The original documents are located in Box 1, folder "Budget - General" of the Richard B. Cheney Files at the Gerald R. Ford Presidential Library.

January 29, 1975

MEMORANDUM FOR: JIM CONNOR
RED CAVANEY

FROM: DICK CHENEY

Attached is the approval of the proposed schedule for the budget briefing for Saturday, February 1st.

Make certain that the Speech Shop is aware of the following:

The President's remarks should focus on the fact that he's the first President to do this since Harry Truman.

The remarks should involve some humor.

The Speech Shop should get some data and some language comparing the President's budget for FY 76 with the budget discussed by Truman in his last budget briefing.

This is important.

cc: Paul Theis

Attachment

Mention in remarks
1st time since
Truman
[illegible]

THE WHITE HOUSE

WASHINGTON

January 29, 1975

MEMORANDUM FOR: DONALD RUMSFELD

VIA: JIM CONNOR

FROM: RED CAVANEY

SUBJECT: THE PRESIDENT'S REMARKS AT THE OMB PRESS BRIEFING ON THE 1976 FISCAL YEAR BUDGET
Department of State Auditorium
Saturday, February 1, 1975

Attached at TAB A is the proposed schedule for the President's remarks at the Office of Management and Budget Press Briefing on the 1976 Fiscal Budget.

APPROVE ________ DISAPPROVE ________

BACKGROUND

Each year OMB offers a press preview of the Administration's budget proposal prior to the formal submission to Congress. The briefing is open to all accredited press as well as Government officials. An embargo is placed on all news releases until 12:00 noon on Monday, February 3, 1975.

The President's remarks will open the program. The format includes a presentation (with visual aids) by the OMB Director and the Secretary of the Treasury (Since Secretary Simon is out of the country, an Under Secretary will serve as his substitute.). It is followed by questions from reporters. The presentation and question and answer period will follow the President's departure.

The last President to participate in this session was President Harry Truman.

TAB

A

1/29/75
5:00 pm

PROPOSED SCHEDULE

THE PRESIDENT'S REMARKS AT THE OMB PRESS BRIEFING ON THE 1976 FISCAL YEAR BUDGET

Department of State Auditorium
Saturday, February 1, 1975

9:55 am	The President boards motorcade on South Grounds.
	MOTORCADE DEPARTS South Grounds en route Department of State (C Street entrance)
	[Driving time: 2 minutes]
9:57 am Advanceman: Pete Sorum	MOTORCADE ARRIVES Department of State. The President proceeds to the Department of State Auditorium stage entrance and pauses for announcement.
9:59 am	Announcement
9:59 am	The President enters auditorium and proceeds directly to the podium.
	OPEN PRESS COVERAGE ATTENDANCE: 500
10:00 am	Presidential remarks begin.
	FULL PRESS COVERAGE
10:10 am	Presidential remarks conclude. The President departs the auditorium en route motorcade for boarding.
10:13 am	The President boards motorcade.
	MOTORCADE DEPARTS Department of State en route South Grounds.
	[Driving time: 2 minutes]
10:15 am	MOTORCADE ARRIVES South Grounds.

THE WHITE HOUSE

WASHINGTON

January 28, 1976

MEMORANDUM FOR THE PRESIDENT

THROUGH: RICHARD B. CHENEY

FROM: DOUGLAS P. BENNETT DPB

SUBJECT: Briefing for Mayors
January 29, 2:00 p.m.

You are meeting on Thursday, January 29 at 2:00 p.m. with 90 mayors to brief them on the budget.

One of the mayors attending is Jim Taft of Cranston, Rhode Island. As you know, Mayor Taft is the Republican gubernatorial candidate in Rhode Island.

A former assistant to Mayor Taft and current Chairman of the State Party, Jim Field, has agreed to join the Presidential Personnel Office as Associate Director replacing Jack Shaw.

Jim is a very bright, agressive young man. He had originally agreed to begin here on February 2. However, because there promises to be a major battle over his successor as Chairman, we have agreed to postpone his starting date to February 17 - the date of the special election for Chairman.

Mayor Taft may raise this subject with you during the briefing if the opportunity presents itself. He is very pleased that Jim is joining your staff.

March 8, 1976

TALKING POINTS: HOUSE BUDGET COMMITTEE

I want to thank all of the distinguished members of the House Budget Committee for coming here this afternoon.

You are engaged now in one of the most important tasks of the legislative year: setting priorities and spending targets for the coming fiscal year. One week from now you will receive the recommendations of various Congressional committees and five weeks from now you will be submitting your own budget recommendations to the full House.

So this is an important time of the year, and I appreciate this opportunity to talk with you about one of the most important priorities in the new budget: my request for a significant increase in defense spending.

In recent days, as the political campaigns have intensified, there have been some wild and unsubstantiated charges about our defense posture -- charges that have created far more heat than light about the true state of our military forces.

Fortunately, the American people don't give much credence to uninformed charges made in the closing days of political contests. The clear fact is that today our country continues to maintain a signficant military lead in the area where it counts: in strategic forces.

-- We are far ahead in the number of nuclear warheads.

-- We have a far greater capacity to delivery our missiles on target.

-- And we have significant superiority in our strategic bomber forces.

In the area of conventional warfare, we are prepared to meet a challenge anywhere in the world. In fact, our ability to delivery military power -- both nuclear and conventional -- is unmatched throughout the world.

As long as I am President, I intend to ensure that the United States never becomes number two in military power. I know it's a cliche but it's as true today as it was yesterday that a strong national defense remains our best guarantee against war.

But we also have to be realistic about today's world: even though the United States is maintaining a rough equivalence with the Soviets in military power, it is also true that the Soviets have been steadily increasing their defense spending every year while the U.S. has allowed its defense spending -- measured in real terms -- to be cut by a third.

We cannot allow this trend to continue without abandoning our own superiority and security.

That is why I have proposed the two biggest defense budgets in our history.

That is why I have asked for an increase of about $1.7 billion for strategic forces, about $4.7 billion more for strengthening our conventional forces, and about $1 billion more for research and development.

That is why we must not fall into the trap this year of believing that we can pay for a batch of new social programs by cutting the defense budget.

And that is why I have asked you here this afternoon because I need your help in convincing the Congress that the increases in defense spending I have requested are absolutely mandatory for our future.

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

[Oct. 1976]

MEMORANDUM FOR THE PRESIDENT

Subject: Shortfalls in budget outlays

Background

Budget outlays are continuing to fall below estimates. Information available through August 31 shows that spending for the July-September transition quarter is falling below our last public estimate (the Mid-Session Review on July 16) by at least $5 billion. While information on September outlays will not be available until October 22, Treasury disbursement data appear to show that the shortfall for the three-months period could be as high as $7 or $8 billion. Thus, instead of a TQ deficit of $20 billion as estimated in the Mid-Session Review, the TQ deficit could range from $12 to $15 billion. This is a substantial difference given that it is only for one quarter.

Outlays for fiscal 1976 also were overestimated. Actual outlays for fiscal 1976 were nearly $8 billion below January estimates and $3.5 billion below the July 16 Mid-Session Review, which was released 16 days after fiscal 1976 was over but 10 days before the actual spending for such year was known. Thus, instead of 1976 deficits of $76 billion or $70 billion, as estimated in January and July, respectively, the actual deficit was $65.6 billion.

One way to look at the shortfall is as follows:

	Outlays (billions)		
	January estimate	Actual and anticipated	Difference
1976 outlays	373.5	365.6	-7.9
TQ	98.0	95.0 a/	-3.0
	471.5	460.6	-10.9

Of this shortfall, $6.5 billion occurred in the April-June quarter and $3 billion or more is expected in the TQ. Of this $3 billion or more, $2.6 billion is accounted for by receipts (offsetting outlays) from offshore oillands, Tandem Plan mortgage sales and sales of military equipment.

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a/ The actual outlays in the TQ could range from $94 to $97 billion.

The Congressional scorekeepers, who stress their independence from Administration estimates, have also been overestimating outlays. As late as June 28, Congressional scorekeeping reports showed estimates of 1976 outlays that were $8 billion over actual amounts (whereas our estimates 18 days later were $3.5 billion over). The Congress set a total for transition quarter outlays in a concurrent resolution enacted on May 14 in an amount very slightly above our Mid-Session Review estimate. Of course, both OMB and Congressional scorekeepers have been obtaining basic information from the same agency sources.

Discussion:

As the following shows, the major differences between actual outlays and Mid-Session estimates are scattered among the larger agencies, though Defense has the largest problem:

	(Billions) FY 1976 (for year)	Transition Quarter (through August)
Defense (and military assistance)	$-.7	$-2.4
Economic assistance	-.2	*
Agriculture	-.6	-.2
HEW	-.4	-.1
HUD	-.1	-.9
Interior	-.2	*
Labor	-.3	-.1
Transportation	-.1	-.5
Treasury	-.3	-.4
Offshore oilland receipts (an increase offsetting outlays) ...	---	-.8
All other, net (including many agencies with minor decreases) .	-.6	*
Total	-3.5	-5.4

*Negligible

The reasons for the Defense shortfall of $3.1 billion are as follows:

-- $1.2 billion is attributable to the fact that actual obligation rates were below normal in the operation and maintenance, research and development, and military personnel accounts. Although the precise causes of these shortfalls are not yet known, they appear to result largely from problems of planning for obligations this year, culminating in the unusual period of the Transition Quarter. Since these delays in obligations were made up by September 30, the outlay shortfall will catch up in fiscal 1977.

-- $0.9 billion results from the fact that procurement contracts for military hardware were not awarded as rapidly as expected. Procurement obligations for 1976 fell below plans by $9 billion. It appears that Defense did not adjust planning rates to take into account the effect of late 1976 appropriations and the sizeable (23%) increase in procurement appropriations. This lag in obligations will have a continuing effect, will decrease 1977 outlay estimates, but will probably add to 1978.

-- $0.9 billion results from efforts to speed up collection of payments by foreign governments for military equipment. The higher collections offset budget outlays and the effect will not reoccur.

-- The remainder resulted from Congressional cuts in funds for pay increases. Again, this will not affect fiscal 1977 estimates.

Aside from Defense, our examination does not show significant trends for any one agency. For example:

-- Agriculture's shortfalls are in programs where outlays are difficult to estimate accurately, including food programs and loans for the Farmers Home Administration.

-- HUD sold an unanticipated $0.9 billion from their GNMA Tandem portfolio, which reduces outlays in the TQ but will not affect 1977 estimates.

-- Under DOT's Federal aid highway program, States have been unable to use funds in the TQ as quickly as had been expected. The effect on fiscal 1977 is not clear.

-- Much of Treasury's shortfall is due to changes in accounting treatment of certain interest payments and in the difficult-to-estimate offsetting receipts. This does not affect 1977 estimates.

-- Sales of offshore oilland leases (offsetting outlays) are unexpectedly higher by $800 million in the TQ. (In recent years, receipts have usually been lower than our earlier estimates.) Again, 1977 will stand on its own feet.

The remaining shortfalls do not seem particularly significant for each individual agency in relation to the agency spending total. What is significant is that so many of the estimates were high rather than low. This fact makes the total shortfall difficult to explain.

Conclusions:

1. For Defense, the effect on 1977 outlays of the shortfall in 1976 and the TQ is not entirely clear. OMB and Defense are making a thorough review. At least equally important will be how close Defense comes to meeting its fiscal 1977 procurement schedule.

2. For other agencies, no substantial evidence exists that the shortfalls now apparent will result in significant changes in future spending, either higher or lower.

3. Also, so far as we have been able to determine, no substantial evidence exists that agencies were consciously more optimistic about their ability to spend this year than in the past.

4. However, we will insist that agencies pay more attention to the accuracy of their outlay estimates and OMB needs to find ways to avoid tendencies to overestimate spending.

James T. Lynn

James T. Lynn
Director

The New York Times. FRONT PAGE
OCT 1 2 1976

Washington Unable to Spend Funds As Rapidly as It Planned This Year

Experts Are Puzzled–Theories Include Padded Estimates and High Allowances for Inflation

By EILEEN SHANAHAN
Special to The New York Times

WASHINGTON, Oct. 11—The Government has found itself unable to spend money this year as rapidly as it had planned, and many economists are beginning to think that this "shortfall" in Federal spending is one of the main reasons why the economic recovery shows signs of weakening.

The Government's own experts do not understand exactly why spending is so far below what was expected.

In the six-month period from January through June, the amount by which spending fell short of the original estimate was $7.5 billion, or 2 percent of the total budget. For the three months from July through September, the underspending or overestimate was proportionally much greater.

5 to 8 Billion Lower

All the figures for this period are not yet in, but officials of the Office of Management and Budget believe that total spending for the July-September quarter will be somewhere between $5 billion and $8 billion lower than the $102 billion they expected as recently as July. This would be a shortfall of nearly 8 percent, if the $8 billion figure turns out to be the correct one.

One popular theory is that the heads of agencies simply padded their estimates more than usual this year, because they feared larger-than-usual cutbacks both by an economy-minded Administration and by a Congress armed with new and tighter budget-control procedures.

Another theory is that the original estimates of the various agencies contained built-in allowances for expected inflation that turned out to be too large.

Won't Turn Up Later

If either of these explanations, or the two combined, turn out to be correct, then the extra spending, in a sense, never really existed and will not pop up at some later date.

There is a third possibility, however. This is that for a variety of reasons, the Government has simply moved more slowly than it expected in signing contracts and paying out money. If this is the correct explanation, then the expected spending has merely been postponed, and will start showing up in the budget figures later on.

There is some evidence—for example, in data on defense contracts—to indicate that the shortfall in spending was merely a result of contracting delays, according to Administration officials.

If this turns out to be the chief cause of the shortfall, then they would disapprove of the Government's taking any steps to counteract the dip in spending, since they believe the dip would be only temporary.

Less Overall Demand

The impact on the economy of the lower-than-expected levels of Federal spending is a matter on which most economists agree: Less Government spending than was expected means less overall demand in the economy than expected. This, in turn, means that the overall expansion in the economy was less than it would have been if the budget estimates had been realized.

Thus, many economists see the shortfall in Government outlays as at least a partial explanation for what appears to be t recent slowdown in the pace of the business recovery. A major symptom of this slowdown has been a rise in the unemployment rate this summer and fall to around 7.8 percent, following a decline to 7.5 percent or less in the spring.

There is little agreement, even within the Government, concerning what, if anything, should be done about the unexpected falling short of Government spending. The reason is that no one knows exactly why it is happening, and different reasons would dictate different remedies.

Trying to Figure It Out

The Office of Management and Budget, the Council of Economic Advisers, and the Pentagon (which accounts for about half of the shortfall) are all busily trying to find out what happened, so they can figure out what, if anything, their response should be.

The attempt to figure out the reasons for the failure to spend as much as expected has been going on for only a few weeks, despite the fact that the shortfall was first identified back in the spring.

The reason for the delay is that, until recently, almost everyone in the Government thought they knew why the shortfall was occurring. They learned only a few weeks ago that their theory was wrong.

The now-discarded theory was that the shortfall was a result of a change in the Government's fiscal year. Traditionally, the fiscal year ended on June 30 and, equally traditionally, all Government agencies rushed to sign contracts and spend all their appropriated funds before that date so that the appropriations would not go unused.

Shift in Bookkeeping Year

This year, the Government made a permanent shift in its bookkeeping year and when the usual bulge in contract-letting and spending failed to occur in May and June, the theory was that the bulge would show up in August and September, before the start of the new fiscal year, which will henceforth be Oct. 1.

The expected bulge did not occur in August, however, and appears not to have occurred in September, either, though the September figures are not complete.

Thus, the Government is forced to look for some other explanation.

There is no indication that the slowdown in spending was deliberately engineered by the Ford Administration.

The few officials who will discuss the political implications of the shortfall observe that it was a stroke of political bad luck that the magnitude of the underspending was not taken seriously for such a long time, because the explanation was thought to be the change in the date of the fiscal year.

These officials say that if the problems had been taken seriously in the spring, then actions to keep spending up closer to the estimates might have been taken then. Had that been done, the apparent slowdown in the business recovery, just before the election, might have been avoided, they say.

NEW YORK TIMES, October 14, 1976

Leonard Silk

Spending Shortfall: Reason for Slowdown?

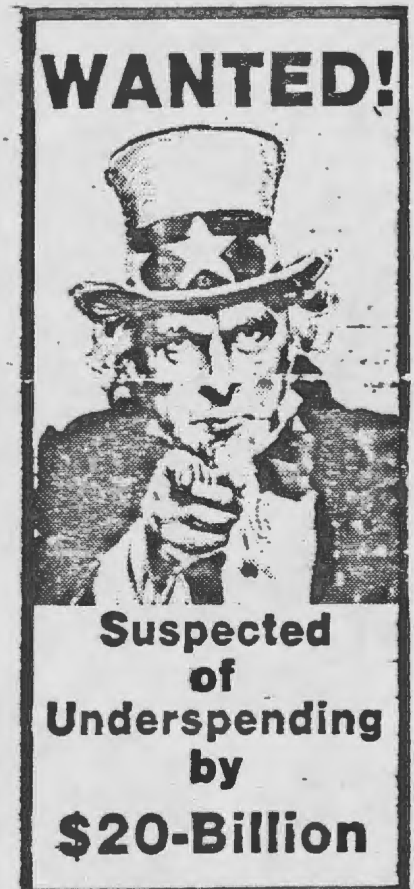
The effort to solve the mystery of the current economic slowdown and decline in the stock market has a certain resemblance to the plot of Agatha Christie's "Murder on the Orient Express," in which virtually everyone on the train had a hand in the murder.

The latest suspect in the economic who-done-it is the shortfall of Federal expenditures. During the first three quarters of 1976, the Federal Government spent about $15 billion less than it was supposed to. That translates into a shortfall of $20 billion at an annual rate. Talk about balancing your checkbook!

The White House, the Treasury, and the Office of Management and Budget are baffled over how it happened. Was the antispending atmosphere emanating from President Ford so pervasive that it filtered down to the bureaucracy?

Or was there just a massive overestimate of how much programs would cost? Some Washington observers suspect that the Ford Administration's agency heads managed to get away with the ancient bureaucratic ploy of "inflated-base budgeting," which protects them if there are cost overruns but enables them to look good if a program comes in under its cost projections.

• • •



The New York Times/Oct. 14, 1976

Nobody in either the Administration or at the Congresional Budget Office knows why the $15 billion wasn't spent. "It is a most remarkable bipartisan display of ignorance," says Arthur M. Okun a former chairman of the Council of Economic Advisers under President Johnson. Mr. Okun says it's the biggest budgetary gafe since the buildup of the Vietnam War in 1966, when military spending was underestimated by some $10 billion—with inflationary results.

This time the shortfall in spending has been operating on the other side —pushing the economy down.

A highly placed official in the Office of Management and Budget insists that the bulk of the unspent money will still be spent by the Government. "The money," says this man, "is in the pipeline. The important thing is that budget authorizations will be converted into actual drawdowns."

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In the normal course of Federal spending, budgetary authorizations must first be converted into obligations, and then into outlays. The Budget office thus far has not been able to trace down the shortfall of budget obligations, many of which are over at the Pentagon.

The notion that money appropriated by Congress will never be spent because of false or inflated estimates, says the O.M.B. oficer, "is dead wrong." So this year's spending gap will be made up—sooner or later. But not knowing the dimensions of composition of the gap yet, O.M.P. can't say when

The huge shortfall in Federal spending, painful as it has been to the unemployed and to business as well, is at least intellectually welcome news to Keynesian economists, wh othis year overestimated the pace of the recovery. They had been casting about somewhat desperately for an explanation of why their models had gone wrong. Some econ-

Continued on Page 61, Column 5

Is Federal Spending Shortfall A Reason for the Slowdown?

Continued From Page 83

omists, both Keynesian and anti-Keynesian, have sought to blame Arthur F. Burns, chairman of the Federal Reserve System for holding the money supply to too slow a rate of growth and for trying to "fine tune" the monetary indicators from month to month, thereby destabilizing the financial markets.

Pro. Hymen P. Minsky of Washington University in St. Louis told this week's Institutional Investor Bond Conference that the interest-rate increases of last April and May were the result of "poorly conceived" Federal Reserve behavior. "The current slowdown in the expansion," said Mr. Minsky, "may very well be the result of an emphasis in Federal Reserve policy determination upon money-supply targets rather then upon underlying economic conditions."

Yet Dr. Burns has his champions, even among the Democratic economists sympathetic to Jimmy Carter. Walter W. Heller and George Perry, for instance, say, "Apart from the May-June upswing in rates, it is difficult to fault the Federal Reserve's net impac no t short-term interest rate thus far in 1976. Without trying to decide whether Arthur Burns was wise or lucky—the point is, he was right—one should be clear that a surprising step-up in money velocity bailed the Fed out by reconciling economic expansion, slow money growth, and low interest rates."

Some economists put the blame for the limping recovery not on the Fed but on major commercial banks. Henry Kaufman, economist of Salomon Brothers, the big New York brokerage house, criticizes the banks for their reluctance to reduce their prime rate.

But the banks insist that the real problem has been sluggish business loan demand because of the quick rebuilding of inventories in the first quarter and the persistence of excess capacity in the economy. Many assert that business is choking up because of fears that a Carter Administration might clamp on price controls, raise business taxes, and otherwise hamper business profitability. Some bankers insist that more sharply reduced interest rates would not have much effect in stimulating loan demand but would hamper their own efforts to improve profitability and strengthen liquidity.

But economists close to Mr. Carter argue that the Democratic candidate does not pose the threat that many businessmen fear. They contend that as President, Mr. Carter would be conservative on Federal expenditures, means what he says about "zero-base budgeting," and accepts the doctrine of "not throwing money at problems." Mr. Carter, they say, is determined to hold Federal spending within the limit of 21 percent of gross national product.

Mr. Carter's principal economic adviser, Prof. Lawrence R. Klein of the University of Pennsylvania, is no partisan of wage and price controls. And Mr. Carter, with his political alliance to George Meany and the A.F.L.-C.I.O., is expected to steer shy of wage controls, which Mr. Meany and other labor leaders vehemently oppose, and without wage controls, price controls are out.

Would monetary policy change radically under Mr. Carter? Conservatives are afraid it would be. Certainly, Mr. Carter has made statements highly critical of the Fed, which imply that he would want Dr. Burns to leave if he were elected.

But Dr. Burns has made clear that he has no intention of resigning. And he has told some economist friends of his in the Democratic camp that he would have no problem in working with Mr. Carter, if he is elected President.

Dr. Burns has the great advantage, for an Administration that would want to take a more activist stance in reducing both inflation and unemployment, of being the one outstanding conservative who favors both an "income policy" (which would stop short of direct controls) to moderate wages and price increases, and specific manpower programs aimed at creating more jobs for minorities and youth. The Fed chairman favors such programs as a means of avoiding too expansive a monetary or fiscal policy aimed at curing unemployment.

There are plenty of other reasons besides politics for the present sag in business and public confidence—including the strike at the Ford Motor Company and the likelihood of a wider push by labor for shorter hours at no less pay, the shaky British, French and Italian economies, the probability of another oil-price increase by OPEC, the sag in the leading indicators and the jump upward in the wholesale price index.

Yet, with all these and other dangers, there is an important difference between the unfolding economic scenario and the most widely-known Agatha Christie murder-mystery.

There is no corpse. The recovery is not dead.

A pickup in consumer buying, a delayed but stronger rise next year in business capital spending, a continuing lift in housing, a catchup in delayed Federal spending on Congressionally approved programs, the chance of further tax reduction under either a Ford or Carter Administration, a cautiously expansive monetary policy—all these seem ogod bets.

Washington Star-News Pg. A18

OCT 13 1976

The non-spending crisis

It's a strange problem that some fiscal experts have uncovered in this free-spending Federal City. The government, it develops, has dropped many billions behind in its spending reas responsible in part for the "pause" in the nahappened, but economists see the spending lag as responsible in part for the "pause" in the nation's recovery from recession.

The width of the gap between authorized federal spending and actual outlays has only now become a matter of concern to the administration, following the end of both the 1976 fiscal year and the special July-September quarter bridging the changeover to a fiscal year that started October 1. Spending fell short by $7.5 billion in the first half of the year, and the "shortfall" for the last three months was somewhere between $5 and $8 billion.

There are several possible explanations, all of them more or less plausible. It took longer than expected to conclude contracts for federal expenditures. Federal agencies did a better-than-usual job of padding their spending estimates as a cushion against cutbacks and inflation, and now find they can't use all the money they got. But one time-honored theory about uneven federal spending habits has not been borne out by experience; there apparently was no massive rush to use up available funds before the end of the recent fiscal periods.

Ordinarily the phenomenon of a government saving money it had been expected to spend would be a matter of pride for an administration headed by such a champion of thrift as Gerald Ford. But the President, within three weeks of Election Day, is trying to weather an economic climate that is less than ideal for an incumbent, with the slow recovery dramatized by a politically damaging 7.8 per cent unemployment rate.

Federal deficit spending had been expected to stimulate the economy. The spending holdback (if that is what it is) has reduced that stimulus. A conspiratorially minded partisan could suspect a bureaucratic plot aimed at Mr. Ford's downfall, except that much of the spending lag is in the defense establishment where the President presumably has many friends.

Strangest of all is that federal experts are only now trying to pin down the causes of the spending shortfall, although it started to appear last spring. The present inquiry comes too late to help anyone in the election, but could suggest what changes may be called for in the government's 1977 fiscal strategy.

We have a couple of ideas on that score. If the economic recovery resumes in the next few weeks, perhaps some of the money that federal agencies have been slow to spend does not have to be spent at all. And if further stimulus to the economy is in order, perhaps a further modest tax cut would be more useful than a contrived flood of federal dollars.

October 14, 1976

(1) Q. The Administration's estimates of budget spending have been wrong. For fiscal 1976, the January estimates of spending were wrong by almost $8 billion ($373.5 billion vs. $365.6 billion). The estimates made just a few days before the final 1976 results were known were off by $3.5 billion. Now we hear that spending in the July-September quarter may fall below the Administration's estimates by $5 to $8 billion. Why have the Administration's estimates been so bad?

A. Estimating Federal spending for short periods is always difficult. The Congress seems to have the same difficulty. For the same periods, the estimates of the Congressional scorekeepers have been very close to those of the Administration.

Historically, the errors made in estimating spending have been comparable. Spending for a number of Federal agencies has recently been less than expected due to a number of unexpected circumstances. Differences are not large for any one agency except for the Department of Defense.

Defense did overestimate how fast it would use funds from fiscal year 1976 (ending in June) and from the Transition (third) Quarter appropriations, which were not enacted until February of this year. But that situation is not continuing. This year, the 1977 appropriations were provided even before the year began, for the first time in many years. Defense plans for their use, as well as amounts carried over from prior appropriations, are now well underway. Thus, there is no indication now that the lower spending rate will persist.

Another reason for the shortfall in outlays is that the sale of mortgages and offshore oil leases have exceeded our estimates and these receipts are counted as subtractions from spending.

(2) Q: Many have expressed concern in recent weeks that the economic recovery is faltering badly. Unemployment is sticking near 8 percent, wholesale prices shot up last month, and the stock market has been plunging. What is your assessment of what's wrong with the economy and what exactly will happen in the future?

A: Although the very rapid rate of economic recovery has slowed since the Spring and the so-called pause has lasted a bit longer than we had expected, there is no evidence of any underlying deterioration in the recovery.

In fact, we expect the rate of growth in real GNP in the fourth quarter of 1976 and into 1977 to be greater than that of both the second and third quarters of this year. (Note: The rate of growth in the first quarter was 9.2%, 4.5% in the second quarter and somewhere between 3.5% to 4.% in the third quarter.) We expect gains in consumption, business investment and housing. Our view that growth will accelerate is shared by the majority of economists in the private sector who believe that the economic recovery will pick up steam again as it moves into 1977.

As far as inflation is concerned, we were somewhat surprised by the size of the increase of the wholesale price index (.9%) for last month. Nevertheless, there is no evidence that underlying inflationary pressures are growing. Wage increases have been moderate. It's been evident that manufacturers have had difficulty in making price increases stick. For example, the steel industry's recent reversal.

October 14, 1976

(3) Q: Doesn't the current shortfall in Federal spending call for increases in the budget or tax reductions to get moving again?

A. No. I do not believe so. First, some of the outlay shortfall results from purely financial transactions. For example, receipts from the sale of mortgages was almost 1.0 billion more than expected an this is counted as a reduction in spending. Secondly, we have no reason to believe that the spending shortfall will be permanent. Indeed, in many instances (such as in the defense sector) we know that contracts and outlays have simply been delayed -- shifting the quarterly pattern of outlays but not affecting the total amount involved. Finally, there is no simple relationship between the timing of outlays and the resulting fiscal stimulus. In some instances the economy is stimulated before the outlay is made -- for example, when a contract is first signed rather than when payment is completed.

As I have said before, the economy is still improving -- the pace of the expansion should quicken in coming months. There is no need to alter our long run course which has produced a healthy recovery with lower inflation. I think a new injection of stimulus at this point would be both unnecessary and unwise. While Federal expenditures have lagged our projections in recent months, most of these outlays are clearly only delayed. In any event, as I have said on numerous occasions in the past, the only stimulus I think is warranted is a cut in taxes.

But let me add one thing. Since October 6 of 1975, I have been urging the Congress to give the people $10 billion in added tax cuts.

The Congress failed to respond. Instead they decided to spend $17 billion more. If the Congress wants to respond now, by providing more tax cuts, I am ready, if they will agree to cut back spending.