing immediate federal fiscal relief to state and local governments, local governments should no longer be required to bear the burden of welfare costs. Further, there should be a phased reduction in the states' share of welfare costs.

CIVIL AND POLITICAL RIGHTS

To achieve a just and healthy society and enhance respect and trust in our institutions, we must insure that all citizens are treated equally before the law and given the opportunity, regardless of race, color, sex, religion, age, language or national origin, to participate fully in the economic, social and political processes and to vindicate their legal and constitutional rights.

In reaffirmation of this principle, an historic commitment of the Democratic Party, we pledge vigorous federal programs and policies of compensatory opportunity to remedy for many Americans the generations of injustice and deprivation; and full funding of programs to secure the implementation and enforcement of civil rights.

We seek ratification of the Equal Rights Amendment, to insure that sex discrimination in all its forms will be ended, implementation of Title IX, and elimination of discrimination against women in all federal programs.

We support the right of all Americans to vote for President no matter where they live; vigorous enforcement of voting rights legislation to assure the constitutional rights of minority and language-minority citizens; the passage of legislation providing for registration by mail in federal elections to erase existing barriers to voter participation; and full home rule for the District of Columbia, including authority over its budget and local revenues, elimination of federal restrictions in matters which are purely local and voting representation in the Congress, and the declaration of the birthday of the great civil rights leader, Martin Luther King, Jr., as a national holiday.

We pledge effective and vigorous action to protect citizens' privacy from bureaucratic and technological

intrusions, such as wiretapping and bugging without judicial scrutiny and supervision; and a full and complete pardon for those who are in legal or financial jeopardy because of their peaceful opposition to the Vietnam War, with deserters to be considered on a case-by-case basis.

We fully recognize the religious and ethical nature of the concerns which many Americans have on the subject of abortion. We feel, however, that it is undesirable to attempt to amend the U.S. Constitution to overturn the Supreme Court decision in this area.

The Democratic Party reaffirms and strengthens its legal and moral trust responsibilities to the American Indian. We believe it is honorable to obey and implement our treaty obligations to the first Americans. In discharging our duty, we shall exert all and necessary assistance to afford the American Indians the protection of their land, their water and the civil rights.

Federal laws relating to American Indians and the functions and purposes of the Bureau of Indian Affairs should be reexamined.

We support a provision in the immigration laws to facilitate acquisition of citizenship by Resident Aliens.

We are committed to Puerto Rico's right to enjoy full self-determination and a relationship that can evolve in ways that will most benefit U.S. citizens in Puerto Rico. The Democratic Party respects and supports the present desire of the people of Puerto Rico to freely associate in permanent union with the United States, as an autonomous commonwealth or as a State.

EDUCATION

The goal of our educational policy is to provide our citizens with the knowledge and skills they need to live successfully. In pursuing this goal, we will seek adequate funding, implementation and enforcement of requirements in the education programs already approved by Congress.

We should strengthen federal support of existing programs that stress improvement of reading and math skills. Title I of the Elementary and Secondary Education Act must reach those it is intended to benefit to effectively increase these primary skills. "Break-throughs" in compensatory education require a concentration of resources on each individual child and a mix of home and school activities that is not possible with the underfunded Republican programs.

Compensatory education is realistic only when there is a stable sequence of funding that allows proper planning and continuity of programs, an impossibility under Republican veto and impoundment politics.

We should also work to expand federal support areas of educational need that have not yet been addressed sufficiently by the public schools - education of the handicapped, bilingual education and vocational education, and early childhood education. We propose federally financed, family centered developmental and educational child care programs -- operated by the public schools or other local organizations, including both private and community -- and that they be available to all who need and desire them. We support efforts to provide for the basic nutritional needs of students.

We recognize the right of all citizens to education, pursuant to Title VI of the Civil Rights Act of 1964, and the need in affected communities for bilingual and bicultural educational programs. We call for compliance with civil rights requirements in hiring and promotion in school systems.

For the disadvantaged child, equal opportunity requires concentrated spending. And for all children, we must guarantee that jurisdictions of differing financial capacity can spend equal amounts on education. These goals do not conflict but complement each other.

The principle that a child's education should depend on the property wealth of his or her school jurisdiction has been discredited in the last few years. With

increased federal funds, it is possible to enhance educational opportunity by eliminating spending disparities within state borders. State-based equalizations, even state takeover of education costs, to relieve the overburdened property taxpayer and to avoid the inequities in the existing finance system, should be encouraged.

The essential purpose of school desegregation is to give all children the same educational opportunities. We will continue to support that goal. The Supreme Court decision of 1954 and the aftermath were based on the recognition that separate educational facilities are inherently unequal. It is clearly our responsibility as a party and as citizens to support the principles of our Constitution.

The Democratic Party pledges its concerted help through special consultation, matching funds, incentive grants and other mechanisms to communities which seek education, integrated both in terms of race and economic class, through equitable, reasonable and constitutional arrangements. Mandatory transportation of students beyond their neighborhoods for the purpose of desegregation remains a judicial tool of last resort for the purpose of achieving school desegregation. The Democratic Party will be an active ally of those communities which seek to enhance the quality as well as the integration of educational opportunities. We encourage a variety of other measures, including the redrawing of attendance lines, pairing of schools, use of the "magnet school" concept, strong fair housing enforcement, and other techniques for the achievement of racial and economic integration.

The Party reaffirms its support of public school education. The Party also renews its commitment to the support of a constitutionally acceptable method of providing tax aid for the education of all pupils in non-segregated schools in order to insure parental freedom in choosing the best education for their children. Specifically, the Party will continue to advocate constitutionally permissible federal education legislation which provides for the equitable participation in federal programs of all low and moderate income pupils attending the nation's schools.

The Party commits itself to support of adult education and training which will provide skills upgrading.

In higher education, our Party is strongly committed to extending postsecondary opportunities for students from low and middle income families, including older students and students who can attend only part-time. The Basic Educational Opportunity Grants should be funded at the full payment schedule, and campus-based programs of aid must be supported to provide a reasonable choice of institutions as well as access. With a coordinated and reliable system of grants, loans and work study, we can relieve the crisis in costs that could shut all but the affluent out of our colleges and universities.

The federal government and the states must develop strategies to support institutions of higher education from both public and private sources. The federal government should directly provide cost of education payments to all higher education institutions, including predominantly black colleges, to help cover per-student costs, which far exceed those covered by tuition and fees.

Finally, government must systematically support basic and applied research in the liberal arts, the sciences, education and the professions -- without political interference or bureaucratic restraint. The federal investment in graduate education should be sustained and selectively increased to meet the need for highly trained individuals. Trainee-ships and fellowships should be provided to attract the most talented students, especially among minority groups and women.

Libraries should receive continuous and guaranteed support and the presently impounded funds for nationwide library planning and development should be released immediately.

SOCIAL SERVICES

The Nixon-Ford Administration would limit eligibility for federally-subsidized social services to the very poor. Social services can make significant changes in the lives of the non-poor, as well. The problems of alcoholism, drug abuse, mental retardation, child abuse or neglect, and mental illness arise at every income level, and quality day-care has become increasingly urgent for low and middle income families. Federal grants to the states should support a broad community-based program of social services to low and middle income families, to assure that these programs reach their intended populations.

The states are now being required to take over an increasing share of existing social service programs. In 1972, the ceiling for federal social service grants was frozen at \$2.5 billion, and subsequent inflation of 28 percent has reduced the effective federal aid to existing programs. While there must certainly be a ceiling on such grants, it should be raised to compensate for inflation and to encourage states and localities to expand social services to low and moderate income families.

DISABLED CITIZENS

We support greater recognition of the problems of the disabled and legislation assuring that all people with disabilities have reasonable access to all public accommodations and facilities. The Democratic Party supports affirmative action goals for employment of the disabled.

OLDER CITIZENS

The Democratic Party has always emphasized that adequate income and health care for senior citizens are basic federal government responsibilities. The recent failure of government to reduce unemployment and alleviate the impact of the rising costs of food, housing and energy have placed a heavy burden on those who live on fixed and limited incomes especially the elderly. Our other platform proposals in these areas are designed to help achieve an adequate income level for the elderly.

We will not permit an erosion of social security benefits, and while our ultimate goal is a health security system ensuring comprehensive and quality care for all Americans, health costs paid by senior citizens under the present system must be reduced.

We believe that Medicare should be made available to Americans abroad who are eligible for Social Security.

Democrats strongly support employment programs and the liberalization of the allowable earnings limitation under Social Security for older Americans who wish to continue working and living as productive citizens. We will put an end to delay in implementation of nutrition programs for the elderly and give high priority to a transportation policy for senior citizens under the Older Americans Act. We pledge to enforce vigorously health and safety standards for nursing homes, and seek alternatives which allow senior citizens, where possible, to remain in their own homes.

VETERANS

America's veterans have been rhetorically praised by the Nixon-Ford Administration at the same time that they have been denied adequate medical, education, pension and employment benefits.

Vietnam veterans have borne the brunt of unemployment and economic mismanagement at home. As late as December 1975, the unemployment rate for Vietnam veterans was over 10 percent. Younger Vietnam veterans (ages 20-24) have had unemployment rates almost twice the rate of similarly-aged non-veterans. Job training, placement, and information and counseling programs for veterans are inadequate.

The Veterans Administration health care program requires adequate funding and improved management and

health care delivery in order to provide high quality service and effectively meet the changing needs of the patient population.

The next Democratic administration must act to rescue pensioner veterans below the poverty line. Thirty percent of the veterans and 50 percent of the widows receiving pensions have total incomes below the poverty line. Cost of living increases should be automatic in the Veterans' pension and disability system.

Educational assistance should be expanded two years for those veterans already enrolled and drawing benefits in VA-approved educational and training programs.

THE ARTS AND HUMANITIES

We recognize the essential role played by the arts and humanities in the development of America. Our nation cannot afford to be materially rich and spiritually poor. We endorse a strong role for the federal government in reinforcing the vitality and improving the economic strength of the nation's artists and arts institutions, while recognizing that artists must be absolutely free of any government control. We would support the growth and development of the National Endowments for the Arts and Humanities through adequate funding, the development of special anti-recession employment programs for artists, copyright reforms to protect the rights of authors, artists and performers, and revision of the tax laws that unfairly penalize artists. We further pledge our support for the concept and adequate financing of public broadcasting.

IV. STATES, COUNTIES AND CITIES

More than eight years ago, the Kerner Commission on Civil Disorders concluded that the disorders of the 1960s were caused by the deteriorating conditions of life in our urban centers -- abject poverty, widespread unemployment, uninhabitable housing, declining services, rampant crime and disintegrating families. Many of these same problems plagued rural American as well. Little has been done by the Republican administrations to deal with these fundamental challenges to our society. This policy of neglect gives the lie to the current Administration's rhetorical commitment to state and local governments.

By tolerating intolerable unemployment, by vetoing programs for the poor, the old, and the ill, by abandoning the veterans and the young, and by withholding necessary funds for the decaying cities the Nixon-Ford years have been years of retrogression in the nation's efforts to meet the needs of our cities. By abdicating responsibility for meeting these needs at the national level, the current administration has placed impossible burdens on fiscally hard-pressed state and local governments. In turn, local governments have been forced to rely excessively on the steadily diminishing and regressive property tax -- which was originally designed to cover property related services and was never intended to support the services now required in many of our cities and towns.

Federal policies and programs have inadvertently exacerbated the urban crisis. Within the framework of a new partnership of federal, state and local governments, and the private sector, the Democratic Party is pledged to the development of America's first national urban policy.

Central to the success of that policy are the Democratic Party's commitments to full employment, incentives for urban and rural economic development, welfare reform, adequate health care, equalization of education expenditures, energy conservation and environmental quality. If progress were made in these areas, much of the inappropriately placed fiscal burden would be removed, and local governments could better fulfill their appropriate responsibilities.

To assist further in relieving both the fiscal and service delivery problems of states and local governments,

the Democratic Party reaffirms its support for general revenue sharing as a base for the fiscal health of all levels of government, acknowledging that the civil rights and citizens' participation provisions must be strengthened. We further believe that there must be an increase in the annual funding to compensate for the erosion of inflation. We believe the distribution formula should be adjusted to reflect better community and state needs, poverty levels, and tax effort.

Finally, to alleviate the financial burden placed on our cities by the combination of inflation and recession, the Democratic Party restates its support for an emergency anti-recession aid to states and cities particularly hard hit by recession.

HOUSING AND COMMUNITY DEVELOPMENT

In the past eight Republican years, housing has become a necessity priced as a luxury. Housing prices have nearly doubled in the past six years and housing starts have dropped by almost one-quarter. The effect is that over three-fourths of American families cannot afford to buy an average-priced home. The basic national goal of providing decent housing and available shelter has been sacrificed to misguided tax, spending and credit policies which were supposed to achieve price stability but have failed to meet that goal.

As a result, we do not have decent housing or price stability. The vision of the Housing Act of 1968, the result of three decades of enlightened Democratic housing policy, has been lost. The Democratic Party reasserts those goals, and pledges to achieve them.

The Democratic Party believes it is time for a housing and urban development policy which recognizes the needs and difficulties of both the buying and renting public and the housing industry. We support a revitalized housing program which will be able to meet the public's need for housing at reasonable cost and the industry's need for relief from years of stagnation and now-chronic unemployment.

We support direct federal subsidies and low interest loans to encourage the construction of low and moderate income housing. Such subsidies shall not result in unreasonable profit for builders, developers or credit institutions.

We support the expansion of the highly successful programs of direct federal subsidies to provide housing for the elderly.

We call for greatly increased emphasis on the rehabilitation of existing housing to rebuild our neighborhoods--a priority which is undercut by the current pattern of federal housing money which includes actual prohibitions to the use of funds for rehabilitation.

We encourage public and private commitments to the preservation and renovation of our country's historic landmarks so that they can continue as a vital part of our commercial and residential architectural heritage.

We will work to assure that credit institutions make greater efforts to direct mortgage money into the financing of private housing.

We will take all necessary steps to prohibit the practice of red-lining by private financial institutions, the FHA, and the secondary mortgage market which have had the effect of depriving certain areas of the necessary mortgage funds which they need to upgrade themselves. We will further encourage an increase in loans and subsidies for housing and rehabilitation, especially in poverty stricken areas.

We support greater flexibility in the use of community development block grants at the local level.

The current Housing and Community Development Act should be reformed and restructured so that its allocation, monitoring, and citizen participation features better address the needs of local communities, major cities and underdeveloped rural areas.

The revitalization of our cities must proceed with an understanding that housing, jobs and related community facilities are all critical to a successful program. The Democratic Party will create the necessary incentives to insure that private and public jobs are available to meet the employment needs of these communities and pledges a more careful planning process for the location of the federal government's own employment-creating facilities.

The Democratic Party proposes a revitalization of the Federal Housing Administration as a potent institution to stabilize new construction and existing housing markets. To this end, the Agency's policies must be simplified, its operating practices and insurance rate structures modernized and the sense of public service which was the hallmark of the FHA for so many years must be restored. In addition, we propose automatic triggering of direct production subsidies and a steady flow of mortgage funds during periods when housing starts fall below acceptable levels.

Women, the elderly, single persons and minorities are still excluded from exercising their right to select shelter in the areas of their choice, and many "high-risk" communities are systematically denied access to the capital they require. The Democratic Party pledges itself to the aggressive enforcement of the Fair Housing Act; to the promotion and enforcement of equal opportunity in housing; and to the pursuit of new regulatory and incentive policies aimed at providing minority groups and women with equal access to mortgage credit.

In addition to direct attacks upon such known violations of the law, a comprehensive approach to these problems must include policies aimed at the underlying causes of unequal credit allocations. The Democratic Party pledges itself to aggressive policies designed to assure lenders that their commitments will be backed by government resources, so that investment risks will be shared by the public and private sectors.

THE SPECIAL NEEDS OF OLDER CITIES

The Democratic Party recognizes that a number of major, older cities--including the nation's largest city--have been forced to undertake even greater social responsibilities, which have resulted in unprecedented fiscal crises.

There is a national interest in helping such cities in their present travail, and a new Democratic President and the Congress shall undertake a massive effort to do so.

LAW ENFORCEMENT AND LAW OBSERVANCE

The total crime bill in the United States has been estimated at \$90 billion a year, almost as much as the cost of our national defense. But over and above the economic impact, the raging and unchecked growth of crime seriously impairs the confidence of many of our citizens in their ability to walk on safe streets, to live securely in peaceful and happy homes, and to work safely in their places of business.

Fear mounts along with the crime rate. Homes are made into fortresses. In large sections of every major city, people are afraid to go out at night. Outside big cities, the crime rate is growing even faster, so that suburbs, small towns and rural areas are no longer secure havens.

Defaulting on their "law and order" promises, the Republicans in the last eight years have let the rising tide of crime soil the highest levels of government, allowed the crime rate to skyrocket and failed to reform the criminal justice system. Recognizing that law enforcement is essentially a local responsibility, we declare that control of crime is an urgent national priority and pledge the efforts of the Democratic Party to insure that the Federal Government act effectively to reverse these trends and to be an effective partner to the cities and states in a well-coordinated war on crime.

We must restore confidence in the criminal justice system by insuring that detection, conviction and punishment of lawbreakers is swift and sure; that criminal justice system is just and efficient; that jobs, decent housing and educational opportunities provide a real alternative to crime to those who suffer enforced poverty and injustice.

We pledge equally vigorous prosecution and punishment for corporate crime, consumer fraud and deception; programs to combat child abuse and crimes against the elderly; criminal laws that reflect national needs; application of the law with a balanced and fair hand; a judiciary that renders equal justice for all; criminal sentences that provide punishment that actually punishes and rehabilitation that actually rehabilitates; and a correctional system emphasizing effective job training, educational and post-release programs.

Only such measures will restore the faith of the citizens in our criminal justice system.

Toward these ends, we support a major reform of the criminal justice system, but we oppose any legislative effort to introduce repressive and anti-civil libertarian measures in the guise of reform of the criminal code.

The Law Enforcement Assistance Administration has not done its job adequately. Federal funding for crime-fighting must be wholly revamped to more efficiently assist local and state governments in strengthening their law enforcement and criminal justice systems, rather than spend money on the purchase of expensive equipment, much of it useless.

Citizen confidence in law enforcement can be enhanced through increased citizen participation, by informing citizens of police and prosecutor policies, assuring that police departments reflect a cross-section of the communities they serve, establishing neighborhood forums to settle simple disputes, restoring the grand jury to fair and vigorous independence, establishing adequate victim compensation programs, and reaffirming our respect for the individual's right to privacy.

Coordinated action is necessary to end the vicious cycle of drug addiction and crime. We must break up organized crime syndicates dealing in drugs, take necessary action to get drug pushers off the streets, provide users with effective rehabilitation programs, including medical assistance, ensure that all young people are aware of the costs of a life of drug dependency, and use worldwide efforts to stop international production and trafficking in illicit drugs.

A Democratic Congress in 1974 passed the Juvenile Justice and Delinquency Prevention Act to come to grips with the fact that juveniles account for almost half of the serious crimes in the United States, and to remedy the fact that federal programs thus far have not met the crisis of juvenile delinquency. We pledge funding and implementation of this Act, which has been ignored by the Republican Administration.

Handguns simplify and intensify violent crime. Ways must be found to curtail the availability of these weapons. The Democratic Party must provide the leadership for a coordinated federal and state effort to strengthen the presently inadequate controls over the manufacture, assembly, distribution and possession of handguns and to ban Saturday night specials.

Furthermore, since people and not guns commit crimes, we support mandatory sentencing for individuals convicted of committing a felony with a gun.

The Democratic Party, however, affirms the right of sportsmen to possess guns for purely hunting and target-shooting purposes.

The full implementation of these policies will not in themselves stop lawlessness. To insure professionally trained and equitably rewarded police forces, law en-

forcement officers must be properly recruited and trained, and provided with decent wages, working conditions, support staff, and federal death benefits for those killed in line of duty.

Effective police forces cannot operate without just and speedy court systems. We must reform bail and pre-trial detention procedures. We must assure speedy trials and ease court congestion by increasing the number of judges, prosecutors and public defenders. We must improve and streamline courthouse management procedures, require criminal justice records to be accurate and responsible, and establish fair and more uniform sentencing for crimes.

Courts should give priority to crimes which are serious enough to deserve imprisonment. Law enforcement should emphasize the prosecution of crimes against persons and property as a higher priority than victimless crimes. Current rape laws need to be amended to abolish archaic evidence rules that discriminate against rape victims.

We pledge that the Democratic Party will not tolerate abuses of governmental processes and unconstitutional action by the government itself. Recognizing the value of legitimate intelligence efforts to combat espionage and major crime, we call for new legislation to ensure that these efforts will no longer be used as an excuse for abuses such as bugging, wiretaps, mail opening and disruption aimed at lawful political and private activities.

The Attorney General in the next Democratic Administration will be an independent, non-political official of the highest integrity. If lawlessness is found at any level, in any branch, immediate and decisive action will be taken to root it out. To that end, we will establish the machinery for appointing an independent Special Prosecutor whenever needed.

As a party, as a nation, we must commit ourselves to the elimination of injustice wherever it plagues our government, our people and our future.

TRANSPORTATION

An effective national transportation policy must be grounded in an understanding of all transportation systems and their consequences for costs, reliability, safety, environmental quality and energy savings. Without public transportation, the rights of all citizens to jobs and social services cannot be met.

To that end, we will work to expand substantially the discretion available to states and cities in the use of federal transportation money, for either operating expenses or capital programs on the modes of transportation which they choose. A greater share of Highway Trust Fund money should also be available on a flexible basis.

We will change further the current restrictive limits on the use of mass transit funds by urban and rural localities so that greater amounts can be used as operating subsidies; we emphatically oppose the Republican Administration's efforts to reduce federal operating subsidies.

We are committed to dealing with the transportation needs of rural America by upgrading secondary roads and bridges and by completion of the original plan of 1956 for the interstate highway system where it benefits rural Americans. Among other benefits, these measures would help overcome the problems of getting products to market, and serves to isolated persons in need.

We will take whatever action is necessary to reorganize and revitalize our nation's railroads.

We are also committed to the support of healthy trucking and bus, inland waterway and air transport systems.

A program of national rail and road rehabilitation and improved mass transit would not only mean better

transportation for our people, but it would also put thousands of unemployed construction workers back to work and make them productive tax-paying citizens once again.

Further, it would move toward the Democratic Party's goal of assuring balanced transportation services for all areas of the nation -- urban and rural. Such a policy is intended to reorganize both pressing urban needs and the sorry state of rural public transportation.

RURAL DEVELOPMENT

The problems of rural America are closely linked to those of our cities. Rural poor and the rural elderly suffer under the same economic pressures and have at least as many social needs as their counterparts in the cities. The absence of rural jobs and rural vitality and the continuing demise of the family farm have prompted a migration to our cities which is beyond the capacity of the cities to absorb.

Over 20 million Americans moved to urban areas between 1940 and 1960 alone. We pledge to develop programs to make the family farm economically healthy again so as to be attractive to young people.

To that end, the Democratic Party pledges to strengthen the economy and thereby create jobs in our great agricultural and rural areas by the full implementation and funding of the Rural Development Act of 1972 and by the adoption of an agricultural policy which recognizes that our capacity to produce food and fiber is one of our greatest assets.

While it is bad enough to be poor, or old, or alone in the city, it is worse in the country. We are therefore committed to overcome the problems of rural as well as urban isolation and poverty by insuring the existence of adequate health facilities, critically-needed community facilities such as water supply and sewage disposal systems, decent housing, adequate educational opportunity and needed transportation throughout rural America.

As discussed in the transportation section, we believe that transportation dollars should be available in a manner to permit their flexible use. In rural areas this means they could be used for such needs as secondary road improvement, taxi systems, buses, or other systems to overcome the problems of widely dispersed populations, to facilitate provision of social services and to assure access of citizens to meet human needs.

Two thousand family farms are lost per week. To help assure that family farms stay in the family where they belong, we will push increases in relevant estate tax exemptions. This increased exemption, when coupled with programs to increase generally the vitality of rural America, should mean that the demise of the family farm can be reversed.

We will seek adequate levels of insured and guaranteed loans for electrification and telephone facilities.

Only such a coordinated program can make rural America again attractive and vigorous, as it needs to be if we are to deal with the challenges facing the nation as a whole.

ADMINISTRATION OF FEDERAL AID

Federal aid programs impose jurisdictional and administrative complications which substantially diminish the good accomplished by the federal expenditure of about \$50 billion annually on state and local governments.

An uncoordinated policy regarding eligibility requirements, audit guidelines, accounting procedures and the like compromise the over 800 categorical aid programs and threaten to bog down the more broadly conceived flexible block grant programs. The Democratic Party is committed to cutting through this chaos and simplifying the grant process for both recipient governments and program administrators.

The Democratic Party also reaffirms the role of state and general purpose local governments as the principle governments in the orderly administration of federal aid and revenue sharing programs.

V. NATURAL RESOURCES AND ENVIRONMENTAL QUALITY

ENERGY

Almost three years have passed since the oil embargo. Yet, by any measure, the nation's energy lifeline is in far greater peril today. America is running out of energy - natural gas, gasoline and oil.

The economy is already being stifled. The resulting threat of unemployment and diminished production is already present.

If America, as we know it, is to survive, we must move quickly to develop renewable sources of energy.

The Democratic Party will strive to replace the rapidly diminishing supply of petroleum and natural gas with solar, geothermal, wind, tide and other forms of energy, and we recommend that the federal government promptly expend whatever funds are required to develop new systems of energy.

We have grown increasingly dependent on imported oil. Domestic production, despite massive price increases continues to decline. Energy stockpiles, while authorized, are yet to be created. We have no agreements with any producing nations for security of supply. Efforts to develop alternative energy sources have moved forward slowly. Production of our most available and plentiful alternative - coal - is not increasing. Energy conservation is still a slogan, instead of a program.

Republican energy policy has failed because it is based on illusions; the illusion of a free market in energy that does not exist, the illusion that ever-increasing energy prices will not harm the economy, and the illusion of an energy program based on unobtainable independence.

The time has come to deal with the realities of the energy crisis, not its illusions. The realities are that rising energy prices, falling domestic supply, increasing demand, and the threat to national security of growing imports, have not been contained by the private sector.

The Democratic energy platform begins with a recognition that the federal government has an important role to play in insuring the nation's energy future, and that it must be given the tools it needs to protect the economy and the nation's consumers from arbitrary and excessive price increases and help the nation embark on a massive domestic energy program focusing on conservation, coal conversion, exploration and development of new technologies to insure an adequate short-term and long-term supply of energy for the nation's needs. A nation advanced enough and wealthy enough to send a man to the moon must dedicate itself to developing alternative sources of energy.

Energy Pricing

Enactment of the Energy Policy and Conservation Act of 1975 established oil ceiling prices at levels sufficient to maximize domestic production but still below OPEC equivalents. The Act was a direct result of the Democratic Congress' commitment to the principle that beyond certain levels, increasing energy prices simply produce high-cost energy -- without producing any additional energy supplies.

This oil-pricing lesson should also be applied to natural gas. Those now pressing to turn natural gas price regulation over to OPEC, while arguing the rhetoric of so-called deregulation, must not prevail. The pricing of new natural gas is in need of reform.

We should narrow the gap between oil and natural gas prices with new natural gas ceiling prices that maximize production and investment while protecting the economy and the consumer. Any reforms in the pricing of new natural gas should not be at the cost of severe economic dislocations that would accelerate inflation and increase unemployment.

An examination must be made of advertising cost policies of utilities and the imposition of these costs on the consumer. Advertising costs used to influence public policy ought to be borne by stockholders of the utility companies and not by the consumers.

Domestic Supply and Demand

The most promising neglected domestic option for helping balance our energy budget is energy conservation. But major investments in conservation are still not being made.

The Democratic Party will support legislation to establish national building performance standards on a regional basis designed to improve energy efficiency. We will provide new incentives for aiding individual homeowners, particularly average income families and the poor in undertaking conservation investments.

We will support the reform of utility rate structures and regulatory rules to encourage conservation and ease the utility rate burden on residential users; farmers and other consumers who can least afford it; make more efficient use of electrical generating capacity; and we will aggressively pursue implementation of automobile efficiency standards and appliance labeling programs already established by Democratic initiative in the Energy Policy and Conservation Act.

Coal currently comprises 80 percent of the nation's energy resources, but produces only 16 percent of the nation's energy. The Democratic Party believes that the United States' coal production can and must be increased without endangering the health and safety of miners, diminishing the land and water resources necessary for increased food production, and sacrificing the personal and property rights of farmers, ranchers and Indian tribes.

We must encourage the production of the highest quality coal, closest to consuming markets, in order to insure that investments in energy production reinforce the economics of energy producing and consuming regions. Improved rail transportation systems will make coal available where it is actually needed, and will insure a rail transport network required for a healthy industrial and agricultural economy.

We support an active federal role in the research and development of clean burning and commercially competitive coal burning systems and technologies, and we encourage the conversion to coal of industrial users of natural gas and imported oil. Air quality standards that make possible the burning of coal without danger to the public health or degradation of the nation's clear air must be developed and implemented.

The Democratic Party wants to put an end to the economic depression, loss of life and environmental destruction that has long accompanied irresponsible coal development in Appalachia.

Strip mining legislation designed to protect and restore the environment, while ending the uncertainty over the rules governing future coal mining, must be enacted.

The huge reserves of oil, gas and coal on federal territory, including the outercontinental shelf, belong to all the people. The Republicans have pursued leasing policies which give the public treasury the least benefit and the energy industry the most benefit from these public resources. Consistent with environmentally sound practices, new leasing procedures must be adopted to

correct these policies, as well as insure the timely development of existing leases.

Major federal initiatives, including major governmental participation in early high-risk development projects, are required if we are to harness renewable resources like solar, wind, geothermal, the oceans, and other new technologies such as fusion, fuel cells and the conversion of solid waste and starches into energy. The Ford Administration has failed to provide those initiatives, and, in the process, has denied American workers important new opportunities for employment in the building and servicing of emerging new energy industries.

U. S. dependence on nuclear power should be kept to the minimum necessary to meet our needs. We should apply stronger safety standards as we regulate its use. And we must be honest with our people concerning its problems and dangers as well as its benefits.

An increasing share of the nuclear research dollar must be invested in finding better solutions to the problems of nuclear waste disposal, reactor safety and nuclear safeguards -- both domestically and internationally.

Competition in the Domestic Petroleum Industry

Legislation must be enacted to insure energy administrators and legislators access to information they need for making the kind of informed decisions that future energy policy will require. We believe full disclosure of data on reserves, supplies and costs of production should be mandated by law.

It is increasingly clear that there is no free, competitive market for crude oil in the United States. Instead, through their control of the nation's oil pipelines, refineries and marketing, the major oil producers have the capability of controlling the field and often the downstream price of almost all oil.

When competition inadequate to insure free markets and maximum benefit to American consumers exists, we support effective restrictions on the right of major companies to own all phases of the oil industry.

We also support the legal prohibition against corporate ownership of competing types of energy, such as oil and coal. We believe such "horizontal" concentration of economic power to be dangerous both to the national interest and to the functioning of the competitive system.

Improved Energy Planning

Establishment of a more orderly system for setting energy goals and developing programs for reaching those goals should be undertaken. The current proliferation of energy jurisdictions among many executive agencies underscores the need for a more coordinated system.

Such a system should be undertaken, and provide for centralization of overall energy planning in a specific executive agency and an assessment of the capital needs for all priority programs to increase production and conservation of energy.

Mineral Resources

As with energy resources, many essential mineral resources may soon be inadequate to meet our growing needs unless we plan more wisely than we have with respect to energy. The Democratic Party pledges to undertake a long-range assessment of supply of our mineral reserves as well as the demand for them.

AGRICULTURE

As a nation, we are blessed with rich resources of land, water and climate. When the supporting tech-

nology has been used to preserve and promote the family ownership and operation of farms and ranches, the people have been well served.

America's farm families have demonstrated their ability and eagerness to produce food in sufficient quantity to feed their fellow citizens and share with hungry people around the world as well. Yet this national asset has been neither prudently developed nor intelligently used.

The eight-year record of the Nixon-Ford Administration is a record of lost opportunities, failure to meet the challenges of agricultural statesmanship, and favoritism to the special pleading of giant corporate agricultural interests.

Republic an misrule in agriculture has caused wide fluctuations in prices to producers, inflated food prices to consumers, unconscionable profiteering on food by business, unscrupulous shipping practices by grain traders, and the mishandling of our abundance in export markets. Republican agricultural policy has spelled high food prices, unstable farm income, windfalls for commodity speculators and multinational corporations, and confrontations between farmer and consumer.

Foremost attention must be directed to the establishment of a national food and fiber policy which will be fair to both producer and consumer, and be based on the family farm agricultural system which has served the nation and the world so well for so long.

Maximum agricultural production will be the most effective means of achieving an adequate food and fiber supply and reasonable price stability to American consumers. Without parity income assurance to farmers, full production cannot be achieved in an uncertain economy. We must assure parity returns to farmers based on costs of production plus a reasonable profit.

We must continue and intensify efforts to expand agriculture's long-term markets abroad, but at the same time we must prevent irresponsible and inflationary sales from the American granary to foreign purchasers. Aggressive but stable and consistent export policy must be our goal. The production of food and fiber in America must be used as part of a constructive foreign policy based on long-term benefits at home and abroad, but not at the expense of the farmers.

Producers shall be encouraged to produce at full capacity within the limits of good conservation practices, including the use of recycled materials, if possible and desirable, to restore natural soil fertility. Any surplus production needed to protect the people of the world from famine shall be stored on the farm in such a manner as to isolate it from the market place.

Excess production beyond the needs of the people for food shall be converted to industrial purposes.

Farmers as individual producers must deal constantly with organized suppliers and marketers, and compete with non-farm conglomerates.

To assist them in bargaining for the tools of production, and to strengthen the institution of the family farm, the Democratic Party will: support the Capper Volstead Act in its present form; curb the influence of non-farm conglomerates which, through the elimination of competition in the marketplace, pose a threat to farmers; support the farmer cooperatives and bargaining associations; scrutinize and remedy any illegal concentrations and price manipulations of farm equipment and supply industries; revitalize basic credit programs for farmers; provide adequate credit tailored to the needs of young farmers; assure access for farmers and rural residents to energy, transportation, electricity and telephone services; reinstate sound, locally administered soil conservation programs; eliminate tax shelter farming; and overhaul federal estate and gift taxes to alleviate some of the legal problems faced by farm families who would otherwise be forced to liquidate their assets to pay the tax.

Long overdue are programs of assistance to farm workers in housing, employment, health, social services and education.

To protect the health of our citizens the government shall insure that all agricultural imports must meet the same quality standards as those imposed on agricultural producers produced in the United States and that only quality American agricultural products be exported.

Fisheries

America's fisheries must be protected and enhanced as a renewable resource through ecologically sound conservation practices and meaningful international agreements and compacts between individual states.

ENVIRONMENTAL QUALITY

The Democratic Party's strong commitment to environmental quality is based on its conviction that environmental protection is not simply an aesthetic goal, but is necessary to achieve a more just society. Cleaning up air and water supplies and controlling the proliferation of dangerous chemicals is a necessary part of a successful national health program. Protecting the worker from workplace hazards is a key element of our full employment program. Occupational disease and death must not be the price of a weekly rate.

The Democratic Party, through the Congress, has recognized the need for basic environmental security, and has authored a comprehensive program to achieve this objective. In eight years, the efforts to implement that program have been thwarted by an Administration committed only to unfounded allegations that economic growth and environmental protection are incompatible.

Quite to the contrary, the Democratic Party believes that a concern for the environment need not and must not stand in the way of a much-needed policy of high economic growth.

Moreover, environmental protection creates jobs. Environmental legislation enacted since 1970 already has produced more than one million jobs, and we pledge to continue to work for additional laws to protect, restore and preserve the environment while providing still more jobs.

Today, permanently harmful chemicals are dispersed, and irrecoverable land is rendered worthless. If we are to avoid repeated environmental crises, we must now renew our efforts to restore both environmental quality and economic growth.

Those who would use the environment must assume the burden of demonstrating that it will not be abused. For too long this burden has been on government agencies, representing the public, to assess and hopefully correct the damage that has already been done.

Our irreplaceable natural and aesthetic resources must be managed to ensure abundance for future generations. Strong land and ocean use planning is an essential element of such management. The artifacts of the desert, the national forests, the wilderness areas, the endangered species, the coastal beaches and barrier dunes and other precious resources are in danger. They cannot be restored. They must be protected.

Economic inequities created by subsidies for virgin materials to the disadvantage of recycled materials must be eliminated. Depletion allowances and unequal freight rates serve to discourage the growing numbers of businesses engaged in recycling efforts.

Environmental research and development within the public sector should be increased substantially. For the immediate future, we must learn how to correct the damage we have already done, but more importantly, we need research on how to build a society in which renewable and non-renewable resources are used wisely and efficiently.

Federal environmental antipollution requirement programs should be as uniform as possible to eliminate economic discrimination. A vigorous program with national minimum environmental standards fully implemented, recognizing basic regional differences, will ensure that states and workers are not penalized by pursuing environmental programs.

The technological community should be encouraged to produce better pollution-control equipment, and more importantly, to produce technology which produces less pollution.

VI. INTERNATIONAL RELATIONS

The next Democratic Administration must and will initiate a new American foreign policy.

Eight years of Nixon-Ford diplomacy have left our nation isolated abroad and divided at home. Policies have been developed and applied secretly and arbitrarily by the executive department from the time of secret bombing in Cambodia to recent covert assistance in Angola. They have been policies that relied on ad hoc, unilateral maneuvering, and on a balance-of-power diplomacy suited better to the last century than to this one. They have disdained traditional American principles which once earned the respect of other peoples while inspiring our own. Instead of efforts to foster freedom and justice in the world, the Republican Administration has built a sorry record of disregard for human rights, manipulative interference in the internal affairs of other nations, and, frequently, a greater concern for our relations with totalitarian adversaries than with our democratic allies. And its efforts to preserve, rather than reform, the international status quo betray a self-fulfilling pessimism that contradicts a traditional American belief in the possibility of human progress.

Defense policy and spending for military forces must be consistent with meeting the real security needs of the American people. We recognize that the security of our nation depends first and foremost on the internal strength of American society -- economic, social and political. We also recognize that serious international threats to our security, such as shortages of food and raw materials, are not solely military in nature and cannot be met by military force or the threat of force. The Republican Administration has, through mismanagement and misguided policies, undermined the security of our nation by neglecting human needs at home while, for the first time in our nation's history, increasing military spending after a war. Billions of dollars have been diverted into wasteful, extravagant and, in some instances, destabilizing military programs.

Our country can -- and under a Democratic Administration it will -- work vigorously for the adoption of policies of full employment and economic growth which will enable us to meet both the justified domestic needs of our citizens and our needs for an adequate national defense.

A Democratic Administration will work to create a foreign policy that does justice to the strength and decency of the American people through adherence to these fundamental principles and priorities:

We will act on the premise that candor in policy-making, with all its liabilities, is preferable to deceit. The Congress will be involved in the major international decisions of our government, and our foreign policies will be openly and consistently presented to the American people. For even if diplomatic tactics and national security information must sometimes remain secret, there can be no excuse for formulating and executing basic policy without public understanding and support.

Our policy must be based on our nation's commitment to the ideal of individual freedom and justice. Experience has taught us not to rely solely on military strength or economic power, as necessary as they are, in pursuit of our international objectives. We must rely

too on the moral strength of our democratic values -- the greatest inspiration to our friends and the attribute most feared by our enemies. We will ensure that human needs are not sacrificed to military spending, while maintaining the military forces we require for our security.

We will strengthen our ties to the other great democracies, working together to resolve common economic and social problems as well as to keep our defenses strong.

We will restore the Democratic tradition of friendship and support to Third World nations.

We must also seek areas of cooperation with our traditional adversaries. There is no other option, for human survival itself is at stake. But pursuit of detente will require maintenance of a strong American military deterrent, hard bargaining for our own interest, recognition of continuing competition, and a refusal to oversell the immediate benefits of such a policy to the American public.

We will reaffirm the fundamental American commitment to human rights across the globe. America must work for a release of all political prisoners -- men and women who are in jail simply because they have opposed peacefully the policies of their governments or have aided others who have -- in all countries. America must take a firm stand to support and implement existing U.S. law to bring about liberalization of emigration policy in countries which limit or prohibit free emigration. America must be resolute in its support of the right of workers to organize and of trade unions to act freely and independently, and in its support of freedom of the press. America must continue to stand as a bulwark in support of human liberty in all countries. A return to the politics of principle requires a reaffirmation of human freedom throughout the world.

THE CHALLENGE OF INTERDEPENDENCE

The International Economy

Eight years of mismanagement of the American economy have contributed to global recession and inflation. The most important contribution a Democratic Administration will make to the returning health of the world economy will be to restore the health of our own economy, with all that means to international economic stability and progress.

We are committed to trade policies that can benefit a full employment economy -- through creation of new jobs for American workers, new markets for American farmers and businesses, and lower prices and a wider choice of goods for American consumers.

Orderly reductions in trade barriers should be negotiated on a reciprocal basis that does not allow other nations to deny us access to their markets while enjoying access to ours. These measures must be accompanied by improved programs to ease dislocations and to relieve the hardship of American workers affected by foreign competition.

The Democratic Party will also seek to promote higher labor standards in those nations where productivity far outstrips wage rates, harming American workers through unfair exploitation of foreign labor, and encouraging American capital to pursue low wage opportunities that damage our own economy and weaken the dollar.

We will exert leadership in international efforts to strengthen the world economic system. The Ford Administration philosophy of reliance on the international "market economy" is insufficient in a world where some governments and multinational corporations are active in managing and influencing market forces.

We pledge constant efforts to keep world monetary systems functioning properly in order to provide a reasonably stable economic environment for business and

to prevent the importation of inflation. We will support reform of the international monetary systems to strengthen institutional means of coordinating national economic policies, especially with our European and Japanese allies, thus facilitating efforts by our government and others to achieve full employment.

The Democratic Party is committed to a strong and competitive merchant fleet, built in the United States and manned by American seamen, as an instrument of international relations and national security. In order to revitalize our merchant fleet, the party pledges itself to a higher level of coordination of maritime policy, reaffirmation of the objectives of the Merchant Marine Acts of 1936 and 1970, and the development of a national cargo policy which assures the U.S. fleet a fair participation in all U.S. trade.

A Democratic Administration will vigorously pursue international negotiations to insure that the multinational activities of corporations, whether American or foreign, be made more responsible to the international community.

We will give priority attention to the establishment of an international code of conduct for multinational corporations and host countries.

We will encourage multinational corporations -- before they relocate production across international boundaries -- to make sufficient advance arrangements for the workers whose jobs will be affected.

We will eliminate bribery and other corrupt practices.

We will prevent these corporations from interfering in the political systems of the countries in which they operate.

If such a code cannot be negotiated or proves to be unenforceable, our country should reserve the right to take unilateral action directed toward each of these problems, specifically including the outlawing of bribes and other improper payments to government officials of other nations.

In pursuit of open and fair international economic relationships, we will seek mechanisms, including legislation, to ensure that foreign governments cannot introduce third party boycotts or racial and religious discrimination into the conduct of American foreign commerce.

Energy

The United States must be a leader in promoting cooperation among the industrialized countries in developing alternative energy sources and reducing energy consumption, thus reducing our dependence on imports from the Middle East and restraining high energy prices. Under a Democratic administration, the United States also will support international efforts to develop the vast energy potential of the developing countries.

We will also actively seek to limit the dangers inherent in the international development of atomic energy and in the proliferation of nuclear weapons. Steps to be given high priority will include: revitalization of the Nonproliferation Treaty, expansion of the International Atomic Energy Agency and other international safeguards and monitoring of national facilities, cooperation against potential terrorism involving nuclear weapons, agreement by suppliers not to transfer enrichment or reprocessing facilities, international assurance of supply of nuclear fuel only to countries cooperating with strict nonproliferation measures, subsidization of multinational nuclear facilities, and gradual conversion to international control of non-weapons fissionable material.

The Developing World

We have a historic opportunity in the next decade to improve the extent and quality of cooperation between the rich and poor countries. The potential benefits to our nation of a policy of constructive cooperation with

the developing world would be considerable: uninterrupted access at reasonable cost to raw materials and to basic commodities; lower rates of global inflation; improved world markets for our goods; and a more benign atmosphere for international negotiation in general.

Above all, the prospects for the maintenance of peace will be vastly brighter in a world in which fewer and fewer people suffer the pangs of hunger and the yoke of economic oppression.

We support efforts to stabilize and increase export earnings of developing countries through our participation in reasonable commodity arrangements.

We support strengthening of global financing mechanisms and trade liberalization efforts. We will assist in promoting greater developing country capital markets.

Because our country provides food and fiber to all the world, the American farmer is heavily dependent on world markets. These markets must be developed in a way that prevents the wild gyrations of food prices and the periodic shortages that have been common under recent Republican administrations. We pledge significant financial support to the International Fund for Agricultural Development; more effective food aid through further revision of the U. S. Food for Peace program; significant contributions to a multinational world food reserve system, with appropriate safeguards for American farmers; and continuing efforts to promote American food exports.

The proliferation in arms, both conventional and nuclear, is a principal potential source of conflict in the developing as well as the industrialized world. The United States should significantly limit conventional arms sales and reduce military aid to developing countries, should include conventional arms transfers on the arms control agenda, and should require country-by-country justification for U. S. arms transfers, whether by sales or aid. Such sales or aid must be justified in terms of foreign policy benefits to the United States and not simply because of their economic value to American weapons producers.

A primary object of American aid, both military and economic, is first of all to enhance the condition of freedom in the world. The United States should not provide aid to any government--anywhere in the world-- which uses secret police, detention without charges, and torture to enforce its powers. Exceptions to this policy should be rare, and the aid provided should be limited to that which is absolutely necessary.

The United States should be open and unashamed in its exercise of diplomatic efforts to encourage the observance of human rights in countries which receive American aid.

Current world population growth is a threat to the long-range well-being of mankind. We pledge to support effective voluntary family planning around the world, as well as at home, and to recognize officially the link between social and economic development and the willingness of the individual to limit family size.

To be true to the traditional concern of Americans for the disadvantaged and the oppressed, our aid programs should focus on alleviating poverty and on support of the quest for human liberty and dignity. We will work to see that the United States does its fair share in international development assistance efforts, including participation in the fifth replenishment of the World Bank's International Development Association.

We will implement a foreign assistance policy which emphasizes utilization of multilateral and regional development institutions; and one that includes a review of aid programs, country by country, to reinforce those projects whose financial benefits go to the people most in need and which are consistent with overall United States foreign policy goals.

The World Environment

Decay of the environment knows no national boundary. A government committed to protect our environment knows no national boundary. A government committed to protect our environment at home must also seek international cooperation in defending the global environment.

Working through and supporting such organizations as the United Nations Environmental Program, we will join other governments in more effective efforts to preserve the quality and resources of the oceans; to preserve endangered species of fish and wildlife; to reverse the encroachment of the deserts, the erosion of the world's agricultural lands, and the accelerating destruction of its forests; to limit pollution of the atmosphere; and to control alterations of the global climate.

Criminal Justice Rights of Americans Abroad

We will protect the rights and interests of Americans charged with crimes or jailed in foreign countries by vigorously exerting all appropriate efforts to guarantee humane treatment and due process and to secure extradition to the United States where appropriate.

International Drug Traffic

We call for the use of diplomatic efforts to stop international production and trafficking in illicit drugs including the possible cut-off of foreign aid to noncooperating countries.

DEFENSE POLICY

The size and structure of our military forces must be carefully related to the demands of our foreign policies in this new era. These should be based on a careful assessment of what will be needed in the long-run to deter our potential adversaries; to fight successfully, if necessary, conventional wars in areas in which our national security is threatened; and to reassure our allies and friends -- notably in Western Europe, Japan and the Near East.

To this end, our strategic nuclear, forces must provide a strong and credible deterrent to nuclear attack and nuclear blackmail. Our conventional forces must be strong enough to deter aggression in areas whose security is vital to our own. In a manner consistent with these objectives, we should seek those disarmament and arms control agreements which will contribute to mutual reductions in both nuclear and conventional arms.

The hallmarks of the Nixon-Ford Administration's defense policy, however, have been stagnation and vulnerability.

By its reluctance to make changes in those features of our armed forces which were designed to deal with the problems of the past, the Administration has not only squandered defense dollars, but also neglected making improvements which are needed to increase our forces' fighting effectiveness and their capability to deter future aggression.

By its undue emphasis on the overall size of the defense budget as the primary measure of both our national resolve and the proficiency of our armed forces, the Administration has forgotten that we are seeking not to outspend, but to be able to deter and, if necessary, outfought our potential adversaries.

While we must spend whatever is legitimately needed for defense, cutbacks on duplication and waste are both feasible and essential. Barring any major change in the international situation, with the proper management, with the proper kind of investment of defense dollars, and with the proper choice of military programs, we believe we can reduce present defense spending by about \$5 billion to \$7 billion.

We must be tough-minded about the development of new weapons systems which add only marginal military value. The size of our defense budget should not be dictated by bureaucratic imperatives or the needs of defense contractors but by our assessment of international realities.

In order to provide for a comprehensive review of the B-1 test and evaluation program, no decision regarding B-1 production should be made prior to February 1977.

The Pentagon has one of the federal government's most overgrown bureaucracies. The Department of Defense can be operated more effectively and efficiently and its budget reduced, without in any way compromising our defense posture. Our armed forces have many more admirals and generals today than during World War II, when our fighting force was much larger than now. We can reduce the ratio of officers to men and of support forces to combat troops.

Misdirected efforts such as the construction of pork-barrel projects under the jurisdiction of the Defense Department can be terminated. Exotic arms systems which serve no defense or foreign policy purpose should not be initiated.

By ignoring opportunities to use our advanced technology innovatively to obtain maximum effectiveness in weapons and minimize complexity and cost, the Republican Administration has failed to reverse the trend toward increasingly intricate and expensive weapons systems. Thus, it has helped to put our forces -- particularly the Navy -- on the dangerous path of becoming both smaller in numbers and more vulnerable.

A new approach is needed. Our strategic nuclear forces should be structured to ensure their ability to survive nuclear attack, thereby assuring deterrence of nuclear war. Successful nuclear deterrence is the single most important task of our armed forces. We should, however, avoid becoming diverted into making expenditures which have only symbolic or prestige value or which themselves contribute to nuclear instability.

The United States Navy must remain the foremost fleet in the world.

Our naval forces should be improved to stress survivability and our modern technology should be used in new ways to keep the essential sea lanes open. Concretely, we should put more stress on new sensors and armaments, and give priority to a navy consisting of a greater number of smaller and less vulnerable vessels.

Our land forces should be structured to fight effectively in support of our political and military commitments. To this end, modern, well-equipped and highly mobile land forces are more important than large numbers of sparsely-equipped infantry divisions.

Our tactical air forces should be designed to establish air superiority quickly in the event of hostilities, and to support our land and naval forces.

We can and will make significant economies in the overhead and support structure of our military forces.

The defense procurement system should be reformed to require, wherever possible and consistent with efforts to encourage full participation by small and minority businesses, advertised competitive bids and other improvements in procurement procedure so as to encourage full and fair competition among potential contractors and to cut the current waste in defense procurement.

A more equitable formula should be considered for distribution of defense contracts and other federal procurement on a state or regional basis.

The United States and other nations share a common interest in reducing military expenditures and transferring the savings into activities which raise living

standards. In order to smooth the path for such changes, the Executive Branch and the Congress should encourage long range planning by defense-dependent communities and managements of defense firms and unions. This process should take place within the context of the Democratic Party's commitment to planned full employment.

Our civilian and military intelligence agencies should be structured to provide timely and accurate information and analysis of foreign affairs and military matters. Covert action must be used only in the most compelling cases where the national security of the U.S. is vitally involved; assassination must be prohibited. There should be full and thorough Congressional oversight of our intelligence agencies. The constitutional rights of American citizens can and must be fully protected, and intelligence abuses corrected, without endangering the confidentiality of properly classified intelligence or compromising the fundamental intelligence mission.

U.S.-U.S.S.R. Relations

The United States and the Soviet Union are the only powers who, by rivalry or miscalculation, could bring general nuclear war upon our civilization. A principal goal must be the continued reduction of tension with the U.S.S.R. This can, however, only be accomplished by fidelity to our principles and interests and through business-like negotiations about specific issues, not by the bad bargains, dramatic posturing, and the stress on general declarations that have characterized the Nixon-Ford Administration's detente policy.

Soviet actions continue to pose severe threats to peace and stability in many parts of the world and to undermine support in the West for fruitful negotiations toward mutually beneficial agreements. The U.S.S.R. has undertaken a major military buildup over the last several years in its navy, in its strategic forces, and in its land forces stationed in Eastern Europe and Asia. It has sought one-sided advantages in negotiations, and has exerted political and military pressure in such areas as the Near East and Africa, not hesitating to dispatch to Angola its own advisors as well as the expeditionary forces of its clients.

The continued U.S.S.R. military dominance of many Eastern European countries remains a source of oppression for the peoples of those nations, an oppression we do not accept and to which we are morally opposed. Any attempt by the Soviet Union similarly to dominate other parts of Europe -- such as Yugoslavia -- would be an action posing a grave threat to peace. Eastern Europe will not truly be an area of stability until these countries regain their independence and become part of a large European framework.

Our task is to establish U.S.-U.S.S.R. relations on a stable basis, avoiding excesses of both hope and fear. Patience, a clear sense of our own priorities, and a willingness to negotiate specific firm agreements in areas of mutual interest can return balance to relations between the United States and the Soviet Union.

In the field of nuclear disarmament and arms control, we should work toward: limitations on the international spread of fissionable materials and nuclear weapons; specific strategic arms limitation agreements which will increase the stability of the strategic balance and reduce the risk of nuclear war, emphasizing mutual reductions and limitations on future weapons deployment which most threaten the strategic balance because their characteristics indicate a potential first-strike use; a comprehensive ban on nuclear test; mutual reduction with the Soviet Union and others, under assured safeguards of our nuclear arsenals, leading ultimately to the elimination of such arsenals; mutual restrictions with the Soviet Union and others on sales or other transfers of arms to developing countries; and conventional arms

agreements and mutual and balanced force reductions in Europe.

However, in the area of strategic arms limitation, the U.S. should accept only such agreements that would not overall limit the U. S. to levels of inter-continental strategic forces inferior to the limits provided for the Soviet Union.

In the long-run, further development of more extensive economic relations between the United States and the Soviet Union may bring significant benefit to both societies. The U.S.S.R. has sought, however, through unfair trade practices to dominate such strategic fields as merchant shipping. Rather than effectively resisting such efforts, the Nixon-Ford Administration has locked favorably on such steps as subsidizing U. S. - U.S.S.R. trade by giving the Soviet Union concessionary credits, promoting trade increases because of a short-run hope of using trade to modify political behavior, and even placing major United States energy investments in pawn to Soviet Union policy.

Where bilateral trade arrangements with the U.S.S.R. are to our economic advantage, we should pursue them, but our watch-words would be tough bargaining and concrete economic, political or other benefits for the United States. We should also press the Soviet Union to take a greater share of responsibility in multilateral solutions to such problems as creating adequate world grain reserves.

Our stance on the issue of human rights and political liberties in the Soviet Union is important to American self-respect and our moral standing in the world. We should continually remind the Soviet Union, by word and conduct, of its commitments in Helsinki to the free flow of people and ideas and of how offensive we and other free people find its violations of the Universal Declaration of Human Rights. As part of our programs of official, technical, trade, cultural and other exchanges with the U.S.S.R., we should press its leaders to open their society to a genuine interchange of people and ideas.

We must avoid assuming that the whole of American-Soviet relations is greater than the sum of its parts, that any agreement is superior to none, or that we can negotiate effectively as supplicants. We must realize that our firmness can help build respect for us and improve the long-run opportunities for mutually-beneficial concrete agreements. We must beware of the notion that Soviet-American relations are a seamless web in which concessions in one area will bring us benefits in others. By the same token, we must husband our resources to concentrate on what is most important to us. Detente must be military as well as political.

More fundamentally, we must recognize that the general character of our foreign policies will not and must not be set by our direct relationship with the Soviet Union. Our allies and friends must come first. Nor can the pursuit of our interests elsewhere in the world be dominated by concern for Soviet views.

For example, American policy toward China should continue to be based on a desire for a steady improvement and broadening of relations, whatever the tenor and direction of Chinese-Soviet relations.

Above all, we must be open, honest, mature, and patient with ourselves and with our allies. We must recognize that, in the long-run, an effective policy toward the Soviet Union can only be grounded on honest discussion, and on a national and, to some extent, an international consensus.

Our own institutions, especially the Congress, must be consulted and must help formulate our policy. The governments of our allies and friends must be made partners in our undertakings. Haste and secret bilateral executive arrangements in our dealings with the U. S. S. R. can only promote a mood of uncertainty and suspicion

which undermines the public support essential to effective and stable international relations.

AMERICA IN THE WORLD COMMUNITY

Many of the critical foreign policy issues we face require global approaches, but an effective international role for the United States also demands effective working with the special interests of specific foreign nations and regions. The touchstone of our policy must be our own interests, which in turn means that we should not seek or expect to control events everywhere.

Indeed, intelligent pursuit of our objectives demands a realization that even where our interests are great and our involvement essential, we do not act alone but in a world setting where others have interests and objectives as well.

We cannot give expression to our national values without continuing to play a strong role in the affairs of the United Nations and its agencies. Firm and positive advocacy of our positions is essential.

We should make a major effort at reforming and restructuring the U. N. Systems. The intensity of inter-related problems is rapidly increasing, and it is likely that in the future, the issues of war and peace will be more a function of economic and social problems that have dominated international relations since 1945.

The heat of debate at the General Assembly should not obscure the value of our supporting United Nations involvement in keeping the peace and in the increasingly complex technical and social problems--such as pollution, health, economic development and population growth--that challenge the world community. But we must let the world know that anti-American polemics is no substitute for sound policy and that the United Nations is weakened by harsh rhetoric from other countries or by blasphemous resolutions such as the one equating Zionism and racism.

A Democratic Administration should seek a fair and comprehensive Law-of-the-Sea Treaty that will balance the interests of the developed and less developed countries.

Europe

The nations of Western Europe, together with Japan, are among our closest allies. Except for our closest neighbors in this hemisphere, it is in these regions where our interests are most strongly linked with those of other nations. At the same time, the growing economic and political strength of Europe and Japan creates areas of conflict and tension in a relationship both sides must keep close and healthy.

On the great economic issues--trade, energy, employment, international finance, resources--we must work with the Europeans, the Japanese and other nations to serve our long-run mutual interests in stability and growth, and in the development of poorer nations.

The military security of Europe is fundamental to our own. To that end, NATO remains a vital commitment. We should retain in Europe a U.S. contribution to NATO forces so that they are sufficient to deter or defeat attack, without premature resort to nuclear weapons.

This does not exclude moderate reductions in manpower levels made possible by more efficiency, and it affirmatively requires a thorough reform and overhaul of NATO forces, plans and deployments. We encourage our European allies to increase their share of the contributions to NATO defense, both in terms of troops and hardware. By mutual agreement or through modernization, the thousands of tactical nuclear weapons in Europe should be reduced, saving money and manpower and increasing our own and international security.

Europe, like the rest of the world, faces substantial political change. We cannot control that process.

However, we can publicly make known our preference for developments consistent with our interests and principles. In particular, we should encourage the most rapid possible growth of stable democratic institutions in Spain, and a continuation on the path of democracy of Portugal and Greece, opposing authoritarian takeover from either left or right.

We can make clear our sense of the risks and dangers of Communist participation in Western European governments, while being equally clear that we will work on a broad range of non-military matters with any legally constituted government that is prepared to do the same with us. We similarly must reaffirm our support for the continued growth and cohesion of the institutions of the European community.

The voice of the United States should be heard in Northern Ireland against violence and terror, against the discrimination, repression and deprivation which brought about that civil strife, and for the efforts of the parties toward a peaceful resolution of the future of Northern Ireland.

Pertinent alliances such as NATO and international organizations such as the United Nations should be fully apprised of the interests of the United States with respect to the status of Ireland in the international community of nations.

We must do all that is possible, consistent with our interest in a strong NATO in Southern Europe and stability in the Eastern Mediterranean, to encourage a fair settlement of the Cyprus issue, which continues to extract human costs.

Middle East

We shall continue to seek a just and lasting peace in the Middle East. The cornerstone of our policy is a firm commitment to the independence and security of the State of Israel. This special relationship does not prejudice improved relations with other nations in the region. Real peace in the Middle East will permit Israel and her Arab neighbors to turn their energies to internal development, and will eliminate the threat of world conflict spreading from tensions there.

The Middle East conflict is complex, and a realistic, pragmatic approach is essential. Our policy must be based on firm adherence to these fundamental principles of Middle East policy:

We will continue our consistent support of Israel, including sufficient military and economic assistance to maintain Israel's deterrent strength in the region, and the maintenance of U. S. military forces in the Mediterranean adequate to deter military intervention by the Soviet Union.

We steadfastly oppose any move to isolate Israel in the international arena or suspend it from the United Nations or its constituent organizations.

We will avoid efforts to impose on the region an externally devised formula for settlement, and will provide support for initiatives toward settlement, based on direct face-to-face negotiation between the parties and normalization of relations and a full peace within secure and defensible boundaries.

We vigorously support the free passage of shipping in the Middle East -- especially in the Suez Canal.

We recognize that the solution to the problems of Arab and Jewish refugees must be among the factors taken into account in the course of continued progress toward peace. Such problems cannot be solved, however, by recognition of terrorist groups which refuse to acknowledge their adversary's right to exist, or groups which have no legitimate claim to represent the people for whom they purport to be speaking.

We support initiation of government enforcement action to insure that stated U. S. policy -- in opposition to boycotts against friendly countries -- is fully and vigorously implemented.

We recognize and support the established status of Jerusalem as the capital of Israel, with free access to all its holy places provided to all faiths. As a symbol of this stand, the U. S. Embassy should be moved from Tel Aviv to Jerusalem.

Asia

We remain a Pacific power with important stakes and objectives in the region, but the Vietnam War has taught us the folly of becoming militarily involved where our vital interests were not at stake.

Friendship and cooperation with Japan are the cornerstone of our Asian interests and policy. Our commitment to the security of Japan is central to our own, and it is an essential condition to a constructive, peaceful role for that nation in the future of Asia.

In our economic dealings with Japan, we must make clear our insistence on mutuality of benefits and opportunities, while focusing on ways to expand our trade, avoiding economic shocks and resultant retaliation on either side. We must avoid the "shocks" to Japan which have resulted from Republican foreign policy.

We reaffirm our commitment to the security of the Republic of Korea, both in itself and as a key to the security of Japan. However, on a prudent and carefully planned basis, we can redeploy, and gradually phase out, the U. S. ground forces, and can withdraw the nuclear weapons now stationed in Korea without endangering that support, as long as our tactical air and naval forces in the region remain strong.

Our continued resolve in the area should not be misunderstood. However, we deplore the denial of human rights in the Republic of Korea, just as we deplore the brutal and aggressive acts of the regime in North Korea.

We have learned, at a tragically high price, certain lessons regarding Southeast Asia. We should not seek to control the political future of that region. Rather, we should encourage and welcome peaceful relations with the nations of that area. In conjunction with the fullest possible accounting of our citizens still listed as missing in action, we should move toward normalized relations with Vietnam.

No foreign policy that reflects traditional American humanitarian concerns can be indifferent to the plight of the peoples of the Asian subcontinent.

The recent improvement in relations with China, which has received bipartisan support, is a welcome recognition that there are few areas in which our vital interests clash with those of China. Our relations with China should continue to develop on peaceful lines, including early movement toward normalizing diplomatic relations in the context of a peaceful resolution of the future of Taiwan.

The Americas

We recognize the fundamental importance of close relations and the easing of economic tension with our Canadian and Mexican neighbors.

In the last eight years, our relations with Latin America have deteriorated high-level indifference, increased military domination of Latin American governments, and revelations of extensive American interference in the internal politics of Chile and other nations.

The principles of the Good Neighbor Policy and the Alliance for Progress, under which we are committed to working with the nations of the Americas as equals, remain valid today but seem to have been forgotten by the present Administration.

The U. S. should adopt policies on trade, aid and investment that include commodity agreements and an appropriate system of trade preferences.

We must make clear our revulsion at the systematic violations of basic human rights that have occurred under some Latin American military regimes.

We pledge support for a new Panama Canal treaty, which insures the interests of the United States in that waterway, recognizes the principles already agreed upon, takes into account the interests of the Canal work force, and which will have wide hemispheric support.

Relations with Cuba can only be normalized if Cuba refrains from interference in the internal affairs of the United States, and releases all U. S. citizens currently detained in Cuban prisons and labor camps for political reasons. We can move towards such relations if Cuba abandons its provocative international actions and policies.

Africa

Eight years of indifference, accompanied by increasing cooperation with racist regimes, have left our influence and prestige in Africa at an historical low. We must adopt policies that recognize the intrinsic importance of Africa and its development to the United States, and the inevitability of majority rule on that continent.

The first task is to formulate a rational African policy in terms of enlightened U. S. -African priorities, not as a corollary of U. S. -Soviet policy. Angola demonstrated that we must have sound relations with Black Africa and disassociate our policies from those of South Africa to achieve the desired African response to Soviet expansionism in Africa. Our policy must foster high-level U. S. -Africa communications and establish a sound basis for dealing when crises arise.

The next Democratic Administration will work aggressively to involve black Americans in foreign policy positions, at home and abroad, and in decisions affecting African interests.

To promote African economic development, the U. S. should undertake increased bilateral and multi-

lateral assistance; continue Congressional initiatives in food assistance and food production, with special aid to the Sahel and implementation of the Sahel Development Plan; and carry forward our commitment to negotiate with developing countries on key trade and economic issues such as commodity arrangements and trade preferences.

Our policy must be reformulated towards unequivocal and concrete support of majority rule in Southern Africa, recognizing that our true interests lie in peaceful progress toward a free South Africa for all South Africans, black and white. As part of our commitment to the development of a free and democratic South Africa, we should support the position of African nations in denying recognition to "homelands" given pseudo-independence by the South African government under its current policy of "separate development."

The Republican Administration's relaxation of the arms embargo against South Africa must be ended, and the embargo tightened to prevent transfers of military significance, particularly of nuclear material. The U. S. government should not engage in any activity regarding Namibia that would recognize or support the illegal South African administration, including granting tax credits to U. S. companies doing business in Namibia and paying taxes to South Africa. Moreover the U. S. government should deny tax advantages to all corporations doing business in South Africa and Rhodesia who support or participate in apartheid practices and/or policies.

The U. S. government should fully enforce the UN-ordered Rhodesia sanctions, seek universal compliance with such measures, and repeal the Byrd Amendment.
Efforts should be made to normalize relations with Angola.

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