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WHITE HOUSE
OFFICE OF RECORDS MANAGEMENT
WORKSHEET

- X - MEDIA
- H - INTERNAL

Name of Document: BRIEFING PAPERS FOR PRESIDENT'S SCHEDULED APPOINTMENTS FOR DEC 22 81

Subject Codes:
PR 007.01
FI 008.
LE
FG 002.01
FI 004.
FI 009.
AG
CM 003.
EG 002.31
PR 011.
PR 016
RE 010.
HO 016.
EG 006.15
CO 078.
TA 004.

1. Subject: Bill Signing Ceremony for George Washington Commemorative Coin
2. Briefing memo re review of budget decisions
3. Briefing memo re deficit analysis
4. Meeting with former Senator Hugh Scott
5. Signing Ceremony for Agriculture and Food Act
6. Interview with David Brickley for ABC program on Franklin Roosevelt.
7. Video taping session for a patriotic new year's message to be played during Orange Bowl Game
8. Memo to the President from William Brock re Japanese Trade Barriers

ROUTE TO:		ACTION		DISPOSITION	
Office/Agency	(Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
RMMATT		RSZ	82.01.22		C 82.01.22

Referral Note: _____

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OFFICE OF RECORDS MANAGEMENT
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Subject Codes:
PR 007.01

9 Subject: Memo to the President from William Brock re status of the Renegotiation of the MULTIFIBER ARRANGEMENT

TA 004.14
FO 009.
BE 003.14

10 Memo to the President from Malcolm Baldrige re a review by the Cabinet Council on Commerce and Trade of Enterprise Zones

BE 004.
FG 010.02
FG 020.

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
RMMATT	RSZ	8210122		C 8210122

Referral Note: _____

UNPUBLISHED
December 21, 1981
REVISED 7:00 pm

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT'S SCHEDULE
Tuesday, December 22, 1981

9:00 am (30 min)	<u>Staff Time</u> (Baker, Meese, Deaver)	Oval Office
9:45 am (15 min)	<u>Meeting with Polish Ambassador</u> (Nance) (distributed separately)	Oval Office
10:00 am (60 min)	<u>Budget Meeting</u> (Darman/Fuller) (TAB A)	Cabinet Room
11:00 am (60 min)	<u>Economic Program Meeting</u> (Darman/Fuller) (TAB B)	Cabinet Room
12:00 noon (10 min)	<u>Courtesy Call by Former Sen. Hugh Scott</u> (Canzeri) (TAB C)	Oval Office
12:10 p.m. (10 min)	<u>Signing Ceremony for S-884 (Agriculture Bill)</u> (Friedersdorf) (TAB D)	Cabinet Room
12:20 p.m. (1 hr 55 min)	<u>To Residence for Lunch and Personal Staff Time</u>	Residence
2:15 pm (15 min)	<u>Taping Session (Goode)</u> (1) Orange Bowl (2) Christmas Message for Armed Forces (3) New Year's Message for ICA (distributed previously)	Library
2:30 pm (60 min)	<u>National Security Council Meeting</u> (Nance) (distributed separately)	Cabinet Room
3:30 pm (15 min)	<u>Personal Staff Time</u>	Residence
3:45 pm (30 min)	<u>David Brinkley Interview re FDR</u> (Gergen/Speakes) (TAB E)	Oval Office
4:15 pm (60 min)	<u>Meeting with Cabinet Council on Commerce and Trade</u> (Fuller) (TAB F)	Cabinet Room
5:15 pm (30 min)	<u>Staff Time</u> (Baker, Meese, Deaver)	Oval Office
5:30 pm	<u>To the Residence</u>	Residence

THE WHITE HOUSE

WASHINGTON

BRIEFING MEMORANDUM FOR THE PRESIDENT

SUBJECT: REVIEW OF BUDGET DECISIONS

Tuesday, December 22, 1981
10:00 a.m. (1 hour)
The Cabinet Room

FROM: RICHARD G. DARMAN *R.G.D.*
CRAIG L. FULLER *C.L.F.*

I. PURPOSE

This meeting is to present for your approval the budget decisions that were made at a lower level -- i.e., without appeal to you. The presentation will also summarize the overall character of the budget in light of decisions made.

II. AGENDA/SEQUENCE

Dave Stockman will present -- with discussion to follow.

III. PARTICIPANTS

The President
The Vice President
Edwin Meese III
Secretary Regan
David A. Stockman
James A. Baker III
Michael K. Deaver
Martin Anderson
Richard G. Darman
Elizabeth Dole
Max L. Friedersdorf
Craig L. Fuller
David R. Gergen
Edwin Harper
Daniel J. Murphy
Edward J. Rollins
Murray L. Weidenbaum
Richard S. Williamson

B

THE WHITE HOUSE

WASHINGTON

BRIEFING MEMORANDUM FOR THE PRESIDENT

SUBJECT: DEFICIT ANALYSIS

Tuesday, December 22, 1981
11:00 a.m. (1 hour)
The Cabinet Room

FROM: RICHARD G. DARMAN 
CRAIG L. FULLER 

I. PURPOSE

This meeting is to examine the deficits that would result from the budget decisions and economic forecasts discussed in previous meetings. Further, it is to assess the likely political and economic effects of such projected deficits -- with a view toward defining an appropriate deficit reduction path. The discussion may also move toward consideration of further options for reducing the projected deficit.

II. AGENDA/SEQUENCE

Dave Stockman will present -- and discussion will follow.

III. PARTICIPANTS

The President
The Vice President
Secretary Regan
Secretary Baldrige
Edwin Meese III
David A. Stockman
James A. Baker III
Michael K. Deaver
Martin Anderson
Richard G. Darman
Max L. Friedersdorf
Craig L. Fuller
David R. Gergen
Edwin Harper
Murray L. Weidenbaum
Richard S. Williamson

C

THE WHITE HOUSE

WASHINGTON

DECEMBER 21, 1982

COURTESY CALL BY THE HONORABLE HUGH SCOTT

DATE: December 22, 1982

LOCATION: The Oval Office

TIME: 12:00 Noon (10 minutes)

FROM: Joseph W. Canzeri

I. PURPOSE

Hugh Scott, former U.S. Senator and Republican Minority Leader, will pay a courtesy call, and have his picture taken with you.

II. PARTICIPANTS

The President
The Honorable Hugh Scott
Joseph W. Canzeri

III. PRESS PLAN

White House Photographer

IV. SEQUENCE OF EVENTS

- You greet Senator Scott, have photo taken.
- Senator Scott departs the Oval Office.


D

THE WHITE HOUSE

WASHINGTON

December 21, 1981

PUBLIC SIGNING CEREMONY FOR S.884,
THE AGRICULTURE AND FOOD ACT OF 1981

DATE: Tuesday, December 22, 1981
LOCATION: The Cabinet Room
TIME: 9:40 A.M. (ten minutes)
FROM: Max L. Friedersdorf 

I. PURPOSE

To sign the Agriculture and Food Act of 1981 (S.884), the omnibus farm bill.

II. BACKGROUND

The Senate completed initial Floor consideration of the omnibus farm bill (S.884) on Friday, September 18th. The House completed initial Floor consideration of similar legislation (H.R. 3603) on Thursday, October 22nd. When House and Senate conferees first met on November 4th to work out differences between the two measures, the House-passed bill was about \$5.6 billion more costly than that passed by the Senate when out-years were considered. The Administration earlier had indicated that the Senate-passed bill, which exceeded the President's September Budget request by roughly \$3 billion, was acceptable.

The bipartisan conference compromise on the farm bill comes within about \$430 million of the Senate-passed bill--a reduction of about \$5.2 billion from the original House position. OMB Director Stockman and Agriculture Secretary Block indicated their approval of the compromise prior to its adoption by the farm bill conferees.

On December 10th, the Farm Bill Conference Report was adopted by the Senate on a bipartisan 68-31 vote (43 Republicans, 24 Democrats and one Independent voted in favor of the Conference Report). Late on December 16th--the last day of the First Session of the 97th Congress--the Conference Report was adopted by a narrow 205-203 margin in the House (125 Republicans and 80 Democrats voted in favor of the Conference Report).

II. BACKGROUND (continued)

Prior to Congressional approval of the Farm Bill Conference Report, the President had separate meetings at the White House with (1) the bipartisan Congressional Conference leadership, (2) the Republican Members of the House and Senate Agriculture Committees, and (3) the leaders of sixteen major agricultural commodity groups. The President also issued two letters to Members of Congress on the farm bill: (1) on November 4th to indicate that the Conference Report would be vetoed unless its overall cost was brought to a level "close in line with the Senate version," and (2) on December 14th to express support for the bipartisan farm bill compromise which finally was achieved.

III. PARTICIPANTS

See attachment

IV. PRESS PLAN

Full press coverage, White House photographers

V. SEQUENCE OF EVENTS

9:35 A.M. Congressional and Administration participants will be escorted to the Cabinet Room where they will assemble and remain standing behind the President's chair.

9:40 A.M. The President will greet participants as he enters and take his regular seat at the conference table.

9:42 A.M. The President will deliver prepared remarks and sign the Agriculture and Food Act of 1981 (S.884) while seated at the table.

The President will give commemorative signing pens to the Congressional and Administration participants.

9:50 A.M. All participants, staff and press representatives will be escorted from the Cabinet Room.

Attachments: List of Participants
Prepared Remarks

ATTACHMENT

PARTICIPANTS IN PUBLIC SIGNING
CEREMONY FOR S.884, THE
AGRICULTURE AND FOOD ACT OF 1981

Administration Participants

The President
The Vice President
Secretary of Agriculture John Block
Deputy Secretary of Agriculture Richard Lyng

Congressional Participants

Senator Jesse Helms (R-North Carolina) Chairman, Senate
Agriculture Committee

Senator Bob Dole (R-Kansas)
Senator Richard Lugar (R-Indiana)
Senator Walter "Dee" Huddleston (D-Kentucky)
Senator Thad Cochran (R-Mississippi)
Senator David Pryor

Representative Tom Hagedorn (R-Minnesota) Co-Chairman, Reagan
Agricultural Task Force

Representative George Hansen (R-Idaho)
Representative John Napier (R-South Carolina)
Representative George Brown (D-California)
Representative Jerry Huckaby (D-Louisiana)
Representative Gene Chappie (R-California)

Staff

James A. Baker, III
Edwin Meese, III
Max L. Friedersdorf
Kenneth M. Duberstein
David L. Wright
David Swanson
USDA Assistant Secretary for Economics William G. Leshner
USDA Farm Bill Coordinator Randy Russell
USDA Director of Congressional Affairs Mike Masterson

E

THE WHITE HOUSE

WASHINGTON


December 21, 1981

INTERVIEW WITH DAVID BRINKLEY, ABC

DATE: December 22, 1981

LOCATION: Oval Office

TIME: 3:30 pm (30 minutes)

FROM: Larry Speakes 

I. PURPOSE

To be interviewed for ABC special on Franklin Roosevelt's birth.

II. BACKGROUND

ABC is doing a two-hour special hosted by David Brinkley on FDR and his Presidency. The President will give his thoughts on Roosevelt's quality of leadership, his influence on the country and on the Presidency itself, and the role of the American Presidency since FDR's time.

There will be interviews with former Presidents Ford, Nixon, and Carter. The program will be aired January 30, 1982.

III. PARTICIPANTS

The President
David Brinkley

Roone Arledge will be part of the ABC group present.

IV. PRESS PLAN

No press coverage

V. SEQUENCE OF EVENTS

After brief pleasantries, the interview will begin.

Attachment: List of possible questions for ABC interview

QUESTIONS FOR THE PRESIDENT FOR FDR DOCUMENTARY

1. What were your personal experiences during the depression? Was your political philosophy in any way molded by the depression?
2. What did you think of Roosevelt when he was president? Did your own presidential experience lead you to change your estimate of FDR in his domestic and foreign policies?
3. How do you account for FDR's popularity and the great popular trust reposed in him? Can a president today hope to achieve and maintain that same popularity?
4. Other people hate him. Is this a phenomenon all leaders experience?
5. Did FDR leave the presidential office different in 1945 from what it had been in 1933?
6. FDR had to reestablish confidence in the office of president. For different reasons, you did too. How does a president go about reestablishing such confidence?
7. FDR was a consummate politician. How important is personal style to leadership. How would you have campaigned against Roosevelt?
8. FDR was a master communicator, and was able to use the media to his advantage. Can a president today have that kind of control over the media?
9. How has the relationship between the electorate, the media and the president changed since Roosevelt's administration?
10. Roosevelt was masterful in using what President Kennedy called "Blarney, boodle and bludgeon" in extracting what he needed from Congress. Is it harder for a modern president to deal with Congress?
11. Under FDR, the government first assumed responsibility for the casualties of the economy -- the poor, the elderly, the helpless. Since that beginning, the role of government in assuring individual welfare has expanded dramatically. What can government realistically do to help people? Have we gone beyond those limits?


12. FDR came into office promising a balanced budget and then abandoned the promise to respond to human needs. How does a president cope with the opposing demands of balancing the budget and the immediate needs of the people?
13. You have written, "Ever since Roosevelt, I knew, American presidents had responded to economic challenges by trying to come up with crash programs that carry short-term solutions." As president, did you trace any of the nation's economic and social problems to the New Deal?
14. Do you think Americans have lost faith in the ability of the government to solve problems? Why?
15. FDR was elected to the office of president an unprecedented four times. Are you in favor of the 22nd amendment which limits a president to two terms? To what do you attribute the modern phenomenon of the one term presidency?
16. World War II produced a number of remarkable leaders, including FDR. Is it historical events which create the opportunity for great leadership?
17. FDR dealt with the two major crises of the 20th century -- depression and world war. What were the major crises with which your administration had to deal?
18. When you were in office, to what extent did you feel captain of events, and to what extent did you feel captive of them?

THE WHITE HOUSE

WASHINGTON

December 21, 1981

MEETING WITH THE CABINET COUNCIL
ON COMMERCE AND TRADE

DATE: December 22, 1981
LOCATION: Cabinet Room
TIME: 4:00 PM (60 minutes)
FROM: Craig L. Fuller 

I. PURPOSE

Scheduled meeting of the Cabinet Council on Commerce and Trade.

II. BACKGROUND

There are three agenda items: Enterprise Zones (CM#42) is scheduled for decision; Japan Non-Tariff Trade Barriers (CM#169) and Multifiber Arrangement (CM#90) are scheduled for information and discussion.

Enterprise Zones

The attached memorandum presents twelve issues for decision. On the first two issues (Federal Tax Incentives and Industrial Development Bonds), the Cabinet Council failed to reach agreement; two options are presented in each case. On issues three through twelve, the Cabinet Council reached agreement; recommendations without options are presented in each case.

Issue One: Federal Tax Incentives for Enterprise Zones

The Cabinet Council agreed that the following tax incentives should be included: a special investment tax credit; elimination of capital gains taxes on sale of "Zone Property"; an income tax credit for Zone employees; a liberalized operating loss carryover for Zone firms; designation of Enterprise Zones as Foreign Trade Zones. Two options for labor incentives are presented in pages two through five of the attached memorandum. The debate hinges on a judgment as to whether the more expensive package of credits and incentives included in Option One is needed for the Enterprise Zone Program to succeed. If not, the less expensive package in Option Two is indicated.

Issue Two: Industrial Developments Bonds

If the weaker labor credits and incentives package (Option Two) is chosen under Issue One above, there is a stronger argument for

including Industrial Development Bonds as an additional incentive. The options on this issue are presented on pages five and six of the attached memorandum.

Issue Three: State Role -- The affected state should approve designation of an Enterprise Zone; state and local governments should be required to contribute incentives.

Issue Four: Enforcement of State and Local Contributions -- The Federal Government should be able to cancel its incentives package if state and local governments renege on promised contributions of incentives.

Issue Five: Local Service Initiatives -- Preference should be given to Zone proposals that include involvement of the private sector in providing city services.

Issue Six: State and Local Deregulation -- Preference should be given to Zone proposals where state and local governments contribute substantial deregulation.

Issue Seven: Duration of the Zones -- Duration should be decided by the states and localities with a twenty-year limit plus a four-year phase-out.

Issue Eight: Urban Focus -- The focus should be on urban areas, but rural zones should be permitted.

Issue Nine: Number of Zones -- The Federal Government should have the discretion to limit the number of zones with no minimum floor, but with a maximum of 25 in each of the first three years.

Issue Ten: Other Federal Programs -- Use of existing Federal programs should be permitted within the zones.

Issue Eleven: HUD Administration -- HUD should be designated the lead agency, with Treasury responsible for tax aspects of the legislation.

Issue Twelve: Federal Deregulation -- Federal Regulatory bodies should be granted discretionary authority to relax their requirements within the zones. The Labor Department should be granted the same authority with regard to the minimum wage law, but only for teenage employment.

III. PARTICIPANTS -- A list will be attached to the agenda.

IV. PRESS -- No press.

V. SEQUENCE OF EVENTS

The President should recognize Mac Baldrige, President Pro Tempore of the Cabinet Council, to lead the discussion on Enterprise Zones. The rest of the meeting should proceed according to the agenda.

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

December 18, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: William E. Brock 

SUBJECT: Japanese Trade Barriers

The Results of a Closed Japanese Market

For the first ten months of 1981, the United States has recorded a \$13.5 billion bilateral merchandise trade deficit with Japan, exporting \$17.8 billion while importing \$31.3 billion. For calendar year 1982, this surplus is projected to rise above \$20 billion. This in itself might not necessarily be a matter of concern if it resulted from a natural balance of "comparative advantage," with both countries enjoying equal access to each other's markets. Japanese success in penetrating U.S. markets and the resulting U.S. trade deficit, however, have become serious political issues because Japan does not permit sufficient access to those of its markets in which the U.S. is competitive. Nor is the deficit balance of U.S. merchandise trade with Japan substantially offset by an opposite flow of income from services or investments. The global balance of trade and non-trade payments of the United States, a more relevant statistic, is also substantially in deficit, while Japan is enjoying a rising surplus.

The Problem

Japan enjoys the following shares of U.S. markets:

- autos - 21%
- motorcycles - 65%
- radios - 46%
- photographic equipment - 29%
- video tape recorders - 100%
- watches - 14%
- machine tools - 11%

No major U.S. manufactured export enjoys as much as a 10% market share in Japan except aircraft, which the Japanese do not produce. Yet, the U.S. is generally conceded to be more competitive than the Japanese in computers, telecommunications, nuclear power, cigarettes, pharmaceuticals, pulp and paper, numerous processed foods, and other products. And in agriculture, where the U.S. is clearly more competitive than Japan in most products, import quotas keep U.S. products from achieving the market share they could achieve.

In addition, Japanese companies have virtually free access to raw materials in the U.S., such as hides, logs, and tobacco leaf. Japan, however, closely controls and limits U.S. exports of the processed goods derived from these raw materials, such as leather, lumber, paper, and cigarettes.

The investment picture also reflects an imbalance. The Bank of Tokyo has acquired the Bank of California, giving it over 500 branches in California with full power to accept deposits. Fujitsu purchased American technology and a foothold in the U.S. market by buying a part of Amdahl. It is virtually impossible for a U.S. company or bank to acquire a Japanese company or bank. Nomura Securities belongs to the New York Stock Exchange, but no American company can buy a seat on the Tokyo Stock Exchange.

In short, there is little reciprocity between the treatment of American goods and investment in Japan and the treatment of Japanese goods and investment in the U.S. Japanese market access is a particularly serious problem in sectors where the United States is most competitive internationally.

The causes of this inequality are structural. The Japanese businessman has a consensus-induced propensity to buy from his fellow citizens. But there are also numerous government-imposed restraints on U.S. sales to and investment in Japan. Besides the restraints on acquisitions of foreign companies, Japanese NTB's fall into a number of general categories:

- (1) There are specific quotas imposed on 26 products, of which 22 are agricultural.
- (2) Customs procedures in Japan are a major obstacle. For example, the Japanese Customs Service requires all import problems to be solved prior to the release of the goods from customs' custody; in the U.S., the products are first given to the possession of the importer who files the import documentation (and settles any disputes) afterwards.
- (3) The whole Japanese product standard setting process is quite closed to any newcomer and the failure to meet these standards is difficult to overcome, both because of the non-transparency of the process in Japan as well as because the Japanese almost without exception, refuse to accept self-certification by foreign exporters or testing results from companies such as Underwriters Laboratories. In addition, "product approval" of new products often takes years in Japan and must be accompanied by a total disclosure of technological information by the applicant. Similar approval in the U.S. (e.g., by the Federal Communications Commission) may be accomplished in days, with the assumption that the product is approved unless it is specifically disapproved.
- (4) With respect to several U.S. products, such as fish, beef, and cigarettes, the U.S. exporter is forced to deal with his Japanese competitor and/or to employ his Japanese competitor as his distributor or importer.

Ongoing Efforts to Open Japanese Markets

Under Secretary of Commerce Lionel Olmer has been spearheading an effort to eliminate Japanese non-tariff barriers through a series of meetings with Japanese officials under the aegis of the Commerce Department's Trade Facilitation Committee. This Committee has successfully addressed and solved numerous individual export problems, and is now conducting industry studies. Several weeks ago, Deputy U.S. Trade Representative Dave Macdonald led an interagency delegation to discuss these matters with the Japanese. No specific concessions were requested and, with a couple of exceptions, none were forthcoming. Rather, the approach of this latest interagency effort was to bring home to the Japanese the scope of the lack of market access in Japan. The delegation took the position that the Government of Japan cannot have it both ways. It cannot take the benefit of American markets without giving the U.S. reciprocal access to its own markets. Although the U.S. would rather have free access to markets in Japan, the decision whether to open its own markets or have its foreign markets closed by its trading partners is a decision that only Japan can make. The choice in this matter was left to the Japanese, and a further meeting of the delegations has been set for the last week of February in order to find out what choice the Japanese wish to make and how they intend to implement that choice.

The Japanese are aware that they have major trade problems with both the U.S. and the EC. They have formed several groups to address the problems, including a cabinet council, a council of key business leaders, and a council of government Labor Democratic Party leaders. We will be providing information to these groups as appropriate. We will also develop initiatives we can take over the next two months to keep pressure on these groups.

Nevertheless, real success will be contingent upon our solving two basic problems:

- (1) The problem of access to the Japanese market is structural and attitudinal. It permeates their society and economy and can only be changed by a fundamental change in their approach to recognize that imports are as important as exports.
- (2) The Japanese will not voluntarily accept imports that undermine achievement of their government's objectives for the Japanese economy, i.e., maintaining full employment and developing knowledge-intensive industries. They have repeatedly taken actions to curb imports which threatened to surge into Japanese markets and displace Japanese products.



December 9, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: MALCOLM BALDRIGE, CHAIRMAN PRO TEMPORE
CABINET COUNCIL ON COMMERCE AND TRADE

SUBJECT: Enterprise Zones

The Cabinet Council has reviewed a proposed Administration Enterprise Zone program developed by the Working Group on Enterprise Zones, and offers the following issues and recommendations for your consideration.

Issue 1: Federal Tax Incentives for Enterprise Zones

Area of Agreement. The Cabinet Council agrees that the following Federal tax incentives should be included in the Enterprise Zone program.

1. A special, additional investment tax credit would be allowed for capital investments in an Enterprise Zone. For property depreciable in 3 years, this credit would be 3 percent. For property depreciable in 5 years, this credit would be 5 percent. For the construction or rehabilitation of commercial, industrial and rental housing structures within the zone, the credit would be 10 percent. Machinery and equipment eligible for the credit must be used in the zone for all of its depreciable life, or else the credit will be subject to recapture.
2. Capital gains taxes on the sale of zone property (qualified property as defined in appendix) would be eliminated.
3. Zone employees (qualified employees as defined in appendix) would be allowed a 5 percent nonrefundable income tax credit for taxable income earned in zone employment, with the maximum credit based on 1.5 times the FUTA wage base (currently \$9,000, leaving a maximum credit of \$450 per worker).
4. Any Enterprise Zone firm would be allowed an operating loss carryover for the life of the zone in which it is located, or 15 years, whichever is more.
5. The Foreign Trade Zone Board would be instructed that, whenever possible, Foreign Trade Zones should be established within Enterprise Zones and applications of such zones to become Foreign Trade Zones should be expedited and given special consideration.

Area of Disagreement. The Cabinet Council disagrees, however, on some of the other elements to be included in this tax package. One of the areas of disagreement relates to the labor incentives to be included. The Cabinet Council offers two options:

Option 1

1. Employers would be allowed a 10 percent nonrefundable tax credit for payroll paid to zone employees (qualified employees as defined in the appendix) in excess of payroll paid to such employees in the year prior to designation of the zone, with the credit calculated against a maximum of 2.5 times the FUTA wage base for each worker (currently \$15,000, leaving a maximum credit of \$1,500 per worker).
2. Employers would be allowed a nonrefundable tax credit for wages paid to zone employees (qualified employees as defined in the appendix) who were also disadvantaged workers (to be defined based on a revamped CETA definition focusing on poor and hard-to-employ individuals) when hired. The credit would be equal to 50 percent of such wages in each of the first three years of employment, declining by 10 percentage points in each year after that. The credit would apply only in the case of disadvantaged workers hired after designation of the zone.
3. Both of the above credits would be deductible first from income tax liability and then, if there was insufficient liability to take full advantage of the credit, from social security tax liability. The credit would be cleared through the employer's regular withholding payments to the Treasury by a method that would ensure that the social security trust fund is not reduced.

Option 2

1. Employers would be allowed a nonrefundable 15 percent income tax credit for wages paid to zone employees (qualified employees as defined in appendix) in excess of payroll paid to such employees in the year prior to designation of the zone:
 - (a) calculated against the FUTA wage base for each worker (currently \$6,000, leaving a maximum credit of \$900 per worker), and
 - (b) in the case of a business established after designation of the zone, only 25 percent of the first year payroll and future increases in employment in excess of the remaining 75 percent shall be eligible for the credit, leaving a total credit of 3.75 percent for the first year payroll of such a firm.

2. The Targeted Jobs Tax Credit scheduled to be ended in 1983 would be extended in Enterprise Zones. This would provide a nonrefundable income tax credit equal to 50 percent of the first \$6,000 of wages paid to a disadvantaged worker in the first year of employment and 25 percent of the first \$6,000 of wages in the second year.
3. Both of the above credits would be deductible from income tax liability but not from social security payroll tax liability.

The Treasury estimates that 10-25 zones under Option 1 would cost \$98 million to \$332.5 million in foregone revenues in the first year of the program--fiscal 1984, with the cost increasing commensurately in the following fiscal years for increased numbers of zones. The Treasury estimates the first year cost of 10 to 25 zones under Option 2 at \$80 to \$282.5 million.

Pros and Cons

Option 1 - Pros

1. The credits and incentives are stronger and the program is, therefore, more likely to be successful.
2. Since labor credits are deductible from payroll tax liability, as well as income tax liability, this package is more beneficial to small, and new, start-up businesses and is more likely to stimulate their creation.
3. This option does not involve general revenue financing of social security, but rather reimbursement of the Social Security Trust Fund for costs imposed on it in pursuit of other public policy objectives.
4. Since the labor credits are stronger relative to the capital credits than under Option 2, Option 1 does more to encourage labor intensive businesses and the creation of jobs.
5. Since the credit for disadvantaged workers is stronger than under Option 2, Option 1 does more to encourage the creation of jobs for disadvantaged workers.
6. Since 100 percent of the payroll of a new firm is eligible for the credit against general wages, unlike in Option 2, Option 1 does more to encourage the creation of new businesses.

Option 1 - Cons

1. Option 1 is more expensive than Option 2.

2. May require authorization to permit the Treasury to transfer from the general fund to the social security trust funds such amounts of social security taxes as were not deposited by employers, since the obligation of the trust funds will not be altered. This may be perceived as general revenue financing.
3. Because none of the existing payroll of zone business is eligible for the credit against general wages, and all of the payroll of a new business is, existing businesses are discriminated against.
4. This 100 percent eligibility of new firm payroll also creates an incentive for existing businesses to reincorporate or churn their ownership to appear as new businesses and qualify for the full credit. This will be difficult to restrain by regulations.
5. The cap of \$15,000 on the credit against general wages will allow the credit to be taken for salary increases of existing jobs, rather than just for new jobs. This will also focus the credit less on the creation of low paid jobs, which are more likely to be filled by disadvantaged workers.
6. The cap of \$15,000 for the general wage credit will require the employer to maintain additional records, which he would not have to do if the credit relied solely on the FUTA base of \$6,000.

Option 2 - Pros

1. Is less expensive than Option 1. The general wage credit and the disadvantaged worker credit will cost about \$2 million and \$100,000 less per zone, respectively, under Option 2 than under Option 1.
2. Provides a more nearly balanced labor-capital development incentive in context of the entire Enterprise Zone package.
3. By allowing only 25 percent of the first year payroll of a new firm to be eligible for the credit against general wages, discrimination against existing firms is reduced.
4. This also reduces the incentive for attempts by existing businesses to reincorporate as new businesses, making the credit easier to administer.
5. By placing caps of \$6,000 on the labor credits, the credits cannot be taken for salary increases. They will instead be focused on the creation of new jobs, and particularly those with low salaries, which are more likely to be jobs for disadvantaged workers.

6. By relying solely on the FUTA wage base, employers will not need to keep additional records.

Option 2 - Cons

1. Since the credits and incentives are weaker, the program is more likely to fail. This additional risk of failure may be high in relation to the modest cost savings of Option 2.
2. By allowing only 25 percent of the payroll of a new firm to qualify for the general wage credit, Option 2 in effect allows a new firm a credit of 3.75 percent against its first year wages. This reduces the incentive for the creation of new businesses.
3. The TJTC is likely to be viewed as an insufficient substitute for the hiring requirement contained in the Kemp-Garcia bill, especially considering the unsatisfactory past record of the TJTC.
4. The Labor Department has testified before Congress on behalf of the Administration that the TJTC has not been successful and should be abolished nationwide.
5. Cutting back on the general labor credit and on the credit for disadvantaged workers, as Option 2 does, will reduce the incentive for the creation of jobs in general and for the creation of jobs for low income workers in particular.
6. The \$6,000 cap on the wage credits encourages employers to fire employees as their wages rise and to replace them with new minimum wage workers. It does not encourage employers to attempt to train and enhance the skills of their workers, while the unlimited disadvantaged worker credit and the \$15,000 cap on the general labor credit, contained in Option 1, do.

Decision

Option 1 _____ Option 2 _____ Other _____ No Action _____

Issue 2: Industrial Development Bonds

Background: The first Kemp-Garcia bill lacked an incentive to induce the provision of front-end capital and other loans to Enterprise Zone businesses. Inability to obtain such funds is a major complaint of new and small businesses. To address this issue, the current Kemp-Garcia bill provides for the tax exemption of 50 percent of the interest received on a loan to an Enterprise Zone business.

Authorizing issuance of Industrial Development Bonds (IDBs) for small businesses in Enterprise Zones, even if these IDBs are abolished everywhere else in the country, would have the same effect as tax exemption on interest and would be more workable. IDBs are special purpose tax-exempt bonds that must be approved by state and local governments. The inclusion of this element in the Enterprise Zone tax package would be politically popular, enhancing prospects for passage of the entire bill. It is also likely to be effective in helping small businesses, which are the major job-creators.

If Option 1 in the tax package is adopted, it may be unnecessary to attempt to stimulate small business further. Since IDBs have the effect of forcing capital transactions to take place through local government entities, they tend to increase government rather than market control over such transactions.

Options

1. Provide that Industrial Development Bonds could be issued to finance to small businesses (to be defined) located within Enterprise Zones, even if the Administration terminates the use of IDBs elsewhere.
2. Make no special provision regarding IDBs for Enterprise Zones.

Decision

Option 1 _____ Option 2 _____ Other _____ No Action _____

Issue 3: State Role

Recommendation: The Cabinet Council recommends that the states have a stronger role in the program than provided in the Kemp-Garcia bill. Before the Federal Government may consider a designation by a city, there should be formal state approval either by the state legislature or by an office empowered by the legislature to grant such approvals. Both the state and local governments should be required to contribute incentives to the zones.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 4: Enforcement of State and Local Contributions

Background: Under the Administration Enterprise Zone plan, each zone sponsor (i.e., state and/or local governmental entity) would be required to contribute to its zone a package of incentives.

The strength of that package would be a principal criterion used by the administering agency to approve or disapprove federal participation.

Recommendation: The Cabinet Council recommends that the Federal Government have the power to remove its incentives from a zone if the state or local government reneges on its promised contribution of incentives, as in the Kemp-Garcia bill. In addition, strong guarantees of performance from state and local governments who promise contributions will be considered in the competition for Federal participation.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 5: Local Service Initiatives

Recommendation: The Cabinet Council recommends that in the competition for Federal participation, preference be given to those applicants who have the following elements in their state and local incentive packages:

- (a) Experimentation in zone neighborhoods with provision of city services by the private sector.
- (b) Involvement in the program of private, neighborhood organizations that serve as focal points for volunteer, self-help efforts and that aid local residents seeking to participate in the economic development of the zones.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 6: State and Local Deregulation

Background: The Kemp-Garcia bill does not mention state and local deregulatory efforts within the zones among the criteria by which the Federal Government is to select zones for Federal participation.

Recommendation: The Cabinet Council recommends that the Kemp-Garcia language be strengthened so that in the competition for Federal participation, preference will be given to those Enterprise Zones where the state and local governments contribute substantive deregulation.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 7: Duration of the Zones

Recommendation: The Cabinet Council recommends that each Enterprise Zone last for the period chosen by the designating state and local governments, with the Federal incentives applying for that period, but no longer than 20 years plus a four-year phase-out.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 8: Urban Focus

Background: The Cabinet Council believes that Enterprise Zones should be located in large, urban areas, at least in the initial years of the program. However, a bill that excludes rural areas will face political opposition in Congress.

Recommendation: The Cabinet Council recommends that rural areas be allowed to qualify under the bill's criteria for Enterprise Zone eligibility. Zones designated in those areas by state and local governments would be able to compete for Federal participation. The Federal Government would use its discretion in the competitive process to designate zones primarily in large urban areas. The Kemp-Garcia bill takes this same approach.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 9: Number of Zones

Background: The Kemp-Garcia bill was revised earlier this year at the Administration's request to provide for a minimum of 10 and a maximum of 25 zones in each of the first three years of the program, down from the original Kemp-Garcia proposal of a minimum of 25 zones and no maximum in each of the first four years of the program. The sponsors of the bill oppose efforts to turn Enterprise Zones into a token program and may resist further diminution of the program's size. However, the Administration may want to eliminate the minimum in order to reserve discretionary authority to start the program on a small scale in the first year and to expand the program in future years based on fiscal capacity.

Recommendation: Retain the Kemp-Garcia maximum for each year but not the minimum for the first year (i.e. authority to designate up to 25 zones for each of the first three years of the program, and no authority to designate any additional zones after that.) Use discretionary authority in the first year to limit the number of zones selected for federal participation.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 10: Other Federal Programs

Background: Other Federal programs aimed at urban economic development may still be in effect when Enterprise Zones come into being. These programs generally involve grants, loans, loan guarantees, and other types of direct subsidies.

Recommendation: The Cabinet Council recommends that the use of other, existing Federal Government programs be permitted within Enterprise Zones.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 11: HUD Administration

Recommendation: The Cabinet Council recommends that HUD be designated the lead agency responsible for moving enterprise zone legislation through Congress and that HUD be charged with administering the program once such legislation is enacted, as in the Kemp-Garcia bill. Treasury, however, will have primary responsibility for the tax aspects of the legislation.

Decision

Accept _____ Reject _____ Accept as amended _____

Issue 12: Federal Deregulation

Background: The only provision for Federal regulatory relief in the Kemp-Garcia bill is to bring Enterprise Zone businesses, non-profit organizations and designating governments under the coverage of the 1980 Regulatory Flexibility Act. This Act provides little if any authority for substantive regulatory relief, and a stronger provision is needed.

One way to provide additional relief is to grant Federal regulatory bodies (all agencies covered by the Administrative Procedures Act) discretionary authority to relax or eliminate their regulatory requirements within Enterprise Zones, in accordance with standards promulgated by Congress, and only upon the request of the state and local governments.

Such general power could be applied only to regulations issued at agency discretion. It could not apply to any regulation specifically imposed by a particular statute unless that statute were to be mentioned expressly in the Enterprise Zone legislation.

One regulation imposed by statute is the minimum wage law. This regulation could be relaxed or eliminated by the Labor Department, using discretionary authority in accordance with Congressional standards when requested to do so by the state and local governments. Action to ease the minimum wage law could be limited only to teenage employment within Enterprise Zones.

Recommendation: The Cabinet Council recommends that all Federal regulatory bodies (all agencies covered by the Administrative Procedures Act) be granted discretionary authority to relax or eliminate their regulatory requirements within Enterprise Zones, in accordance with standards promulgated by Congress, and only upon the request of the state and local governments. The Council also recommends that the Labor Department be granted the same authority in regard to the minimum wage law, but only for teenage employment within an Enterprise Zone.

Decision

Accept _____ Reject _____ Accept as amended _____

APPENDIX -- DEFINITIONS FOR THE TAX PACKAGE

1. Qualified property is:
 - (a) any real or tangible personal property which was used predominantly by the taxpayer in an Enterprise Zone in the active conduct of a trade or business, and
 - (b) any interest in a corporation, partnership, or other entity if, for the most recent taxable year of such entity ending before the date of the sale or exchange, such entity was a qualified business.
2. A qualified business is any corporation, partnership or other entity:
 - (a) engaged in the active conduct of a trade or business within an Enterprise Zone,
 - (b) with no more than 20 percent of its income from passive investments,
 - (c) with substantially all of its tangible assets located in an Enterprise Zone, and
 - (d) with no corporate shareholders.
3. A qualified employee is any employee who performs more than 50 percent of his services within an Enterprise Zone.
4. Ownership of rental property, whether residential, commercial or industrial, within an Enterprise Zone shall be treated as the active conduct of a trade or business.
5. The treatment of property as qualified property for purposes of the capital gains provision shall not be terminated at the end of the period for which the Enterprise Zone in which the property is located or used is in effect, but shall terminate after the first sale or exchange of such property occurring after such period.