James Cannon
(WH)

[Budget]

CHARTS PRESENTED AT THE JANUARY 29, 1975 CABINET MEETING

Major New Features of the Budget

- Section on economic assumptions and long-range projections.
- Analysis and data on tax expenditures.
- New functional classification and presentation.
- Expanded discussion of receipts, including the President's tax proposals on fiscal stimulus and energy.
- Estimates of budget authority and outlays for the transition quarter.
- Increased budget authority shown for subsidized housing programs to reflect the maximum Federal payment.

Budgetary Impact of Tax and Energy Proposals

(Fiscal Years; in Billions of Dollars)

	1975	1976
Anti-recession tax cuts:		
Investment tax credit increase	-1.2	-2.9
Individual income tax rebates	-4.9	-7.3
Subtotal	-6.1	-10.2
Energy tax proposals:		
Excise taxes and import fees	4.3	19.0
Windfall profits tax	---	16.3
Individual income tax cuts	-1.4	-24.9
Corporate income tax cuts	-1.8	-6.6
Subtotal	1.1	3.8
Total tax changes	-5.0	-6.4
Increased outlays due to energy price increases	.5	7.0
Total increase in deficit	5.5	13.4

Budget Reductions

(In Billions of Dollars)

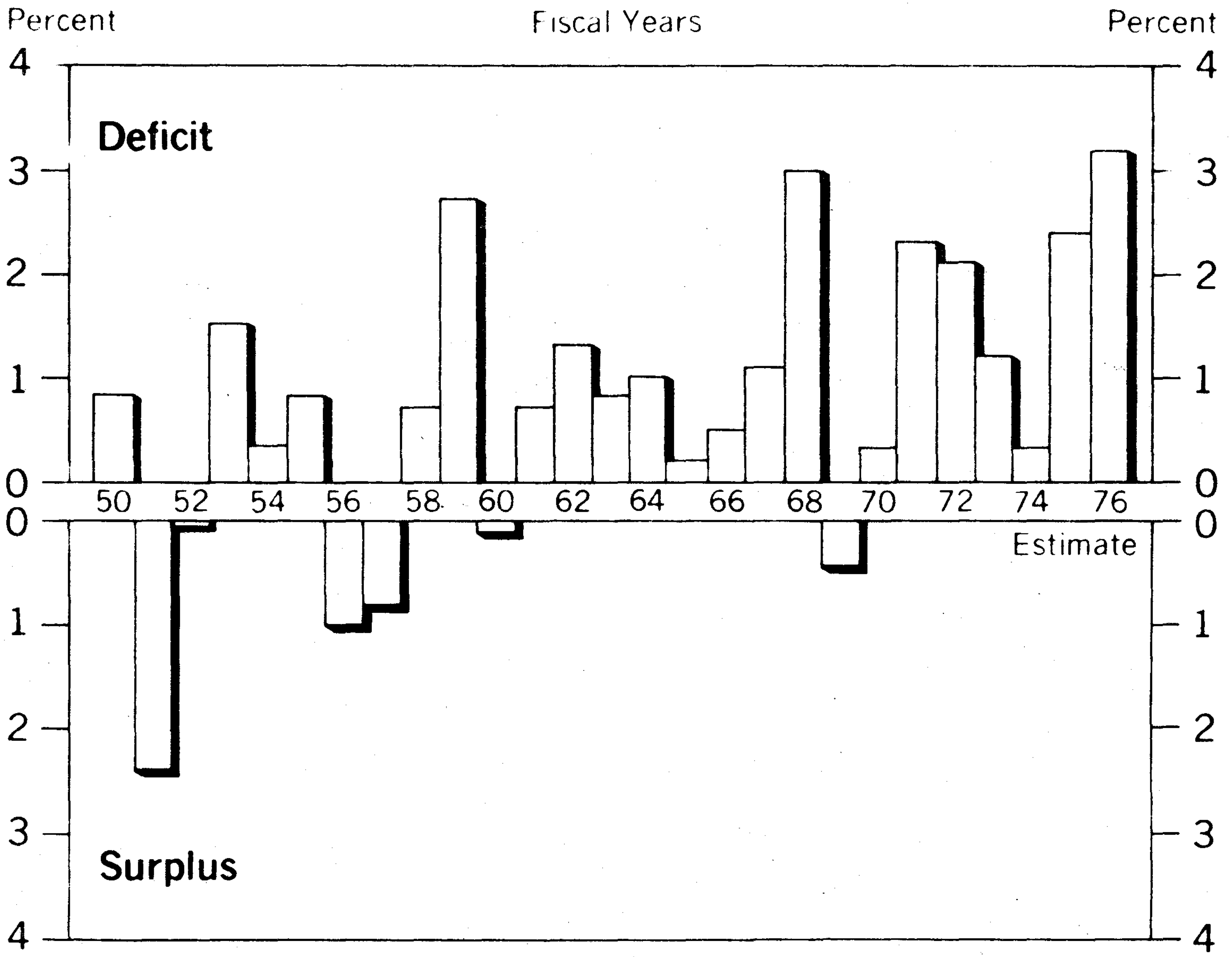
	Effect on Spending 1975	Effect on Spending 1976
Proposed last year:		
Total proposed	-5.2	-8.9
Overturned by Congress	2.0	1.0
Adjustments	.5	-.2
Total remaining	-2.7	-8.1
New actions proposed this year	-.3	-9.0
Total budget reductions	-3.0	-17.1
Of which:		
Rescissions	-.5	-.8
Deferrals	-.7	-1.8
New legislation	-1.0	-12.4
Administrative and other actions	-.8	-2.1

The Budget and the Economy

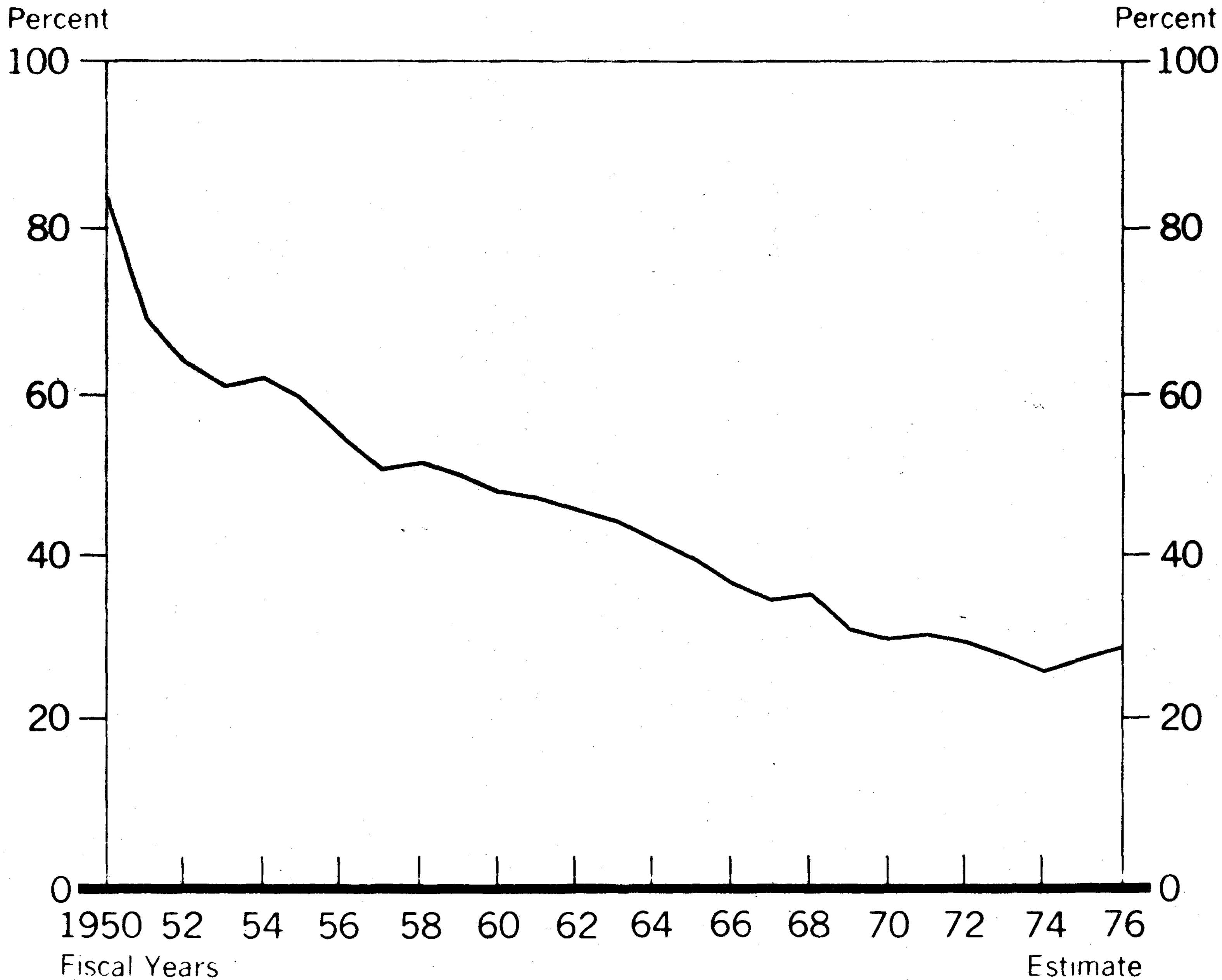
(Fiscal Year Estimates; in Billions of Dollars)

	1975		1976	
	Receipts	Outlays	Receipts	Outlays
Proposed	278.8	313.4	297.5	349.4
Change if there were no recession	+30.0	-9.2	+40.0	-12.7
Budget totals without recession	308.8	304.2	337.5	336.7
Change if there were no energy and tax proposals	+5.0	-.5	+6.4	-7.0
Budget totals without recession or energy and tax proposals	313.8	303.7	343.9	329.7

Budget Deficits and Surpluses as a Percent of GNP

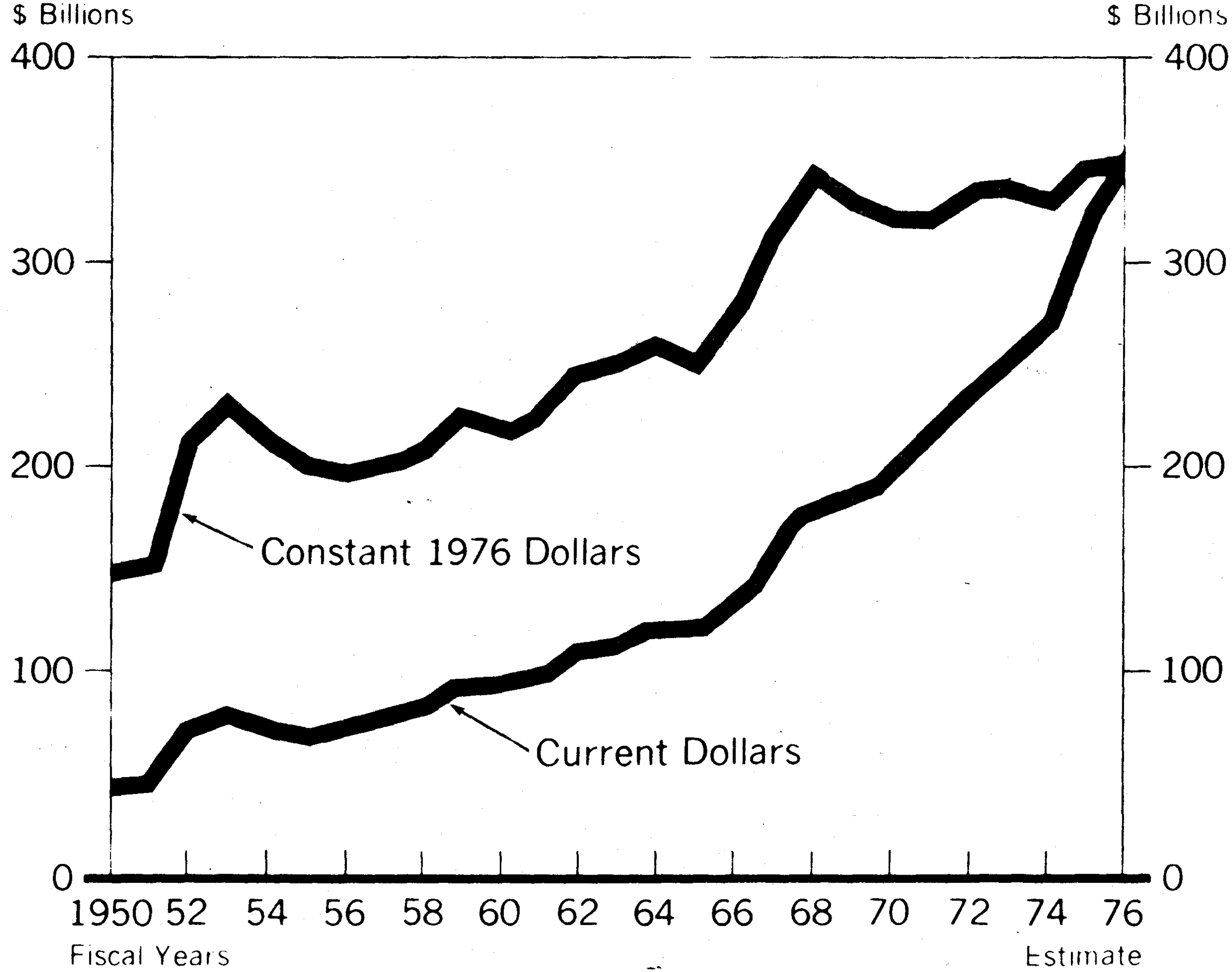


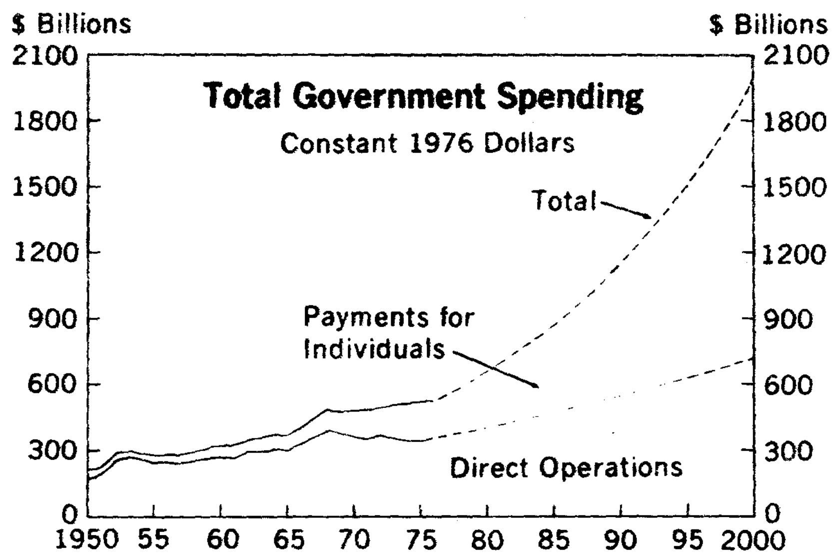
Federal Debt* as a Percent of GNP



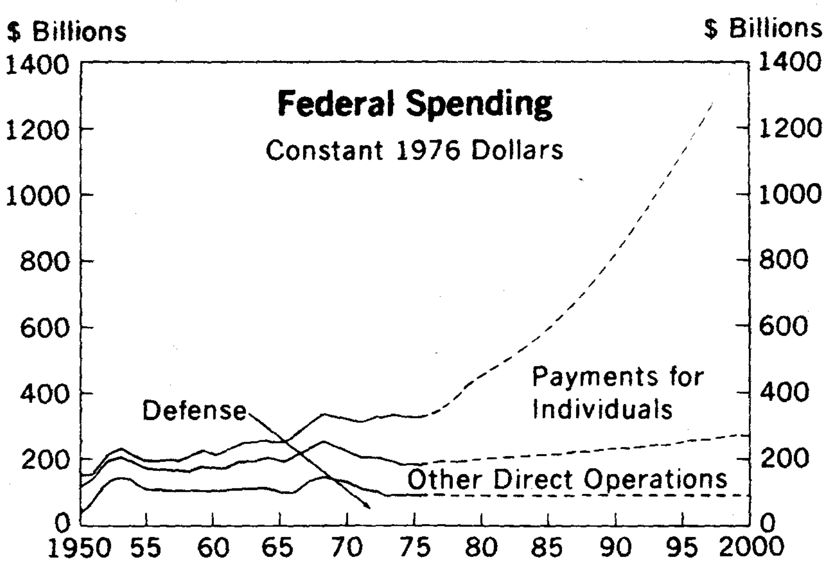
* Debt Held by the Public

Federal Budget Outlays, 1950-1976

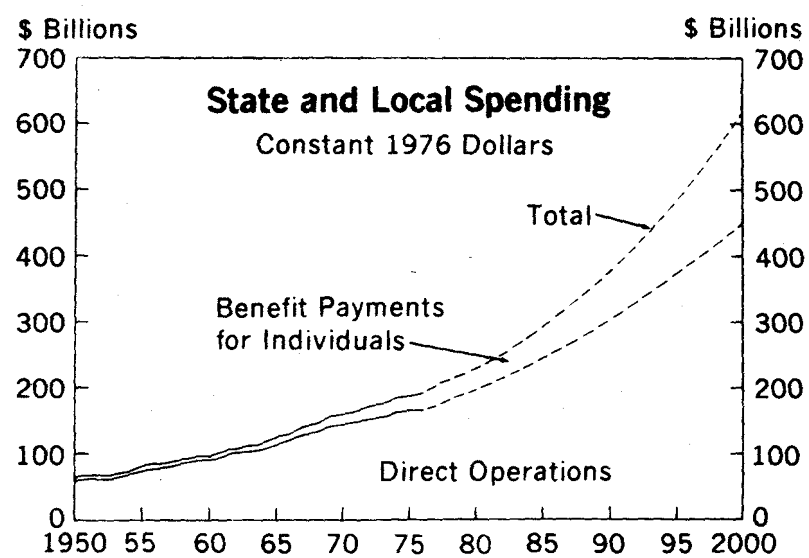




$ Billions
$ Billions
Total Government Spending
Constant 1976 Dollars
Total
Payments for
Individuals
Direct Operations
2100
1800
1500
1200
900
600
300
0
1950 55 60 65 70 75 80 85 90 95 2000



$ Billions
$ Billions
Federal Spending
Constant 1976 Dollars
Payments for
Individuals
Defense
Other Direct Operations
1400
1200
1000
800
600
400
200
0
1950 55 60 65 70 75 80 85 90 95 2000



$ Billions
$ Billions
State and Local Spending
Constant 1976 Dollars
Total
Benefit Payments
for Individuals
Direct Operations
700
600
500
400
300
200
100
0
1950 55 60 65 70 75 80 85 90 95 2000

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE:

TO: J. Cannon

FROM: Robert F. Bonitati
Assistant to the Director
for Congressional Relations
Tel. 395–3381
(Code 103)

The attached is provided for your information.

Budget

OMB FORM 38
REV AUG 73

United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, D.C. 20510

April 3, 1975

Mr. Robert F. Bonitati
Assistant to Director of
Congressional Relations
Office of Management and Budget
Room 238, Old Executive Office Building
Washington, D.C. 20503

Dear Bob:

We were surprised and disappointed today by the President's apparent misinformation about the status of implementation of the Congressional Budget and Impoundment Control Act. As I understand his answer in his press conference, he is of the belief that the Act has not been implemented in its principal features. In fact, as you will see from page 2 of the enclosed copy of Senate Report 94-27, the features of the Act about which he was concerned have been implemented and will apply fully to fiscal year 1976 by virtue of that report and a counterpart, substantially identical report filed in the House on March 3.

I hope this clarifies the misunderstanding. Please let me know if we can provide further information on this question. It is very unfortunate that misinformation about the status of the implementation of the Congressional budget reform should be publicized.

Sincerely,

John T. McEvoy

An identical report on "Implementation of New Congressional Budget Procedures for Fiscal Year 1976" has also been filed by the House Budget Committee.

94TH CONGRESS *1st Session*	SENATE	REPORT No. 94-27

IMPLEMENTATION OF NEW CONGRESSIONAL BUDGET PROCEDURES FOR FISCAL YEAR 1976

REPORT

OF THE

COMMITTEE ON THE BUDGET

UNITED STATES SENATE

As Prescribed by Section 906 of the Congressional Budget and Impoundment Control Act of 1974

MARCH 5, 1975.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
38-010 WASHINGTON : 1975

COMMITTEE ON THE BUDGET, U.S. SENATE

EDMUND S. MUSKIE, Maine, *Chairman*

WARREN G. MAGNUSON, Washington
FRANK E. MOSS, Utah
WALTER F. MONDALE, Minnesota
ERNEST F. HOLLINGS, South Carolina
ALAN CRANSTON, California
LAWTON CHILES, Florida
JAMES ABOUREZK, South Dakota
JOSEPH R. BIDEN, Jr., Delaware
SAM NUNN, Georgia

HENRY BELLMON, Oklahoma
ROBERT DOLE, Kansas
J. GLENN BEALL, Jr., Maryland
JAMES L. BUCKLEY, New York
JAMES A. McCLURE, Idaho
PETE V. DOMENICI, New Mexico

S R 27

94TH CONGRESS
1st Session

SENATE

REPORT
No. 94–27

IMPLEMENTATION OF NEW CONGRESSIONAL BUDGET PROCEDURES FOR FISCAL YEAR 1976

MARCH 5, 1975.—Ordered to be printed

Mr. MUSKIE, from the Committee on the Budget, submitted the following

REPORT

Implementation of new Congressional Budget Procedures for Fiscal Year 1976

I. INTRODUCTION

The Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344, July 12, 1974) established an improved congressional budget process for determining national spending and revenue policies and priorities. This new process—which involves the adoption of concurrent resolutions on the budget and establishes a timetable for various phases of the budget process—is mandatory with respect to Fiscal Year 1977, which will begin on October 1, 1976.

Section 906 of the Act provides, however, that upon agrement of the House and Senate Budget Committees, and to the extent provided by them in reports to their respective Houses, the provisions of the Act relating to the new budget process may be applied to Fiscal Year 1976. This implementation authority for Fiscal Year 1976 extends to and includes the use of substitute dates for the following provisions of the Act:

(1) Title III which sets forth the new congressional budget timetable;

(2) section 202(f) which requires the Congressional Budget Office to report to the two Budget Committees by April 1 on fiscal policy and national budget priorities;

(3) section 401 which establishes special procedures for the consideration of new backdoor spending legislation; and

(4) section 402 which requires legislation authorizing new budget authority for the ensuing fiscal year to be reported by May 15.

Section 906 does not provide authority for the implementation in Fiscal Year 1976 of two other important features of the new budget process which will apply to fiscal year 1977: first, the shift to an October 1–September 30 fiscal year (section 501); and second, the requirement that the President submit by November 10 a current services budget (section 605).

This Committee and the House Budget Committee believe that an important part of the new budget process—the establishment of fiscal aggregates—should be implemented with respect to the Fiscal Year 1976 budget. In 1975, perhaps to a greater extent than in other years, the role of the Federal budget and its effect on the Nation's economy will be critically important policy issues. The new budget process is the only congressional mechanism available to deal comprehensively with these issues. It is also important for the Congress to gain as much experience as possible with the new process which is mandatory for Fiscal Year 1977. Consequently, the House and Senate Budget Committees have agreed on the implementation plan described below.

This report is submitted to the Senate pursuant to section 906 of the Act. The House Budget Committee is submitting a similar report to the House setting out identical procedures. The provisions of the Act being implemented are effective upon submission of this report.

II. SUMMARY OF THE PLAN

The following major parts of the new budget process will be implemented for Fiscal Year 1976:

(1) Budget Committees will hold hearings on the budget and economy (section 301(d));

(2) Committees and joint committees will submit reports to the Budget Committees by March 15 (section 301(c));

(3) Budget Committees will report first concurrent resolutions on the budget (containing budget aggregates only) by April 15 (section 301(d));

(4) Congress will adopt first budget resolution by May 15 (section 301(a));

(5) The Budget Committees will report and Congress will complete action on second budget resolution by September 15 (section 310(b)); and

(6) Congress will complete reconciliation process (to the extent necessary) by September 25 (section 310 (c) and (d)).

In addition, new backdoor contract and loan authorities will be limited to amounts approved in appropriation acts (section 401(a)) and new entitlement authority legislation could not take effect prior to the start of the new fiscal year (section 401(b)).

The following important parts of the new budget process would *not* be implemented:

(1) the prohibition against consideration of spending, revenue, and debt legislation prior to adoption of the first concurrent resolution on the budget (section 303(a));

(2) the April 1 report on budget alternatives, fiscal policy, and national budget priorities by the Congressional Budget Office (section 202(f));

(3) the inclusion within the first concurrent resolution of budget authority and outlay totals for each major functional category of the budget (section 301(a));

(4) the May 15 deadline for reporting of authorizing legislation (section 402);

(5) the allocation of budget authority and outlays to appropriate commitees pursuant to the May 15 budget resolution (section 302(a));

(6) Appropriations Committee review of entitlement authority legislation which exceeds allocations made in the most recent budget resolution (section 401(b)); and

(7) the deadline—seven days after Labor Day—for completing action on spending bills (section 309).

III. DETAILS OF THE FISCAL YEAR 1976 IMPLEMENTATION PLAN

The Senate Budget Committee will implement the following plan for the Fiscal Year 1976 budget:

Hearings.—The Senate Budget Committee will hold approximately three weeks of hearings on the President's budget and the economy. These hearings will begin March 4, and include Members of Congress, Administration officials, economists, and representatives of the public.

Committee Reports.—Each committee and joint committee will be required to submit a report to the Budget Committee by March 15, pursuant to Section 301 (c) of the Act. This report is expected to:

(1) discuss the impact of the President's budget on programs within the committee's jurisdictions;

(2) provide early indications of likely committee action on legislation involving major Presidential and Congressional budget initiatives to be considered by the committee (particularly the prospects for enactment of such legislation and its estimated impact on the FY 1976 budget); and

(3) provide estimates (to the extent practicable) of budget authority and outlays to be provided for FY 1976 in legislation under the committee's jurisdiction.

In addition, the Joint Economic Committee will be required to report its recommendations as to fiscal policy appropriate to achieve the goals of the Employment Act of 1946.

Adoption of the First Concurrent Resolution.—The Budget Committees will report a first concurrent resolution on the budget by April 15. This resolution will include *aggregate totals* only (that is, the Committee's recommended levels of total budget authority and outlays, revenues, public debt, and amount of budget deficit).

The new budget process is, in large part, recognition by the Congress that a principal contemporary purpose of the national budget is to manage the Nation's economy. Overall levels of spending, revenues, and surplus or debt have a significant impact on the condition of the economy. The budget influences both the levels of employment in the economy and the level of inflation, and is used to stimulate or retard economic growth. The new budget process enables the Congress to address such macro-economic matters in a comprehensive manner, deciding explicitly how large the budget should be and whether it should be in surplus or deficit.

These macro-economic issues will be critically important in 1975, as the Administration and the Congress strive to reverse both a deepening recession and a prolonged inflation. The Budget Committees believe the most effective way for Congress to confront these issues is through the adoption early this year of a concurrent resolution dealing with overall budget aggregates.

The Committee's report accompanying the first budget resolution will include all matters required by the Act (in section 301(d)) relating to budget aggregates. It will include as much detail as possible with respect to allocations of budget authority and outlays by functional categories. The Committee will not, however, make 5-year projections of total budget authority and outlays, revenues, surplus or deficit, and levels of tax expenditures by major functional categories. It is highly unlikely that the Committee can make such projections without substantial assistance by a fully-operational CBO. Instead, Committee resources will be concentrated on analyzing the Administration's 5-year projections submitted as part of the budget, and beginning the task of developing its own projections.

The Budget Committees intend to complete congressional action on the first budget resolution by May 15. The aggregate totals adopted by the Congress in this resolution serve as targets to guide subsequent spending and revenue actions.

Adoption of the Second Concurrent Resolution.—The Budget Committees expect to report and complete action on a second concurrent resolution on the budget by September 15, pursuant to the provisions of the Act. This resolution will affirm or revise the aggregate totals contained in the first resolution in light of then current economic needs and Congress' summer spending actions; and (to the extent necessary and practicable) direct appropriate committees to take required reconciliation actions (raising or lowering revenues, increasing or rescinding budget authority, or a combination thereof).

The Budget Committees expect to complete action on the second budget resolution by September 15 and on necessary reconciliation actions by September 25. The nature and extent of such reconciliation actions will depend upon the extent to which the Congress's revenue and spending actions differ from the aggregate totals contained in the second budget resolution.

Effect of the Second Concurrent Resolution.—After adoption of the second resolution and completion of the reconciliation process, it will not be in order in either House to consider any budget authority or entitlement measure that would cause the appropriate level of total budget authority or outlays to be exceeded. Nor would it be in order to consider a measure that would reduce total revenues below the level set in the second budget resolution. (Section 311(a)). The Act provides that estimates prepared by the Budget Committees shall be the basis for determining whether such legislation would cause the appropriate level of budget authority, outlays, or revenues to be breached (section 311(b)).

It should be noted that the Congress may adopt a revision of its most recent budget resolution at any time during the fiscal year (Sec. 304). In fact, the Act anticipates that it may be necessary to adopt at least one additional resolution each year, either in conjunction with a supplemental appropriations bill or in the event of sharp revisions in revenue or spending estimates brought on by major changes in the economy, or other developments.

Controls on New Backdoor Authorities.—The Budget Committees are implementing immediately those portions of section 401 of the Act which (1) make new contract and borrowing authority effective only to the extent and amounts provided in appropriation acts (section 401(a)); and (2) prohibit floor consideration of entitlement authority legislation having an effective date before the start of the next fiscal year (section 401(b)(1)).

With respect to new contract and borrowing authorities, it is very much in the interest of the new budget process to prohibit a last-minute rush of new backdoor authorities. With respect to entitlement legislation, postponing the effective date of such legislation to the beginning of the fiscal year which begins during the calendar year in which such legislation is reported will serve to enhance the significance of the first budget resolution.

Miscellaneous Provisions.—In addition to the provisions referred to above, the following miscellaneous provisions of the Act will be implemented:

(1) Section 305, relating to consideration of concurrent resolutions on the budget;

(2) Section 306, concerning jurisdiction over legislation dealing with the Congressional budget; and

(3) Sections 308 (b) and (c), concerning periodic scorekeeping reports and annual five-year budget projections by the Congressional Budget Office.

Provisions Which Will Not Be Implemented

The following important elements of the new budget process will not be implemented:

(1) *Consideration of Spending, Revenue, or Debt Legislation Prior To Adoption of the First Concurrent Resolution.*—The Act provides that prior to adoption of the first concurrent resolution on the budget for any particular fiscal year, neither House may consider any legislation applicable to that fiscal year which provides new budget authority, increases or decreases revenues, or increases or decreases the public debt limit (section 303). Due to the critical need to take quick action on the Nation's deteriorating economy, the Budget Committees believe that implementation of this provision may unduly delay necessary action on the economy. Consequently this provision will not be implemented this year.

(2) *Congressional Budget Office April 1 Report.*—The Act requires the Congressional Budget Office to submit on April 1 a report to the Budget Committees on various budget alternatives, fiscal policy, and national budget priorities (section 202(f)). Since the provisions of the Act activating the CBO have only recently been implemented, the Office cannot be expected to submit the required report in the short time remaining before April 1. Consequently, this provision cannot be implemented this year.

(3) *Inclusion of Budget Authority and Outlay Totals for Each Major Functional Category of the Budget.*—The Act provides that the first concurrent resolution on the budget shall include, in addition to budget aggregates, the appropriate levels of budget authority and outlays for each major functions category of the budget (section 301 (a)). Congressional determination of these functional category totals are, of course, an important part of the new budget process. However, the Budget Committees do not believe that meaningful targets for each functional category of the budget can be established early this year, particularly in the absence of a fully-staffed Congressional Budget Office. Consequently, this important part of the new budget process will not be implemented this year. The report accompanying the resolution, however, will attempt to do so with as much detail as possible.

(4) *May 15 Deadline for Reporting Authorizing Legislation.*—Section 402 requires that any legislation authorizing new budget authority for a fiscal year must be reported in each House on or before the May 15 preceding the beginning of the first fiscal year to which the legislation applies (section 402 (a)). This provision is not being implemented this year. Committees are strongly urged, however, to report Fiscal Year 1976 authorizations as promptly as possible, and to move expeditiously toward advance authorizations for programs within their

jurisdictions. It will be particularly important for committees to get an early start on authorizations for Fiscal Year 1977, which must be reported by committees by May 15, 1976.

(5) *Allocation of Budget Authority and Outlays to Appropriate Committees.*—The Act requires that allocations of total budget authority and outlays be made to committees in the joint statement of managers accompanying the conference report on the first budget resolution (section 302). Such an allocation calls for substantial "crosswalking" (that is, tracing budget authority to committee jurisdictions by individual programs and spending authorities). The Committee cannot expect to develop such expertise by the Spring of 1975, and consequently will not implement this provision this year.

(6) *Appropriations Committee Review of Entitlement Legislation Exceeding Allocations Made in the First Budget Resolution.*—The Act provides that bills providing entitlement authority exceeding allocations made in the first budget resolution be referred to the Appropriations Committee for review (section 401(b)(2)). The Appropriations Committee may report the legislation with an amendment limiting the total amount of new authority. Since allocations of budget and entitlement authority will not be made in the first concurrent resolution this year, it is unnecessary to implement this provision.

(7) *Deadline for Completing Action on Spending Legislation.*—The Act provides for completion of action on all budget authority and entitlement legislation no later than the seventh day after Labor Day (section 309). This deadline can probably be met only if there is strict adherence to the May 15 reporting deadline. Since that deadline cannot be fully implemented in 1975, the Budget Committees will not implement the completion deadline.

The Committees strongly urge rapid action on both authorizing and spending legislation, recognizing that—as may also be true in succeeding years—it may be necessary to proceed to adoption of a second resolution prior to completion of all spending measures. It should also be recognized that it may be impracticable to proceed to a second resolution and reconciliation in accordance with the above dates if a significant portion of spending legislation is not completed by Labor Day, and that it may be necessary to modify these dates.

Miscellaneous Provisions.—The following miscellaneous provisions will not be implemented this year: (1) section 307, which provides that, to the extent practicable, the House Committee on Appropriations shall complete action on all regular appropriations bills and submit a summary report before reporting its first bill; and (2) section 308(a), which requires committee reports accompanying budget authority and tax expenditure legislation to compare amounts contained in the legislation with the most recent budget resolution. The provisions of Section 308(a), which requires that such reports indicate assistance to be provided to State and local governments, and project outlays under the legislation, are not being implemented at this time in the absence of a fully operational Congressional Budget Office, the assistance of which is important in making such estimates.

○

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MAY 6 1975

MEMORANDUM FOR: JAMES M. CANNON

FROM: JAMES T. LYNN

SUBJECT: Spring Planning Review of the 1977 Budget

During the month of May we will be holding planning review sessions for the 1977 Budget. In these sessions we will consider, for the major agencies, short and long-range budget and program trends, together with related issues. The sessions aim to obtain greater understanding of developing issues and to determine recommendations on planning guidance to the agencies for the next budget year.

We very much welcome you or members of your staff to participate in these sessions. The schedule for them is attached.

All sessions will be held in Room 248, Executive Office Building. Morning sessions begin at 10:00 a.m. and afternoon sessions at 2:15 p.m., with the exception of the Fiscal and Economic Overview which will begin at 3:00 p.m. on May 9, 1975. If your staff will give Patrick Noon, the Secretary of the Review (ext. 4884), advance notice of attendees for each session, he will see that they are furnished with appropriate briefing materials.

Attachment

April 24, 1975

SCHEDULE FOR THE FY 1977 SPRING PLANNING REVIEW

MAY 1975

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1	2	3
5	6 NASA	7 Agriculture	8	9	10
				Fiscal & Eco. Overview, 3pm	
12	13	14	15 State, Ex-Im Bank	16	11
	Commerce GSA Treasury	Interior Corps of Eng, EPA, TVA			
19 HEW Health & Education	20	21	22 DOD	23	24
	HEW Income Sec., Food Stamps	Employment programs, manpower		Justice DOT	
26	27	28	29 FEA & Energy Pol.	30	31
	Foreign Mil. & Economic aid	Housing & Community dev. & VA		ERDA & energy R&D	

When rescheduling is required, it may be necessary to hold sessions in the evening or on Saturdays.

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

145-277

MID-SESSION REVIEW OF THE 1976 BUDGET

May 30, 1975

NOTE: Detail may not add to totals due to rounding.

LIST OF TABLES

This review of the 1976 budget transmits to the Congress the supplemental budget information required by section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510). It also provides additional information that will further aid the Congress and the public in assessing the budget outlook.

Part 1 contains revised budget summaries for fiscal years 1975 and 1976. It also includes data for the transition quarter, extending from July through September of 1976, that results from the change in the fiscal year under the Congressional Budget Act of 1974.

The estimates reflect changes that have occurred since the 1976 budget was sent to the Congress in February. In view of Congressional inaction thus far on the President's energy program, the starting date assumed has been changed to September 1. The budget as submitted in February included proposals to limit automatic cost-of-living increases in benefit programs to 5% through June 30 of next year. That limit was also proposed for civil service and military pay increases. The revised estimates assume that these "caps" will be enacted by the Congress except for increases effective on or before July 1. Thus, the full effect of the 8% social security benefit increase effective on June 1 is included in the estimates.

Part 2 presents 5-year projections of: Outlays and budget authority by agency and by function; receipts by major source; outlays for open-ended programs and fixed costs; and outlays from balances of budget authority for non-mandatory programs available at the end of fiscal year 1976.

Because Congressional action has not been completed on any of the 1976 appropriations bills and on much substantive legislation, the estimates shown in this review are necessarily tentative.

Part 1. The Budget Outlook for 1975, 1976, and the Transition Quarter

Budget Totals

The 1975 deficit is now expected to be $42.6 billion, $7.9 billion above the February estimate. Outlays are now estimated to be $323.6 billion, $10.2 billion more than in February, and receipts are estimated to be $281.0 billion, $2.2 billion above the February estimate.

The estimated deficit for 1976 has increased by $8.0 billion since February, to $59.9 billion. Outlays are up by $9.5 billion from the February estimate to $358.9 billion, and receipts have been revised upward by $1.5 billion, to $299.0 billion.

These figures reflect Congressional turndowns of $9.3 billion in deferrals and $2 billion in rescissions, adding outlays of $0.7 billion in 1975 and $1.3 billion in 1976. Unless early action is taken by the Congress on other budget reductions proposed by the President, this estimate of the deficit for 1976 will rise still further. Should the Congress fail to take action on any of these reduction proposals, over $8-1/2 billion will be added to outlays.

The following table compares the current estimates of budget totals with the estimates shown in the February budget.

Table 1

BUDGET TOTALS
(fiscal years; in billions of dollars)

Description	1974 Actual	1975 February estimate	1975 Current estimate	1976 February estimate	1976 Current estimate	Tr. Qtr. February estimate	Tr. Qtr. Current estimate
Budget receipts	264.9	278.8	281.0	297.5	299.0	84.4	86.8
Budget outlays	268.4	313.4	323.6	349.4	358.9	94.3	95.8
Deficit (-)	-3.5	-34.7	-42.6	-51.9	-59.9	-9.8	-9.0
Full-employment receipts	282.2	323.1	323.0	351.8	357.0	98.4	100.0
Full-employment outlays	267.3	306.5	316.7	340.2	349.8	91.9	94.2
Full-employment surplus or deficit (-)	14.9	16.6	6.3	11.6	7.2	6.5	5.8
Budget authority	313.9	395.1	408.9	385.8	383.8	88.2	88.8
Outstanding debt, end of year:							
Gross Federal debt	486.2	538.5	544.5	605.9	617.5	616.8	627.6
Debt held by the public	346.1	389.6	396.9	453.1	470.9	465.6	482.8
Debt subject to limit	476.0	528.9	534.0	596.4	607.1	607.3	617.2

Economic Assumptions

The economic assumptions through calendar year 1976 reflect a changed economic forecast, based on experience since the budget assumptions were developed. They are subject to considerable uncertainty, since economic forecasting is imprecise. In this context, it should be noted that the changes from the February budget in the growth of real GNP are minor relative to the uncertainties involved.

Table 2

ECONOMIC ASSUMPTIONS
(calendar years; dollar amounts in billions)

Item	Actual 1973	Actual 1974	Forecast 1975	Forecast 1976
Gross national product:				
Current dollars:				
Amount	$1,295	$1,397	$1,474	$1,680
Percent change	11.8	7.9	5.5	14.0
Constant (1958) dollars:				
Amount	$839	$821	$792	$842
Percent change	5.9	-2.1	-3.6	6.3
Incomes (current dollars):				
Personal income	$1,055	$1,150	$1,231	$1,351
Wages and salaries	$692	$751	$787	$871
Corporate profits	$123	$141	$106	$148
Prices (percent change)[1]:				
GNP deflator:				
Year over year	5.6	10.3	9.5	7.1
Fourth quarter over fourth quarter	7.4	12.0	7.8	6.5
CPI:				
Year over year	6.2	11.0	9.1	7.1
December over December	8.8	12.2	7.8	5.8
Unemployment rates (percent):				
Total	4.9	5.6	8.7	7.9
Insured[2]	2.8	3.8	7.7	6.4
Federal pay raise, October (percent)	4.77	5.52	5.00	12.25
Interest rate, 91-day Treasury bills (percent)[3]	7.0	7.9	5.1	5.1

[1] The 1975 and 1976 figures reflect the impact on prices of the President's energy program.

[2] Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

[3] Average rate of new issues within period; the rate shown for 1975 and 1976 was the current market rate at the time the estimates were made.

Budget Receipts

Receipts in 1975 are now estimated to be $281.0 billion, $2.2 billion above the February estimate. The current estimate for 1976 is $299.0 billion, compared with $297.5 billion in February. These estimates are based on the economic assumptions presented in Table 2.

These receipt estimates -- including the 1975 estimates -- are tentative. There is still considerable uncertainty as to what tax collections will be in June, especially because large corporation income tax payments are made in that month.

Changes in budget receipts.--Receipts in 1975 are estimated to be $281.0 billion, $2.2 billion higher than the February estimate. The Tax Reduction Act of 1975 reduced 1975 receipts by $4.3 billion more than the tax reduction proposals in the February budget. This amount is more than offset by reestimates -- particularly of nonwithheld individual income taxes -- reflecting a significant underestimate of calendar year 1974 income tax liabilities in the budget. The data are not yet available to assess accurately the reasons for this underestimate.

Fiscal year 1976 receipts are currently estimated at $299.0 billion, $1.5 billion above the February estimate. The Tax Reduction Act reduced 1976 estimated receipts by $0.6 billion more than the President's February tax proposals, and the revised effective date of the President's energy program that is assumed in these estimates increases 1976 receipts by $1.8 billion from the amount proposed in the budget.[1] The remaining $0.2 billion change results from reestimates and changes in economic assumptions.

---

[1] Exclusive of "plowback" and associated provisions, the effect of which will be neutral on the budget deficit.

The following table shows the changes in receipts by major source and indicates the reasons for these changes.

Table 3

CHANGES IN BUDGET RECEIPTS
(in billions of dollars)

	February estimate	Changes due to: Revised tax reduction	Delayed energy program[1]	Reestimates and revised economic assumptions	Current estimate
Fiscal year 1975					
Individual income taxes................	117.7	-4.5	+1.4	+7.1	121.6
Corporation income taxes................	38.5	+0.2	+1.8	+0.5	41.0
Social insurance taxes and contributions....	86.2	---	---	+0.3	86.5
Other.................	36.3	---	-3.7	-0.7	31.8
Total.............	278.8	-4.3	-0.5	+7.1	281.0
Fiscal year 1976					
Individual income taxes................	106.3	-0.9	+12.4	+3.5	121.3
Corporation income taxes................	47.7	+0.3	-6.8	-3.4	37.8
Social insurance taxes and contributions....	91.6	---	---	-0.7	90.9
Other.................	52.0	---	-3.8	+0.8	49.0
Total.............	297.5	-0.6	+1.8	+0.2	299.0

[1] Exclusive of "plowback" and associated provisions, the effect of which will be neutral on the budget deficit.

Receipts in the transition quarter are estimated at $86.8 billion, $2.4 billion above the February estimate.

Budget Outlays

Tables 8 and 9 compare the current outlay estimates by agency and by function with those made in February.

Fiscal year 1975.--Total outlays for 1975 are currently estimated to be $323.6 billion, $10.2 billion above the February estimate. The major changes now estimated are shown in the following table.

Table 4

1975 OUTLAYS:
MAJOR CHANGES FROM THE FEBRUARY BUDGET ESTIMATES
(in billions of dollars)

February budget estimate of 1975 outlays........................ $313.4

	Congressional action or inaction	Other changes	Total changes
Offshore oil receipts (an offset to outlays).....	---	2.7	2.7
DOD Military and MAP........	0.1	1.8	1.9
HEW......................	0.9	1.4	2.3
Treasury....................	1.7	-0.2	1.6
Veterans Administration.....	0.2	1.1	1.3
Food stamp outlays..........	0.2	1.1	1.3
Special unemployment assistance................	---	-1.5	-1.5
All other (net).............	-0.1	0.8	0.6
Total..................	3.0	7.2	10.2

Current estimate of 1975 outlays............................... $323.6

The $2.7 billion decrease in estimated offshore oil receipts (which are an offset to outlays) resulted primarily from a large shortfall in receipts from the February 1975 South Texas sale and indicates the difficulty of projecting what bidders will pay for leases of uncertain value.

Outlays for DOD Military and military assistance are $1.9 billion higher than in February as inflation and a drawdown in purchase backlogs have increased spending rates above what was originally anticipated. HEW spending is up by $2.3 billion, with $1.1 billion in health, $0.3 billion in education, and $0.8 billion in income security. About $0.6 billion of the HEW increase resulted from inaction on the President's reduction proposals.

The Tax Reduction Act of 1975 provided a $50 bonus to social security and certain other beneficiaries. This provision increases 1975 Treasury outlays by $1.7 billion. Veterans Administration outlays are $1.3 billion higher than in the budget because of inaction on the President's reduction proposals, deferred VA asset sales, and greater participation in the GI bill program than earlier anticipated. Food stamp outlays are $1.3 billion higher because of greater than anticipated participation and because of actions taken by the Congress to reject the President's food stamp reform proposals.

The major decrease in 1975 outlays results from a reestimate of outlays associated with unemployment assistance for those not covered by the regular unemployment insurance. The participation in this new program has been below the levels originally anticipated, reducing estimated outlays by $1.5 billion.

Fiscal year 1976.--The current estimate of total 1976 outlays is $358.9 billion, $9.5 billion above the February estimate. About $3.8 billion of this increase results from additions by the Congress, inaction on the President's reduction proposals, or from failure to support rescissions and deferrals proposed in the budget. The major changes are summarized in the table below.

Table 5

1976 OUTLAYS:
MAJOR CHANGES FROM THE FEBRUARY BUDGET ESTIMATES
(in billions of dollars)

February budget estimate of 1976 outlays........................ $349.4

	Congressional action or inaction	Other changes	Total changes
HEW........................	2.6	1.4	4.0
Department of Labor:			
Summer Youth and public sector employment.......	---	1.8	1.8
Extended unemployment benefits................	---	1.2	1.2
Reestimates.............	---	-3.0	-3.0
Highway trust fund..........	0.4	1.0	1.4
Food stamp program..........	0.6	2.3	2.9
Veterans Administration.....	---	1.5	1.5
Energy tax equalization payments..................	---	-1.2	-1.2
Petrodollar financing facility..................	---	-1.0	-1.0
All other (net)............	0.2	1.7	1.9
Total.................	3.8	5.7	9.5

Current estimate of 1976 outlays.............................. $358.9

Compared with the February budget, estimated spending of HEW is up by $4.0 billion in 1976. About $2.2 billion of this results from inaction on the Administration's proposal to put a 5% ceiling on social security and supplemental security income benefit increases.

There are two major increases in employment-related outlays: First, the increased supplemental request for Summer Youth Employment and public service employment still pending before the Congress would add $1.8 billion in outlays; and second, the Administration's proposal to provide extended unemployment benefits through the end of calendar year 1976 adds another $1.2 billion. These increases are largely offset by major decreases in estimates based on experience with two new programs: unemployment assistance for those not covered by regular unemployment insurance ($-1.9 billion) and lower unemployment trust fund outlays, primarily for unemployment benefits extended beyond their regular duration ($-1.1 billion).

Highway trust fund outlays are $1.4 billion higher, resulting from releases of additional spending authority ($1.0 billion from Presidential release and $0.4 billion from Congressional releases). As in 1975, food stamp outlays are higher -- by $2.9 billion -- because of higher participation rates and the Congressional action rejecting the President's proposed reforms of the food stamp program. Veterans Administration outlays are higher due to expected participation in the GI bill program greater than anticipated in the budget, and increases in compensation and pensions.

These increases are partially offset by reduced energy tax equalization payments, which result from the delayed effective date of the Administration's energy program and by a shift in the petrodollar financing facility proposal from a direct loan program to a loan guarantee program.

Transition quarter.--Outlays in the transition quarter are estimated at $95.8 billion, $1.6 billion more than in February.

The Budget by Fund Group

Tables 10 and 11 contain figures on changes since February in 1975 and 1976 budget totals by fund group. Most of the changes in both 1975 and 1976 have occurred in the Federal funds.

Since February, estimates of Federal funds receipts for 1975 increased by about $2.5 billion, while outlays increased by $8.1 billion, resulting in a $5.7 billion increase in the anticipated 1975 Federal funds deficit. For 1976, the Federal funds receipts estimate has increased by $2.5 billion; estimated outlays have increased by about $5.5 billion; and the anticipated Federal funds deficit has increased by $3.0 billion.

Budget Authority

Tables 12 and 13 show the February estimates of 1975 and 1976 budget authority and changes since then, by agency and by major function.

Fiscal year 1975.--Total budget authority for 1975 is estimated at $408.9 billion, $13.8 billion above the February estimate. The major changes are shown in the following table.

Table 6

1975 BUDGET AUTHORITY:
MAJOR CHANGES FROM THE FEBRUARY ESTIMATE
(in billions of dollars)

February estimate of 1975 budget authority		$395.1
EPA - sewage plant construction grants	+4.3	
Offshore oil receipts (an offset to budget authority)	+2.7	
Treasury - $50 bonus to social security and certain other beneficiaries	+1.7	
HEW	+2.7	
Department of Labor - employment-related budget authority	+1.0	
Food stamps	+0.9	
All other (net)	+0.5	
Current estimate of 1975 budget authority		$408.9

The largest single increase in budget authority since February resulted from court action to release EPA funds not previously available for obligation. This action increased 1975 budget authority by $4.3 billion. The reduction in offshore oil receipts cited earlier increases budget authority by an additional $2.7 billion, and the $50 bonus payment to social security and certain other recipients increases budget authority by $1.7 billion. HEW spending authority is up by $2.7 billion, and Department of Labor authority is up by $1.0 billion due to the request for additional Summer Youth and public sector jobs. Budget authority for food stamps is up by $0.9 billion, providing funds for a larger number of participants and higher payments than anticipated in February.

Fiscal year 1976.--Total budget authority for 1976 is currently estimated at $383.8 billion, $2.0 billion below the February estimate. The major changes are shown in the table below.

Table 7

1976 BUDGET AUTHORITY:
MAJOR CHANGES FROM THE FEBRUARY ESTIMATE
(in billions of dollars)

February estimate of 1976 budget authority		$385.8
Petrodollar financing facility	-7.0	
Energy equalization payments	-1.2	
Veterans Administration	+1.7	
Food stamps	+3.4	
All other (net)	+1.1	
Current estimate of 1976 budget authority		$383.8

The change in the petrodollar financing facility from a loan basis to a loan guarantee basis reduces 1976 budget authority by $7.0 billion.

The revised effective date of the Administration's energy program reduces budget authority by $1.2 billion. A major increase in 1976 budget authority is $3.4 billion for food stamps, reflecting increased participation rates. Estimated budget authority required for veterans benefits is also up by $1.7 billion.

Transition quarter.--Budget authority in the transition quarter is estimated at $88.8 billion, $0.6 billion above the February estimate.

Table 8

CHANGES IN BUDGET OUTLAYS BY AGENCY
(fiscal years; in billions of dollars)

		1975			1976		
	1974 Actual	February estimate	Current estimate	Change	February estimate	Current estimate	Change
Defense and military assistance................	78.4	84.8	86.7	1.9	92.8	92.8	---
Agriculture................................	9.8	8.8	10.3	1.6	9.7	13.0	3.4
(CCC and P.L. 480).........................	(1.7)	(2.1)	(2.3)	(0.2)	(1.6)	(1.8)	(0.2)
Commerce....................................	1.5	1.6	1.6	*	1.8	1.8	0.1
Health, Education, and Welfare................	93.7	109.9	112.2	2.3	118.4	122.4	4.0
(Social security trust funds)...............	(67.2)	(78.4)	(79.3)	(0.9)	(86.1)	(89.1)	(3.0)
Housing and Urban Development.................	4.8	5.5	5.7	0.2	7.1	7.6	0.5
Interior....................................	1.8	2.2	2.2	*	2.5	2.5	*
Justice.....................................	1.8	2.1	2.1	---	2.2	2.2	---
Labor.......................................	9.0	19.0	17.4	-1.5	22.6	22.8	0.1
(Unemployment trust fund)...................	(6.1)	(13.0)	(13.0)	(---)	(15.9)	(15.7)	(-0.2)
State.......................................	0.7	0.9	1.0	0.1	1.0	1.2	0.2
Transportation..............................	8.1	9.1	9.3	0.2	10.0	11.5	1.5
Treasury....................................	36.0	39.7	41.2	1.6	43.5	43.5	0.1
(General revenue sharing)...................	(6.1)	(6.2)	(6.1)	(*)	(6.3)	(6.4)	(0.1)
(Interest on the public debt)...............	(29.3)	(32.9)	(32.8)	(-0.1)	(36.0)	(36.0)	(---)
Corps of Engineers..........................	1.7	1.9	2.1	0.2	2.0	1.9	-0.1
Energy Research and Development Administration.	2.3	3.1	3.1	*	3.8	3.8	---
Environmental Protection Agency...............	2.0	2.9	2.9	---	3.1	3.2	0.1
General Services Administration...............	-0.3	-1.0	-0.8	0.2	-0.5	-0.4	0.1
National Aeronautics and Space Administration..	3.3	3.2	3.3	0.1	3.5	3.5	---
Veterans Administration......................	13.3	15.4	16.7	1.3	15.6	17.1	1.5
Foreign economic assistance..................	2.1	2.7	2.5	-0.2	3.0	3.0	*
Other agencies..............................	15.1	17.7	17.9	0.2	19.6	18.8	-0.8
Allowances[1]................................	---	0.7	---	-0.7	8.0	6.8	-1.3
Undistributed offsetting receipts.............	-16.7	-16.8	-14.1	2.8	-20.2	-20.1	0.1
Total.............................	268.4	313.4	323.6	10.2	349.4	358.9	9.5

[1] Includes allowances for civilian agency pay raises and contingencies.
* Less than $50 million.
NOTE: Detail may not add to totals due to rounding.

Table 9

CHANGES IN BUDGET OUTLAYS BY FUNCTION
(fiscal years; in billions of dollars)

16.7
15.
27.6
109.1
168.4
14.7

	1974	1975			1976		
	Actual	February estimate	Current estimate	Change	February estimate	Current estimate	Change
National defense[1]	78.6	85.3	87.4	2.1	94.0	94.1	0.1
International affairs	3.6	4.0	5.0	0.1	6.3	5.5	-0.8
General science, space, and technology	4.2	4.2	4.3	0.1	4.6	4.6	---
Natural resources, environment, and energy	6.4	9.4	9.7	0.3	10.0	10.3	0.2
Agriculture	2.2	1.8	1.8	*	1.8	2.0	0.2
Commerce and transportation	13.1	11.8	12.6	0.8	13.7	15.7	1.9
Community and regional development	4.9	4.9	4.6	-0.3	5.9	6.1	0.2
Education, manpower, and social services	11.6	14.7	15.0	0.3	14.6	16.8	2.2
Health	22.1	26.5	27.6	1.1	28.0	29.0	1.0
Income security	84.4	106.7	109.1	2.4	118.7	122.8	4.1
Veterans benefits and services	13.4	15.5	16.7	1.3	15.6	17.1	1.5
Law enforcement and justice	2.5	3.0	3.0	*	3.3	3.3	---
General government	3.3	2.6	2.7	*	3.2	3.2	*
Revenue sharing and general purpose fiscal assistance	6.7	7.0	7.0	---	7.2	7.3	*
Interest	28.1	31.3	31.2	-0.1	34.4	34.4	---
Allowances[2]	---	0.7	---	-0.7	8.0	6.8	-1.3
Undistributed offsetting receipts:							
Employer share, employee retirement	-3.3	-4.1	-4.0	0.1	-3.9	-3.9	*
Interest received by trust funds	-6.6	-7.8	-7.8	*	-8.3	-8.1	0.2
Rents and royalties on the Outer Continental Shelf lands	-6.7	-5.0	-2.3	2.7	-8.0	-8.0	---
Total outlays	268.4	313.4	323.6	10.2	349.4	358.9	9.5

185.7
168.4
323.6
185.7
358.9

[1] Includes allowances for civilian and military pay raises for Department of Defense.

[2] Includes allowances for energy tax equalization payments, civilian agency pay raises, and contingencies.

* Change of less than $50 million.

Table 10

CHANGES IN BUDGET RECEIPTS AND OUTLAYS BY FUND GROUP
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
Receipts							
Federal funds	181.2	186.0	188.4	2.5	199.3	201.8	2.5
Trust funds	104.8	118.7	117.3	-1.4	126.5	125.4	-1.1
Intragovernmental transactions	-21.1	-25.9	-24.7	1.2	-28.3	-28.2	*
Total	264.9	278.8	281.0	2.2	297.5	299.0	1.5
Outlays							
Federal funds	198.7	229.0	237.1	8.1	254.2	259.7	5.5
Trust funds	90.8	110.3	111.2	0.8	123.4	127.4	4.0
Intragovernmental transactions	-21.1	-25.9	-24.7	1.2	-28.3	-28.2	*
Total	268.4	313.4	323.6	10.2	349.4	358.9	9.5
Surplus or deficit (-)							
Federal funds	-17.5	-43.0	-48.7	-5.7	-54.9	-57.9	-3.0
Trust funds	14.0	8.3	6.1	-2.3	3.1	-2.0	-5.1
Total	-3.5	-34.7	-42.6	-7.9	-51.9	-59.9	-8.0

* Less than $50 million.

NOTE: Detail may not add to totals due to rounding.

Table 11

BUDGET SURPLUS OR DEFICIT (-) BY FUND GROUP AND TYPE OF TRANSACTION
(fiscal years; in billions of dollars)

	1974	1975			1976		
	Actual	February estimate	Current estimate	Change	February estimate	Current estimate	Change
Federal funds							
Transactions with the public...........	-2.8	-23.7	-30.5	-6.9	-33.3	-36.3	-3.0
Transactions with trust funds..........	-14.7	-19.4	-18.2	+1.2	-21.6	-21.6	*
Total..........................	-17.5	-43.0	-48.7	-5.7	-54.9	-57.9	-3.0
Trust funds							
Transactions with the public...........	-0.7	-11.0	-12.1	-1.0	-18.5	-23.6	-5.1
Transactions with Federal funds........	14.7	19.4	18.2	-1.2	21.6	21.6	*
Total..........................	14.0	8.3	6.1	-2.3	3.1	-2.0	-5.1
Budget total							
Federal funds..........................	-17.5	-43.0	-48.7	-5.7	-54.9	-57.9	-3.0
Trust funds............................	14.0	8.3	6.1	-2.3	3.1	-2.0	-5.1
Total..........................	-3.5	-34.7	-42.6	-7.9	-51.9	-59.9	-8.0

* Less than $50 million.

NOTE: Detail may not add to totals due to rounding.

Table 12

CHANGES IN BUDGET AUTHORITY BY AGENCY
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
Defense and military assistance	88.9	90.8	90.2	-0.6	106.3	106.3	---
Agriculture	13.1	13.8	15.0	1.2	11.9	15.3	3.5
(CCC and P.L. 480)	(3.9)	(4.9)	(4.9)	(---)	(4.3)	(4.3)	(---)
Commerce	1.5	1.7	1.8	0.1	1.8	1.7	*
Health, Education, and Welfare	100.9	114.0	116.6	2.7	120.4	119.9	-0.4
(Social security trust funds)	(73.1)	(82.9)	(83.6)	(0.7)	(88.8)	(88.0)	(-0.8)
Housing and Urban Development	8.1	51.0	51.4	0.5	30.3	31.0	0.7
Interior	2.0	3.9	3.9	*	2.5	2.5	*
Justice	1.9	2.1	2.1	---	2.1	2.1	---
Labor	10.6	19.9	20.9	1.0	11.3	11.0	-0.3
(Unemployment trust fund)	(7.5)	(9.7)	(7.6)	(-2.1)	(9.8)	(9.3)	(-0.5)
State	0.8	0.9	1.2	0.3	1.0	1.0	*
Transportation	17.6	19.1	19.2	0.1	4.4	4.4	0.1
Treasury	36.0	39.7	41.4	1.7	43.6	43.6	---
(General revenue sharing)	(6.1)	(6.2)	(6.2)	(---)	(6.4)	(6.4)	(---)
(Interest on the public debt)	(29.3)	(32.9)	(32.8)	(---)	(36.0)	(36.0)	(---)
Corps of Engineers	1.8	1.7	1.7	---	1.9	1.9	---
Energy Research and Development Administration	2.5	3.6	3.6	---	4.2	4.2	---
Environmental Protection Agency	6.0	4.2	8.5	4.3	0.7	0.7	---
General Services Administration	-0.5	-0.9	-0.7	0.2	-0.3	-0.2	0.1
National Aeronautics and Space Administration	3.0	3.2	3.2	---	3.5	3.5	---
Veterans Administration	13.9	16.0	16.8	0.8	16.1	17.8	1.7
Foreign economic assistance	3.8	3.1	2.6	-0.5	3.0	3.7	0.7
Other agencies	18.5	23.5	23.4	-0.1	32.9	26.1	-6.8
Allowances[1]	---	0.8	---	-0.8	8.3	7.1	-1.2
Undistributed offsetting receipts	-16.7	-16.8	-14.1	2.8	-20.2	-20.1	0.1
Total	313.9	395.1	408.9	13.8	385.8	383.8	-2.0

[1] Includes allowances for civilian agency pay raises and contingencies.
* Less than $50 million.
NOTE: Detail may not add to totals due to rounding.

Table 13

CHANGES IN BUDGET AUTHORITY BY FUNCTION
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
National defense[1]	89.3	91.3	90.9	-0.4	107.7	107.8	0.1
International affairs	5.3	4.9	4.7	-0.2	12.6	6.3	-6.3
General science, space, and technology	3.9	4.3	4.3	---	4.7	4.7	---
Natural resources, environment, and energy	10.7	11.5	16.0	4.5	12.2	12.3	0.1
Agriculture	4.5	5.9	5.9	*	4.3	4.3	---
Commerce and transportation	23.5	28.9	29.5	0.5	6.6	7.0	0.4
Community and regional development	4.0	5.1	5.2	0.1	5.2	5.4	0.3
Education, manpower, and social services	13.2	14.6	16.9	2.4	13.7	13.8	0.1
Health	26.4	28.4	29.6	1.2	31.0	31.0	*
Income security	95.2	156.1	158.9	2.8	135.3	138.1	2.7
Veterans benefits and services	14.0	16.0	16.8	0.8	16.2	17.8	1.7
Law enforcement and justice	2.6	3.1	3.1	*	3.2	3.2	---
General government	3.1	2.7	2.7	*	3.2	3.2	*
Revenue sharing and general purpose fiscal assistance	6.7	7.1	7.1	---	7.3	7.3	*
Interest	28.1	31.3	31.2	-0.1	34.4	34.4	---
Allowances[2]	---	0.8	---	-0.8	8.3	7.1	-1.2
Undistributed offsetting receipts:							
Employer share, employee retirement	-3.3	-4.1	-4.0	0.1	-3.9	-3.9	*
Interest received by trust funds	-6.6	-7.8	-7.8	*	-8.3	-8.1	0.2
Rents and royalties on the Outer Continental Shelf lands	-6.7	-5.0	-2.3	2.7	-8.0	-8.0	---
Total budget authority	313.9	395.1	408.9	13.8	385.8	383.8	-2.0

[1] Includes allowances for civilian and military pay raises for Department of Defense.

[2] Includes allowances for energy tax equalization payments, civilian agency pay raises, and contingencies.

* Change of less than $50 million.

Part 2. Longer-Range Projections

The February budget presented longer-range (through 1980[1]) projections in greater detail than was the case in earlier budgets. In addition, the budget provided detailed economic assumptions on which the projections were based. This section of the Mid-Session Review presents revisions of these longer-range data.

Economic Assumptions

The current state of the economic forecasting art is much too crude to attempt forecasts for the years beyond 1976. Indeed, as mentioned earlier, the 1976 forecasts also involve a large degree of uncertainty. Therefore, in Table 14, economic data for the years 1977 to 1980 are derived using a simple extrapolation based on the 1976 forecast. The projection assumes that real GNP grows at a rate of 6.5% a year -- the same rate that was used in the February budget. While the data derived from this assumption are provided in detail and as exact numbers, they are based on extrapolation and are not, therefore, forecasts.

There is no intent to imply that the economy will follow this exact path, nor that it is an ideal path. It may grow less rapidly in some periods and more rapidly in others, and it is hoped that -- in general -- it will average better than is assumed by these data. The purpose of

---

[1] Due to the change in the fiscal year established by the Congressional Budget and Impoundment Control Act of 1974, fiscal year 1977 and subsequent fiscal years will begin on October 1 of one calendar year and end on September 30 of the following calendar year. Prior fiscal years, ending with fiscal year 1976, began on July 1 and extended through June 30 of the following calendar year.

presenting these assumptions is solely to provide a base for projecting the budget. The projections indicate what will result under present law and Presidential proposals if the economy follows a 6-1/2% growth path -- one that is not unreasonable judged by historical standards.

Budget Projections

The revisions in budget outlays, budget authority, and receipts through 1980 reflect:

- -- the out-year effects of the changed economic forecast for 1976;
- -- actions by the Congress and the President since February; and
- -- program experience since February.

Also presented in this section are two sets of projections required by section 221(b) of the Legislative Reorganization Act of 1970: Projections of outlays under open-ended programs and fixed costs; and projected outlays from balances of budget authority available at the end of fiscal year 1976 for non-mandatory programs.

The receipts projections in Table 16 reflect the economic assumptions presented in Table 14 and assume current tax law, except for the proposed modifications under the President's energy program. The outlay and budget authority estimates in Tables 17 through 19 indicate the degree to which resources would be committed by the continuation of existing and currently-proposed programs at the levels currently recommended for 1976. These projections are not intended as forecasts of future receipts, outlays, or budget authority because no attempt is made to predict future decisions or their effects. Nor are the projections intended as recommendations for future-year funding, since the continuation of Federal programs and taxes is a matter properly subject to continuous review in light of changing conditions.

Table 14

ECONOMIC ASSUMPTIONS FOR BUDGET PROJECTIONS[1]
(calendar years; dollar amounts in billions)

Item	Assumed for Purposes of Budget Projections			
	1977	1978	1979	1980
Gross national product:				
Current dollars:				
Amount	$1,891	$2,107	$2,335	$2,586
Percent change	12.6	11.4	10.8	10.8
Constant (1958) dollars:				
Amount	$897	$956	$1,018	$1,084
Percent change	6.5	6.5	6.5	6.5
Incomes (current dollars):				
Personal income	$1,515	$1,689	$1,874	$2,078
Wages and salaries	$978	$1,092	$1,211	$1,344
Corporate profits	$173	$193	$214	$237
Prices (percent change):				
GNP deflator:				
Year over year	5.7	4.6	4.1	4.0
Fourth quarter over fourth quarter	5.2	4.3	4.0	4.0
CPI:				
Year over year	5.3	4.4	4.0	4.0
December over December	4.8	4.2	4.0	4.0
Unemployment rates (percent):				
Total	7.2	6.5	5.8	5.1
Insured[2]	6.1	4.7	4.0	3.2
Federal pay raise, October (percent)	6.75	6.50	6.00	5.50
Interest rate, 91-day Treasury bills (percent)[3]	5.1	5.1	5.0	5.0

[1] Based on extrapolations using a 6.5% rate of real growth in GNP for 1977-1980.

[2] Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

[3] Average rate of new issues within period.

In general, the outlay projections assume that program levels remain constant except where they would change under current law or where there is an explicit Administration recommendation to increase or decrease program levels over time. One example is the anticipated increase in energy research and development programs between 1976 and 1977. Similarly, while defense manpower requirements are assumed to remain constant, other defense purchases are assumed to rise by 4% a year in real terms. The projections allow for changes in beneficiary populations for programs such as social security. Allowances are also made for future cost-of-living adjustments to benefit levels, Federal pay raises, and other cost increases. These allowances are consistent with the economic assumptions outlined in Table 14 and with the effect of the proposed temporary 5% ceiling on automatic cost-of-living and comparability pay increases between 1975 and 1976.

Table 15

THE FISCAL OUTLOOK, 1977-1980
(in billions of dollars)

	1977	1978	1979	1980
Outlays under current programs............	388.4	417.4	443.0	467.3
Outlays under proposed programs............	9.9	14.3	15.1	15.5
Total projected outlays..............	398.4	431.6	458.1	482.8
Receipts under current law................	364.0	416.4	466.4	517.2
Effects of energy tax proposals...........	+0.4	-4.2	-9.4	-12.4
Total projected receipts.............	364.4	412.2	457.0	504.8
Budget margin or deficit (-)..............	-34.0	-19.4	-1.1	+22.0

Table 15, above, compares projected total receipts and total outlays. The difference between these figures -- the budget margin -- is the potential budget surplus or deficit that would be expected to occur if there were to be no tax changes, no new programs created, and no discretionary program increases or decreases other than those currently recommended.

Table 16

RECEIPTS BY MAJOR SOURCE, 1977-1980
(in billions of dollars)

	1977	1978	1979	1980
Individual income taxes....................	151.3	174.2	197.5	222.9
Corporation income taxes...................	52.7	59.3	62.6	68.8
Social insurance taxes and contributions...	106.3	121.8	136.9	150.0
Other......................................	54.3	56.9	60.0	63.1
Total receipts.........................	364.4	412.2	457.0	504.8

Table 17

BUDGET AUTHORITY AND OUTLAYS BY FUNCTION
(in billions of dollars)

Description	1977	1978	1979	1980
Budget authority:				
National defense	119.0	128.8	138.8	147.6
International affairs	9.0	8.9	8.5	8.1
General science, space, and technology	4.8	4.6	4.2	3.7
Natural resources, environment, and energy	8.0	8.1	7.5	7.4
Agriculture	2.0	1.9	2.1	2.1
Commerce and transportation	14.5	14.9	27.9	15.1
Community and regional development	5.8	5.6	5.8	5.9
Education, manpower, and social services	13.2	13.2	13.2	13.3
Health	35.1	41.1	46.7	51.7
Income security	178.0	191.4	203.8	214.8
Veterans benefits and services	17.0	16.2	15.7	15.3
Law enforcement and justice	3.3	3.3	3.4	3.5
General government	3.6	3.6	3.7	3.9
Revenue sharing and general purpose fiscal assistance	7.4	7.5	7.7	7.8
Interest	38.9	40.4	41.4	42.4
Allowances	13.8	16.7	19.6	22.5
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total budget authority	452.0	484.0	527.0	541.1
Outlays:				
National defense	105.5	120.5	131.6	141.5
International affairs	7.4	7.6	7.5	7.3
General science, space, and technology	4.7	4.6	4.3	3.9
Natural resources, environment, and energy	12.7	14.1	13.4	11.2
Agriculture	2.5	2.2	2.9	2.9
Commerce and transportation	16.1	16.5	15.8	15.5
Community and regional development	6.7	6.9	5.9	5.9
Education, manpower, and social services	13.6	13.3	13.3	13.2
Health	32.6	36.1	40.2	44.7
Income security	135.2	145.6	156.4	167.0
Veterans benefits and services	16.8	16.0	15.5	15.1
Law enforcement and justice	3.4	3.3	3.4	3.5
General government	3.5	3.5	3.6	3.7
Revenue sharing and general purpose fiscal assistance	7.5	7.5	7.6	7.7
Interest	38.9	40.4	41.4	42.4
Allowances	12.6	15.5	18.4	21.2
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total outlays	398.4	431.6	458.1	482.8

Table 18

BUDGET AUTHORITY BY AGENCY
(in billions of dollars)

Department or other unit	1977	1978	1979	1980
Budget authority:				
Legislative and judicial branches	1.4	1.3	1.3	1.3
Executive Office of the President	.1	.1	.1	.1
Funds appropriated to the President	7.4	7.0	6.6	5.9
Agriculture:				
Food stamps and other nutrition programs	9.0	9.2	9.7	10.0
Other Agriculture	4.4	4.5	4.9	5.0
Commerce	1.9	1.9	1.9	2.1
Defense-Military:				
Military retired pay	7.7	8.3	9.5	10.3
Defense less retired pay	97.4	100.8	103.7	106.0
Pay and price increases	9.0	14.8	20.9	26.7
Defense-Civil	2.2	2.2	2.1	2.0
Health, Education, and Welfare:				
Social security	77.7	86.2	95.4	105.1
Medicare	21.5	26.5	30.8	34.5
Other Health, Education, and Welfare	33.9	35.0	36.4	38.1
Housing and Urban Development	54.3	54.1	54.0	54.0
Interior	2.2	2.5	2.5	2.6
Justice	2.2	2.2	2.3	2.3
Labor:				
Unemployment trust fund	11.1	13.8	13.9	12.2
Other Labor	4.0	3.7	3.8	3.8
State	1.1	1.2	1.3	1.4
Transportation	10.0	10.2	23.3	10.5
Treasury:				
Interest on the public debt	40.5	42.0	43.0	44.0
General revenue sharing	6.5	6.7	6.8	7.0
Other Treasury	1.3	1.4	1.5	1.6
Civil Service Commission	14.4	16.4	18.5	20.7
National Aeronautics and Space Administration	3.6	3.4	3.1	2.7
Veterans Administration	17.0	16.2	15.7	15.3
Other agencies	18.0	17.8	17.4	17.4
Allowances:				
Energy tax equalization payments	7.0	7.0	7.0	7.0
Other pay, price, and contingencies	6.8	9.7	12.6	15.5
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total budget authority	452.0	484.0	527.0	541.1
MEMORANDUM				
Federal funds	339.8	355.8	384.8	387.4
Trust funds	145.9	160.8	177.8	193.9
Interfund transactions	-33.7	-32.7	-35.6	-40.2
Total	452.0	484.0	527.0	541.1

Table 19

BUDGET OUTLAYS BY AGENCY
(in billions of dollars)

Department or other unit	1977	1978	1979	1980
Outlays:				
Legislative and judicial branches	1.4	1.3	1.3	1.3
Executive Office of the President	.1	.1	.1	.1
Funds appropriated to the President	6.0	6.0	5.7	5.4
Agriculture:				
Food stamps and other nutrition programs	9.0	9.2	9.7	10.0
Other Agriculture	4.9	5.2	5.8	5.9
Commerce	2.1	1.9	1.9	2.1
Defense-Military:				
Military retired pay	7.7	8.3	9.5	10.3
Defense less retired pay	87.4	96.0	100.0	103.4
Pay and price increases	6.7	12.5	18.4	24.2
Defense-Civil	2.1	2.2	2.2	2.0
Health, Education, and Welfare:				
Social security	83.5	92.2	100.6	109.3
Medicare	18.3	21.0	24.0	27.2
Other Health, Education, and Welfare	34.9	35.7	36.9	38.3
Housing and Urban Development	8.2	9.3	9.6	10.7
Interior	2.0	2.2	2.2	2.3
Justice	2.3	2.2	2.3	2.3
Labor:				
Unemployment trust fund	14.6	13.7	12.7	11.4
Other Labor	4.1	3.7	3.8	3.8
State	1.1	1.2	1.3	1.4
Transportation	12.1	12.9	12.3	12.2
Treasury:				
Interest on the public debt	40.5	42.0	43.0	44.0
General revenue sharing	6.6	6.7	6.8	7.0
Other Treasury	1.3	1.5	1.5	1.7
Civil Service Commission	9.2	10.3	11.4	12.7
National Aeronautics and Space Administration	3.6	3.4	3.1	2.7
Veterans Administration	16.8	16.0	15.5	15.0
Other agencies	20.6	21.6	21.2	18.8
Allowances:				
Energy tax equalization payments	7.0	7.0	7.0	7.0
Other pay, price, and contingencies	5.6	8.5	11.4	14.2
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total outlays	398.4	431.6	458.1	482.8
MEMORANDUM				
Federal funds	289.9	310.0	327.4	343.2
Trust funds	142.2	154.3	166.3	179.8
Interfund transactions	-33.7	-32.7	-35.6	-40.2
Total	398.4	431.6	458.1	482.8

Projections of Outlays for Open-Ended Programs and Fixed Costs

Section 221(b) of the Legislative Reorganization Act of 1970 requires that the President transmit to the Congress "summaries of the estimated expenditures for the first four fiscal years following fiscal year [1976], which will be required under continuing programs which have a legal commitment for future years or are considered mandatory under existing law." Table 20 contains these estimates.

Table 20 indicates that benefit payments to individuals under existing legislation are projected to grow by roughly $16 billion a year from 1977 to 1980. Although legislation to renew the program is pending, outlays for the existing general revenue sharing program are shown in this table as dropping from $6 billion in 1975 and 1976, to $3 billion in 1977, and to zero in 1978 because the current statutory authorization expires after December 1976 and only the existing program is currently "relatively uncontrollable." (In Tables 17, 18, and 19, however, the program is shown as continuing uninterrupted through 1980.) Outlays for other open-ended programs and fixed costs are projected to be relatively stable.

As the footnote on Table 20 states, the estimates represent simple projections of outlays under existing law. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other Government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

Table 20

PROJECTIONS OF OUTLAYS FOR OPEN-ENDED PROGRAMS AND FIXED COSTS UNDER EXISTING LAW[1]
(in billions of dollars)

Category	1976	Tr. qtr.	1977	1978	1979	1980
Relatively uncontrollable under present law:						
Open-ended programs and fixed costs:						
Payments for individuals:						
Social security and railroad retirement.........	76.3	20.9	87.9	96.8	105.3	114.1
Federal employees retirement and insurance......	16.0	4.3	18.6	20.8	22.8	24.9
Unemployment assistance........................	16.8	3.2	15.4	14.3	13.2	11.9
Veterans benefits..............................	13.4	3.0	12.6	11.8	11.2	10.7
Medicare and medicaid..........................	24.6	6.6	29.2	33.4	38.0	43.0
Housing payments...............................	2.6	0.7	3.1	4.0	5.6	6.9
Public assistance and related programs..........	18.4	4.9	19.3	19.9	20.4	21.0
Subtotal, payments for individuals..........	168.2	43.6	186.2	200.9	216.5	232.5
Net interest....................................	26.3	8.6	29.7	30.7	31.2	31.7
General revenue sharing (existing law only)........	6.4	1.6	3.4	---	---	---
Other open-ended programs and fixed costs..........	9.8	2.8	10.7	10.1	10.7	9.6
Total, open-ended programs and fixed costs, current law..................	210.6	56.7	229.9	241.8	258.3	274.8

[1] This table is supplied pursuant to the requirements of section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510). The estimates represent simple projections of outlays under existing law. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other Government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

NOTE: Detail may not add to totals due to rounding.

Outlays from Balances of Budget Authority Available at the End of Fiscal year 1976: Non-Mandatory Programs

Section 221(b) of the Legislative Reorganization Act of 1970 also requires that the President shall transmit to the Congress "summaries of estimated expenditures, in fiscal years following fiscal year [1976], of balances carried over from . . . fiscal year [1976]." Table 21 contains these estimates.

The current estimate of the balances at the end of fiscal year 1976 for programs -- the outlays for which are controllable -- is $187 billion, roughly $2 billion below the budget estimate. About $15 billion of this total is in guarantee and insurance program balances, very little of which is expected ever to be spent.

The spending pattern from the balances in other programs, which amount to $173 billion, is fairly consistent among the programs. Not surprisingly, the bulk of the spending takes place in the transition quarter and in 1977, and declines rapidly thereafter. On the average, more than 14% is expected to be spent in the transition quarter, 37% in 1977, and almost 16% in 1978.

Of the 1976 end-of-year balances in programs other than guarantee and insurance programs, about 14% ($26 billion) is expected to remain unexpended at the end of fiscal year 1980. Slightly more than $1 billion of the 1976 end-of-year balances are expected to expire (without being spent) during the transition quarter and fiscal years 1977 through 1980.

Table 21

ESTIMATED SPENDING FROM END OF FISCAL YEAR 1976 BALANCES OF BUDGET AUTHORITY:
NON-MANDATORY PROGRAMS
(in billions of dollars)

	Federal guarantee and insurance programs: Reserves for losses and standby and backup authority	Other unexpended balances, June 30, 1976	Total
Total balances, end of 1976 (current estimate)........	14.6	172.7	187.3
Spending from balances in:			
Transition quarter..............................	.1	26.8	26.9
1977.......................................	.4	63.6	64.0
1978.......................................	.2	29.1	29.4
1979.......................................	.2	17.2	17.4
1980.......................................	.2	9.0	9.2
Expiring balances, transition quarter through 1980....	*	1.2	1.3
Unexpended balances as of end of 1980.................	13.3	25.8	39.1

* Less than $0.5 billion.

Note: Detail may not add to totals due to rounding.

[redacted]

July 1, 1975

SAVINGS RESULTING FROM VETOES
(Net of Increases in Substitute Bills)

	(In billions)			
	1975	1976	Trans. Quarter	1977
Emergency farm price supports	---	1.8	---	a/
Emergency employment appropriation ..	.7	1.5	.2	.4
New housing subsidies	---	.8	.6	.7
Strip mining, promotion of tourism ..	N E G L I G I B L E			
Total, to date	.7	4.1	.8	1.1

a/ Savings might be significant in later years, depending on extent loan program is adjusted.

DOMESTIC COUNCIL STAFF September 1975

rem.	Buckles, Andre M.	6233	228 EOB
	~~Cannon,~~ James M.	6515	2nd Fl. WW
	Pat McKee, Jennifer Morgan		
	~~Cavanaugh,~~ James H.	2861	2nd Fl. WW
	Cristy Valentine		
	Delaney, Patrick J.	6402	216 EOB
	Cameron		
	~~Dunham,~~ Richard L.	6630	231 EOB
	Naomi Glass		
	~~Duval, Michael~~	6560	216 EOB
	Helen Ammen		
sent Tues night	Falk, James H.	6250	216 EOB
	Ruth Drinkard		
rem.	Halper, Sam	2361 ~~7014~~	712 Jackson Place
rem.	Hendriks, Warren K.	6570	235 EOB
	Kathy Corcoran, Virginia		
rem.	Hullin, Tod R.	2383	228 EOB
	Jana Hruska		
rem.	Humphreys, George W.	7082	235 EOB
	Phyllis Tucker		
	~~Johnston,~~ Judy	2219	Basement WW
	Leach, Paul C.	6554	235 EOB
	Erlyn Ensign		
rem.	Lissy, David H.	2135	360 EOB
rem.	Massengale, Sarah	6776	220 EOB
	Rosemary Rogers		
	May, F. Lynn	6437	235 EOB
	Marilyn Mueller		
being typed	McConahey, Stephen G.	2767,8	712 Jackson Place
rem.	Myer, Paul	6594	165 EOB
	Melinda Maury		
rem.	Parsons, Richard D.	2562	234 EOB
	Mary Donahue		
rem.	Quern, Arthur R.	7084	231 EOB
	Helen Distelhorst		
	~~Rowe, Julie~~	~~7017~~	~~712 Jackson Place~~
rem.	Ryan, Kathleen A.	6563	235 EOB
rem.	Schleede, Glenn R.	6556	224 EOB
	Shelby Brown		

[Oct. 1975]

REQUEST

MEMORANDUM FOR: JIM CANNON

FROM: SAM HALPER

SUBJECT: HOLDING THE [redacted] $395 BILLION BUDGET LINE

Lacking specifics on departmental or agency economics, I sidestep complying with your October 15 request for three good ideas to help maintain the President $395 billion budget limit but I think I have one idea: to create a climate of opinion in which the President's campaign to cut entrenched, outmoded and unproductive programs would be heeded by the nation and supported in Congress.

Right now I see two major obstacles that confront Ford's efforts to economize in this area. One is the rather general conviction that Republicans are 'aginners when it comes to social programs, a conviction that makes their efforts to economize in this area--right or not--suspect and subject to misinterpretation.

This conviction, historically not entirely baseless, imposes [redacted] on the President the need to explain his views so reasonably and persuasively as to convert a large section of public opinion. The President, however, has not been doing this, and that is the second obstacle. Rather, almost uniformly his speeches have been more combative than explanatory, more challenging than persuasive and uniting; the total effect has been more strong-sounding than strong. If anything his addresses have tended to reinforce the prejudices of the considerable number of Americans who viscerally distrust the Republican intent on social issues.

Which is a pity, because he has a great cause. What is more, Americans are coming increasingly to feel that much of the FDR-Kennedy-LBJ New Deal-New Frontier-Great Society have, in the Vice President's words over-promised and under-performed and, in their course, debauched the social process and the national economy. The onetime belief that with good intents and enough money we can lick our social problems is just about coming to an end and one sees it is in the increasing number of Democrats and liberals who have crossed over or are in the process of doing so: Mo Udall, Sen. Muskie (Washington Star, Oct. 16, page one), Democratic Governors Carey ("The days of wine and roses are over"), Lucey, Dukakis, Lamm, Jerry Brown. Sargent Shriver joins the parade, saying of Gov. Brown's views that "I agree with him." John Osborne in the Oct. 16 New Republic reports that Peter Schuck, Consumer's Union man in Washington, says much the same [redacted] thing "that one hears at the Ford White House." Even a [redacted] nut like

Pete Hamill wrote a huge, muddled piece in the Sept. 29 Village Voice, headlined on page one: "WELFARE MYST BE ABOLISHED," with an accompanying Village Voice cartoon in the body of his article, showing a New York workingstiff carrying on his bended back a kinky-haired pregnant mother with another babe in arms, a black, Puerto Ricans, politicians.

I suggest that rather than making challenging speeches that get backs up, that the President take the lead in what is becoming the new consensus. Specifically, I suggest a major low key speech to the [redacted] people patiently setting forth the national problem, naming the programs that have become [redacted] redundant, the enclaves of ripoff, the ways in which [redacted] social[redacted] programs have more and more gone to subsidize the middle class rather than the poor--illustrating all this with details and [redacted] and with anecdotes, quoting experts --and letting the sweet reasonableness of his position get through, the facts do the arguing. Such a major speech, followed up, should go far to dispel the notion that Ford is using the budget crunch to administer another Republican kick to the groin of social progress and to counter the street gospel that "Ford is with the [redacted] rich."

Such a speech could make Congress more responsive to his proposals for changing the one lineup, line up support to sustain his vetoes in this area and maybe even help keep the spending down to $395 billion.

I should like to help write such a speech and if you agree where do I gather the instances, the facts, the anecdotes, the experts' views, anecdotes, human material? From the

Domestic Council Staff?

Departments and Agencies?

OMB?

Approve__________

Disapprove_______

(Note: Could you give me some time to talk with you about what I have done with the other three speech topics: 1) Where the US is, where it is doing, where it ought to go--an historical view; 2) The Coming Change in American Life; 3) Free Enterprise.)

THE WHITE HOUSE

WASHINGTON

October 15, 1975

MEMORANDUM FOR DOMESTIC COUNCIL STAFF

FROM: JIM CANNON JMC

Each of you should study the President's speech of October 6, 1975, the fact sheet and the Q's & A's.

This Presidential decision is central to all we do in planning for next year's SOTU message and legislative programs.

By Tuesday, October 21, I need from each of you at least three good ideas about how we can help the President maintain the $395 billion spending level and at the same time improve the effectiveness and efficiency of Federal programs.

Attachments

FOR IMMEDIATE RELEASE OCTOBER 6, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
ON HIS RECOMMENDATIONS
FOR REDUCTIONS IN TAXES AND SPENDING

THE OVAL OFFICE

8:00 P.M. EDT

Good evening. I have asked for this opportunity to talk with you tonight because it is important that all of us begin facing up to a fundamental decision about our Nation's future.

For several years America has been approaching a crossroads in our history. Today we are there.

To put it simply, we must decide whether we shall continue in the direction of recent years the path toward bigger Government, higher taxes and higher inflation or whether we shall now take a new direction bringing to a halt the momentous growth of Government, restoring our prosperity and allowing each of you a greater voice in your own future.

Tonight I will set forth two proposals that, taken together, as they must be, represent the answer I believe we must choose.

First, I propose that we make a substantial and permanent reduction in our Federal taxes, and, second, I propose that we make a substantial reduction in the growth of Federal spending.

Let me emphasize at the outset that these proposals must be tied together in one package. It would be dangerous and irresponsible to adopt one without the other. I will not accept that as an answer for our future.

I want these proposals acted upon together by the Congress. Together they represent one central and fundamental decision that America belongs to you, the people, and not to the Government.

MORE

(OVER)

Each of you knows from experience about your economic problems of recent months, you ~~know~~ what it means to pay more and more of your income just to feed and clothe your family, to get to work, and to maintain a decent home. You know the fear that strikes the human heart when a friend or a member of your family is laid off work and you know the anxiety that comes when these forces seem beyond your control.

None of us wants to repeat the experiences of the past year. We want steady prices, we want steady jobs and, above all, we want a chance to get ahead again, to know that our destiny lies in our own hands and not in Washington or some other far away place.

Fortunately, there are encouraging signs that we have weathered the worst of this economic storm. The recovery that began this spring is now gathering momentum. If we act wisely, it will continue on an upward path with more jobs and more stable prices.

Yet we should not be deceived. All of us must recognize that just beneath the surface there are still deep-seated problems in our economy -- problems that have been building up over the years and will not quickly or easily disappear.

We must attack the underlying causes of our economic problems. We must get at the roots of our difficulties. We must find answers that serve us not only this year but for the years to come.

The President and the Congress working together have the power to help. I know that because in Washington much of America's vitality and prosperity have been drained away. It is here that one big spending program after another has been piled on the Federal pyramid taking a larger share of your personal income and creating record budget deficits and inflation. Here a massive, often too zealous bureaucracy has been erected that has become too involved in trying to run too much of your daily life.

Over the years these excesses have played a major role in driving up prices, driving up interest rates and holding down jobs. We do not have to look far for our underlying problems.

Much of our inflation should bear a label "Made in Washington, D.C."

As we emerge from this recession, we face the basic choice: Shall we continue these patterns in Washington or shall we set off in a new direction? We cannot do both. We cannot go down both roads at the same time. We must choose.

MORE

Tonight, I propose permanent tax reductions totaling $28 billion-- the biggest single tax cut in our history. Earlier this year the Congress passed, and I signed, a temporary tax cut covering calendar year 1975. That temporary law will expire at the end of this year and, unless we act now, your taxes will go up again in January. I am proposing that we sweep away that temporary law and replace it, effective January 1, with a permanent Federal income tax cut that will be both larger and more equitable.

Three quarters of this permanent reduction will be for individual taxpayers and the chief benefits will be concentrated where they belong, among working people. The industrious working men and women of this country are the backbone of America. We cannot continuously ask them to bear an unfair tax burden. I propose that we lighten the tax load for them and for all other Americans in three ways: by raising everyone's personal tax exemption from $750 to $1000; by making the standard deduction for single taxpayers a flat $1800 and for every married couple $2500, and by lowering our basic personal income tax rates.

Together these measures will not only decrease everyone's taxes but they will aslo help to make up for the ravages of inflation. They will simplify the tax returns for millions of Americans. The total package represents a substantial reduction below the rates that will otherwise take effect this January. Under my proposal, a typical family of four earning a total of $14,000 a year would get a permanent tax cut of $412 a year, a 27 percent reduction.

The other quarter of the tax reduction will be directed at business in a way that creates more jobs. If companies and plants are to regain their footing and to hire more employees in the future, they must have greater incentives for investment. In order to create jobs, and good jobs, this country must build new plants and new equipment and we must have a growing economy. The tax cuts that I propose, including a permanent increase in the investment tax credit and a two percent reduction in the corporate tax rate, are specifically designed to increase employment. We must recognize that cutting taxes is only half the answer.

If we cut only taxes but do not cut the growth of Government spending, budget deficits will continue to climb, the Federal Government will continue to borrow too much money from the private sector. We will have more inflation, and ultimately we will have more unemployment.

Substantial cuts in your taxes must be tied to substantial cuts in the growth of Government spending. Anyone who has followed the upward leap in Federal spending can only shake his head in astonishment.

MORE

Back in 1962, the Federal budget for the first time in our history ran over $100 billion. In only eight years the budget doubled in size. In the coming fiscal year unless we act it will double again to over $400 billion.

One of the reasons for this horrendous spending growth is that much of the increase in each year's budget is required by programs already on the statute books. Many of these increased programs were first enacted years ago, and while individually they might have appeared manageable then, today -- taken together -- they are out of control. They are like a freight train whose lights were first seen far off in the night. That train has been coming closer and closer and now it is roaring down upon us. If we don't slow it down, Federal spending next year could easily jump to more than $420 billion without a single new Federal program.

Therefore, I propose that we halt this alarming growth by holding spending in the coming year to $395 billion. That means a cut of $28 billion below what we will spend if we just stand still and let the train run over us.

More importantly, it means almost a dollar-for-dollar cut in taxes and spending. For every dollar that we return to the American taxpayer, we must also cut our projected spending by the same amount. If we allow politics as usual to prevail in the Congress, there will be a temptation to overwhelmingly approve the tax cuts and do nothing on the spending cuts. That must not happen.

I will go forward with the tax cuts that I am proposing only if there is a clear, affirmative decision by your representatives in the House and the Senate that they will hold spending next year to $395 billion. I will not hesitate to veto any legislation passed by the Congress which violates the spirit of that understanding.

I want these actions to be a first step, and they are a crucial step, toward balancing the Federal budget within three years.

In January,I will propose to the Congress that many of our current spending programs be revised, consolidated and held below their projected levels. When I do, you will hear loud protests from one group after another contending that Washington should keep up an endless flow of subsidies. But we have to face hard reality: our financial resources are limited. We must learn to live within our means.

MORE

Spending discipline by the Federal Government must be applied across the board. It cannot be isolated to one area such as social programs nor can we completely insulate any area such as defense. All must be restrained. I believe that your Congressmen should stop trying so hard to find new programs that spend your money and get to work figuring out how to make the Government work better for you. They should get rid of the programs that don't work in order to make room for those that do.And,in the process,we can begin cutting back the swollen Federal bureaucracy.

I want to work with the Congress and with you, the people, to insure that those who deserve the help of our Nation continue receiving that help. The elderly, the poor and the men and women who have borne our Nation's arms. Also, I will not permit reductions in our military budget that would jeopardize our national security. We must maintain a strong economy and a strong national defense.

Sometimes when fancy new spending programs reach this desk,promising something for almost nothing and carrying appealing labels, I wonder who the supporters think they're kidding. From my visits with the American people, I find many of them believe that what the Government puts in your front pocket, it slips out of your back pocket through taxes and inflation. They are figuring out that they are not getting their money's worth from their taxes. They believe that the politics of Federal spending has become too much of a shell game. And I must say that I agree with them.

America's greatness was not built by taxing people to their limits but by letting our people exercise their freedom and their ingenuity to their limits. Freedom and prosperity go hand in hand. The proof is there to see around the world. Only by releasing the full energies of our people -- only by getting the Government off your back and out of your pocket -- will we achieve our goals of stable prices and more jobs.

I deeply believe that our Nation must not continue down the road we have been traveling. Down that road lies the wreckage of many great nations of the past. Let us choose instead the other road, the road that we know to be tested, the road that will work.

As your President, I cannot take this journey alone. I need the help of you, the American people, to persuade your Congressmen and your Senators that you want the growth in Government spending cut so that your taxes can be cut now. I need the help of the farmer in Iowa, the housewife in California, the retired couple in Florida, the small businessman in New Jersey, the student in Texas -- all of you. This must be a national effort. America should not belong to the Government,but to the people. You can serve the Nation by helping us make the right choice for the future.

Thank you, and good evening.

END (AT 8:20 P.M. EDT)

EMBARGOED FOR RELEASE UNTIL 8:01 P.M. EDT | OCTOBER 6, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM E. SIMON
SECRETARY OF THE DEPARTMENT OF TREASURY
JAMES T. LYNN
DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET
ALAN GREENSPAN
CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
AND
CHARLES WALKER
ASSISTANT SECRETARY OF THE TREASURY

ROOM 450
EXECUTIVE OFFICE BUILDING

5:44 P.M. EDT

MR. NESSEN: I don't know who the leader of this group is.

SECRETARY SIMON: I will start.

You know the President has been working for several weeks on questions relating to Federal taxes and spending. Tonight, he has asked for television time, which Ron just spoke to.

First, as you can see from the fact sheets, the President is going to propose a substantial and permanent reduction in Federal taxes, going far beyond the temporary tax cut that expires at the end of this year. The total cut will be approximately $28 billion, approximately three-quarters for individuals and one-quarter for business.

Secondly, he is going to propose a substantial reduction in Federal spending, below those levels that are projected for fiscal year 1977. Jim Lynn is going to elaborate in a second, before your questions.

Federal spending will, in fiscal 1977, easily surpass $420 billion unless affirmative action is taken, and taken right now. The President is asking that the spending be held in fiscal 1977 to $395 billion, a reduction of an equivalent amount of $28 billion.

MORE (OVER)

I want to emphasize how important it is that everyone understand that these two proposals are regarded as one package. The President is going to ask Congress to act on them both now, and he is insisting that only if Congress is willing to adopt a spending ceiling for fiscal 1977 will he go forward with these major taxcuts.

It would be dangerous and irresponsible to cut taxes and not cut the growth in Federal spending. That would only leave us with huge deficits, higher interest rates and more inflation and eventually more unemployment.

So, the two proposals are inextricably tied together, and we are presenting them as one single package. Together, they are designed to return more economic decision-making to our private sector.

The President is going to address more fully tonight why it is important to halt the trend toward big Government in this country. In this session, I want to talk more specifically about three particular advantages of this, what we consider balanced fiscal package: the economic advantages, the financial advantages and the psychological advantages.

First of all, on the economic side, in the short-term this package will provide us with a stronger foundation to sustain the momentum of our current recovery. In the long-term, the discipline imposed upon the growth in the budget will reduce the inflationary pressure generated by Federal spending.

There can be no question that curbing the explosive growth is an essential weapon in the long-term fight against inflation. Furthermore, by reducing taxes, as well as spending, we will also encourage greater savings and investment, a process that is imperative if we are to create jobs and increase productivity and increase real earnings in this country.

In short, it is going to provide a higher standard of living for all of us.

Second, this program will improve conditions in the financial markets. By tying spending cuts to tax cuts, the President is insuring that during the next few years our budget deficits will be progressively smaller and the Federal Government will not soak up as much money through borrowing in our private capital markets.

For all practical purposes, too many small- and medium-sized businesses are crowded out of our capital markets today. By reducing Federal borrowing, the Government will reduce the upward pressure it places on interest rates. Lenders are going to be more willing to lend long-term and more private borrowers are going to gain access to the credit markets.

MORE

Again, this process is essential for assuring long-term economic growth. As the President will say tonight, our ultimate objective is to bring the budget into balance within three years.

Psychological: Finally we have to take into account the public's perception of Government itself. Clearly, public confidence in the Government's ability to reduce inflation has been eroded by the last decade of huge increases in Federal spending, along with the huge increases in our budget deficits.

Over time, that process has built inflationary expectations into all of our society. The President is intent upon changing those expectations through this porgram and further efforts in the future.

Let me re-emphasize the determination of the President and the full Administration to stop the uncontrolled growth of Government outlays and to return to the American people more of the decision-making on how their incomes are going to be spent.

Unless action is taken, Federal Government spending can be expected to increase by approximately $53 billion in fiscal 1977. Outlays as a share of GNP will continue to rise. Outlays in fiscal 1977 would reach $423 billion. Roughly, four and a quarter times higher than outlays just 15 years ago.

The President's program is designed to restrain this growth and to reduce the share of GNP going into the Federal Government. This plunging process is vital to the economic and financial well being of our people.

I might add that in my recent testimony before the Congress, I have been heartened by the desire expressed by both budget committees to work with us in holding down spending and holding down the attendant deficits.

We hope that the full Congress is now going to join with us in adopting this very important package that the President is submitting.

Now Jimmy would like to, I am sure, address the expenditure side.

MR. LYNN: Bill, I think you have covered it sufficiently for openers. I would, kind of reversing the roles a little bit, draw your attention specifically to the tables that are included in the fact sheet showing the impact on the various families.

MORE

What we have here is a situation where practically dollar for dollar, if you compare the 1974 law before the 1975 temporary cuts were put in, of a dollar for dollar reduction in the expenditures from where they would have gone without restraing for a comparable amount of benefit on the side of tax reductions.

I think at this point, unless Alan, you have something to add, why don't we let these ladies and gentlemen ask their questions. That is the most important thing.

Q On those very tables you mentioned, can we have some figures below $5,000 of income, and why weren't they supplied in the first place?

MR. WALKER: I think we have them not below $5,000 because of the non-change that is involved there.

Q Not for single people. There are changes, some of whom are tax exempt now, and I am wondering if they would still be tax exempt under this proposal?

MR. WALKER: I can see that.

SECRETARY SIMON: I can show you that, Eileen, because I have a table that shows you the new tax exempt income for singles and marrieds.

Q Mr. Secretary, you say these proposals of tax and spending ceilings are linked. Are they going to be linked in their presentation to the Hill, and is there any way that this can be done through the statutory provisions?

SECRETARY SIMON: What the President is going to do is urge the Congress to adopt a spending ceiling for fiscal year 1977 of $395 billion. At that point, he would accept the tax reduction as outlined here on the tax side.

Q Is the President going to save $28 billion?

Q Will it be something informal? You are not going to propose a tax bill to Ways and Means that would have a spending ceiling tied into it?

SECRETARY SIMON: The Ways and Means Committee will be told the conditions under which we would accept this type of a tax proposal, that is correct.

Q Does that mean that if the Congress will not vote your ceiling that the President will oppose and perhaps veto tax cuts in the coming election year?

MORE

SECRETARY SIMON: If the Congress rejected the notion of putting a $395 billion spending limit on the fiscal 1977 budget and sent down a tax bill here, in this regard this President would veto it.

Q Can I follow that? From a practical standpoint, however, isn't it likely that we would act on the tax cut this fall? They don't have to take up the question of the ceiling until next year.

SECRETARY SIMON: I want Jimmy to talk to this, too. We think they have got plenty of time in the three months that are remaining. They have been working for several months, the budget committees, on fiscal 1976. They have the figures for 1977. We are going to be delighted to work with them on processes.

MR. LYNN: I suppose they could do almost anything, you are right. They could delay, but it seems to me the delay will cost the taxpayers money. What our hope would be is that they take action on both sides of this equation now so that the taxes can take effect -- the cuts could take effect -- as of January 1.

Q The question did not suggest that they would delay on voting the tax cut, but after all, they, just within the last few weeks, set the ceiling on fiscal 1976, didn't they? So, is it reasonable to expect them to set a ceiling on fiscal 1977 this fall?

MR. LYNN: I most certainly think it is. First, let me say I have been testifying before the Congress that one of the things that have disturbed me so much is that I see consideration of various programs before the Congress, including consideration of extension of the tax cut without any figures being explored with respect to what the effects are in fiscal year 1977.

Just to give you an example, the President vetoed the education bill. The effect of that override of his veto is to add almost $1 billion to expenditures in fiscal year 1977.

We don't see, frankly, how they can take action with respect to the taxes without setting for themselves now a target, as we have done.

Q Mr. Lynn, you have got $53 billion worth of expenditures detailed here. Are you now, or is the President later, going to send up a list of specific cuts of the total $28 billion, or are you leaving that all to the Congress?

MR. LYNN: Oh, no. Of course we will. We are doing that in the budget process. What we are doing now is our usual budget review that occurs this time of year. This budget will be presented to the President, he will make his changes in it, and all of those cuts will be expressly set forth in his January budget for fiscal year 1977.

MORE

Q In order for Congress to take action now, don't you have to provide a list of where you want the $28 billion cut?

MR. LYNN: No, I don't think so. My own feeling about that is that Congress can adopt an overall ceiling to show their concurrence with this approach of trying to moderate the growth of Government and give the American taxpayers a break without having their detailed make-up. We have done enough work in the course of the last months to see that it can be done. Now, very frankly, the exact ways that it should be done should be to determine in concert with the departments and agencies

They have a principal role here and we want to see that they play those roles and will develop that budget just like the budget committees will be working on details of their budget when they see the President's budget.

All we are asking at this point is that they adopt an overall ceiling, not the make-up of that ceiling.

Q Mr. Lynn, as you know, many previous Administrations have been frustrated by trying to impose a firm ceiling on Congressional spending and I suppose one reason for that is that many of these spending programs are open-ended in their appropriations impact. How do you specifically plan to deal with such problems where Congress authorizes spending under a program and sets no ceiling as long as people qualify?

MR. LYNN: You mean so-called entitlement programs where anybody that qualifies can come in.

I think what it takes in that area is legislative action. It takes affirmative legislative action. You are absolutely right, that does not lie within the control of the President. That is why he is calling on the Congress to join him in this effort.

This cannot be done by the President acting alone, it does require the cooperation of the Congress.

Q Mr. Simon, glancing quickly at the figures here, it does seem that the higher the income, the larger the tax reduction, and it also seems that a special provision, such low income allowance from the 1975 laws, is now being eliminated. Is that the general thrust of this proposal by the President?

MORE

SECRETARY SIMON: In general. You have to go through and take a look at the singles and the marrieds and how the various dependents are affected. Basically, the maximum benefit does not come at the maximum income. With the cut-off the maximum benefit is approximately the $25,000 income level and, naturally, there is some flow-throu effect from (A) a combination of the 1975 tax reduction, plus the magnification.

Now, let me explain to you what magnification is. The 1975 tax reduction was for an 8-month period; that was $8 billion for individuals. In order to annualize it for a 12-month period we had to make it $12 million so that is 50 percent larger. We then added, of course, the $8.6 billion more and provided this restructuring, removing, as you said, Phil, that to simplify, just have a single standard deduction.

Q Mr. Simon, does this package have your full support?

SECRETARY SIMON: Wait a minute. Alan wants to add something to that.

MR. GREENSPAN: I think if you will take the percentage changes in tax liability, they start the highest at the lowest level and they proceed downward thereafter throughout the whole tax schedule so that I would say the actual percentage change in taxes is very small at the bottom end of the scale.

SECRETARY SIMON: Let me give it to you in the zero to $5,000 area, the percentage reduction in tax liability is 61.3 percent.

Q Compared to which year?

SECRETARY SIMON: That is with the tax reduction proposals at 1975 levels of income, Eileen.

Q But compared to 1975 law or --

SECRETARY SIMON: That is compared to the 1972-4 law before the 1975 change.

$5,000 to $10,000 the tax reduction in tax liability, 35 percent; 23 percent in the $10,000 to $15,000; 17.7 in the $15,000 to $20,000; and 11.7 in the $20,000 to $30,000 so that you can see --

Q Let's have that compared to the 1975 law.

Q Are you talking about the dependents now or single?

MORE

SECRETARY SIMON: That is the income distribution of the President's tax reduction proposal. That is overall.

Q What was the last figure?

SECRETARY SIMON: 11.7 in the $20,000 to $30,000.

Q Can we have those compared to present law; that is, 1975 law?

MR. GREENSPAN: It will show the same.

Q Let's have the numbers.

SECRETARY SIMON: We don't have the numbers compared to the 1975 law. We have it magnified but that would not show the same as the 1975 laws that exist today. We have it magnified to the -- you know, adding the $4 billion, the 50 percent on and the percentages change at that point but still heavily weighted and we only have it on the percentage reduction -- no we don't have the specific one you say to the existing 1975 tax law.

Q Are all these cuts permanent or only some of them permanent and some of them temporary?

SECRETARY SIMON: No, this is a permanent tax reduction recommendation by the President.

Q Mr. Secretary, what is the economic situation that has caused you to decide not only to continue the 1975 tax reductions but to increase them substantially?

SECRETARY SIMON: When we talk about the economic situation, what we are trying to do,as I say, is control the explosive growth,as I said in my opening comments,and in Federal spending.

Q That is nine months after the start of the calendar year.

SECRETARY SIMON: We are talking about fiscal year 1977 as well and I, myself, have always personally favored tax reductions to return the decision-making back to the American people if at the same time we can have a simultaneous reduction in expenditures, permanent reduction.

Q But the permanent reduction, as I understand the program, does not apply to the months immediately ahead. It only applies to fiscal 1977.

SECRETARY SIMON: No. Obviously the six months immediately ahead for the half a year would be a continuation. No, until July 1.

MORE

Q Don't you have a transition quarter?

SECRETARY SIMON: Well, the investment tax credit of course is 1977.

Q Doesn't fiscal 1977 start October 1?

MR. LYNN: October 1 of next year.

Q So it is nine months.

Mr. Simon, could you tell us then what the economic factors are that would make you decide to do this?

SECRETARY SIMON: Well, I tried to outline it-- that there were economic and psychological and, of course, financial market-related reasons why we should reduce this growth in spending and reduce the deficit,as I said in my opening remarks.

Q Well, does the recovery seem inadequate?

SECRETARY SIMON: No, it most certainly does not. As I believe Alan's last report, the third quarter growth will be reported in the next couple of weeks and is going to show strong real growth -- I think stronger than anyone had originally predicted, and that real growth is projected.

The average real GNP growth through June 30, 1976, we can say is still roughly 7 percent.

Q Mr. Secretary, did I understand you correctly earlier that you said the President would veto a tax cut if it were not accompanied by the other?

SECRETARY SIMON: That is correct. If the Congress sent down a tax reduction for a year or permanently in the absence of adopting a spending ceiling for fiscal 1977 of $395 billion, he would veto it.

MORE

Q Aren't you almost certainly getting into a situation, given the way the whole tax thing has gone so far, the way the whole energy thing goes, that you will get a proposal from the Congress for a tax cut of at least as large as yours, possibly larger, and heavily weighted to the bottom of the scale, and you will get the other deferred completely from consideration until some later date so you won't have a yes or no and you will sit in this limbo and then the President has to make a decision?

SECRETARY SIMON: I would certainly hope you are wrong, and as I say, the President has made a decision as far as what he would do, if indeed that happened, and a tax bill came down. I think that (a) the way this tax proposal has been structured, and (b) the need for a curb in Federal spending is well recognized on Capitol Hill, as it is in the Executive Branch of Government, so I am optomistic that we are going to get some action on a $395 billion spending ceiling.

Q What form would the spending ceiling take? Would it be a budget resolution to the procedures that are now in place?

SECRETARY SIMON: Yes, it would be what, the second current --

MR. LYNN: I would think they could do it any number of ways. One way would be by a resolution of the Congress. Another way would be in the preamble to the tax legislation. I would not purport to tell or even suggest the manner in which Congress can do it, but I am certain there are a number of ways that they can do it.

Now, it is the matter of their will to do it if they decide to do it. If a majority of both Houses decide to do it, they will find a way to do it, and there are ways available.

Q The Budget Reform Act reserves jurisdiction in the Senate and House budget committees. The Ways and Means Committee does not have anything to do with spending.

MR. LYNN: Again, I would hope that what we will see in the Congress is a coordination of those efforts. As I have said, even in testimony I believe it was before the House side that one of the things that bothered me was that we were seeing a mark up with regard to a tax extension at a time prior to even the mark up for fiscal year 1976 on the budget side and on the second concurrent resolution.

I happen to feel you have got to look at 1977 numbers every bit as much as you have to look at 1976 numbers when you are deciding what the taxation structure ought to be from here on out, and that decision is before Congress because the old temporary cut runs out December 31.

Q Would you buy a sense of the Congress resolution, or would it have to be binding law?

MR. LYNN: Look, after all, the budget resolution, for example, is a sense of the Congress in the sense that they are setting their preliminary target for the existing year. I would suggest they can use the same procedure that they have used for their budget resolution process, if that is the way they care to do it, but we certainly would not want to suggest that one way or another is absolutely essential.

So long as that signal comes through strongly from the Congress to the American people and to the President that they are willing also to work to keep that $395 billion ceiling, that will do the trick.

Q Mr. Secretary, could I come back to Joe Slevin's question?

Q Mr. Secretary, the ceiling you are recommending does not become effective until the fiscal year beginning October 1, 1976. What effect, if any, do you suggest this should have on appropriations matters before the Congress for this fiscal year current and for the interim period between July 1 and October 1? Wouldn't that require some cutback so you have an estimate?

MR. LYNN: As you know, we already still have before the Congress requests for reductions from what a current services path would take you or even more from the path Congress seems to be on on both the authorization bill and appropriation bills. I would hope that at the same time -- or I should say in keeping with their agreement to also work with us on the $395 billion ceiling -- they would start looking very hard and adopt the kind of proposals for moderation for 1976 that we have proposed.

As you know, now that we are well into the fiscal year, a number of those can't be recaptured for the period of time that has already elapsed, but there is still plenty of room for them to exercise budget restraint for the rest of the year, and we would urge them to do so.

Q Secretary Lynn, getting back to Joe Slevin's question about economic rationale for the program and can either you or Mr. Greenspan elaborate on that; specifically, is this program supposed to have a net fiscal stimulus?

Q Question?

MORE

SECRETARY SIMON: Is this program supposed to have a net fiscal stimulus?

This program has, as I said, three parts to it: One, to help sustain the current economic advance. I think everyone is pretty generally agreed right now -- that private as well as the Government forecasters -- that the economic recovery is well underway and it is going to be strong and indeed vigorous here in the early months of the recovery and into the next year.

The questions that seem to be raised right now are what indeed is the third quarter? Some are even questioning the second quarter of the calendar year 1976.

Also, a program like this helps to lessen the strain on the financial system by reducing the inflation itself over the long-run and,more importantly, the inflationary expectations as people begin to realize that we are getting a handle on this budget deficit problem, that we are not going to allow this explosive growth in Federal expenditures to continue at the very larger percentages that they have, and, finally, and just as importantly, to slow the secular Federal Government inroads into the lives by returning the money to the American people that is now being presently spent by the Government.

Alan, would you like to add to that?

Q Before you go, Mr. Secretary, on your point that they helped to sustain the economic advance, how do you help sustain the economic advance when you cut expenditures by the same amount that you reduce taxes?

SECRETARY SIMON: Well, on a simple accounting basis one might say that that has, as I say on a simple accounting basis, a neutral effect but I am afraid that ignores the incentive gain of what happens when this amount of money or any amount of money is pumped into the private sector and into business creating all of the capital formation which is so terribly needed, as you have heard me say quite often, and I believe it has very definitely a net positive effect.

Al, do you want to add to that?

MR. GREENSPAN: We have taken the specific proposals on a quarter-by-quarter basis and got some of them through by various numbers of techniques including the regular macro-econometric types of procedures.

MORE

Statistically, what we get is slightly larger deficits in the next two to three quarters of 1976 calendar year and then somewhat lesser thereafter.

The amounts involved are not large and, in any event, I would scarcely describe the effects as being clearly affecting the economy one way or the other. This particular program has not been constructive for the purposes of affecting the short-run economic recovery in the usual classic sense of the word. The major problem which it has attempted to confront is something which anybody who has looked at the extraordinarily burgeoning effect of the rise of Federal expenditures as you get into fiscal 1977, 1978, 1979 -- what you begin to basically recognize is that at some point some basic decision must be made.

Either we are going to decide to continuously increase the size of Government and ultimately increase taxes in the whole control of the Federal Government of the economy as a whole, or we decide that is the way in which we do not wish to go. The essential thrust of this program I would describe, while certainly having short-term effects, as any program must, was not constructed in that light and its basic thrust is longer term.

It's short-term economic effects, as the Secretary has just said, are roughly neutral. The reason I say roughly is the fact that some people are going to evaluate part of it as positive and part of it as negative and I think others will do precisely the reverse. There is no major impact so far as I can see from anybody's evaluation.

Q Mr. Greenspan, could you, if you have these numbers, tell us what the net effect would be for the first, second and third quarters in terms of adding to expendable income? I guess we don't have to do anything on the Government spending side since there will not be any reductions during those first three quarters.

Secondly, isn't that in fact the stimulus?

MR. GREENSPAN: Well, the problem that you have got is that at this particular point it is not clear to what extent you in fact create stimulus from increasing deficits. Let me suggest to you that we have the conventional wisdom which always says that the greater the deficit, the greater the stimulus, the greater the level of employment. That is true only in the very restricted confines of our econometric models which, of necessity, is a very extraordinary abstraction from reality.

We have found, as you are no doubt well aware, that these models have not captured many of the things that have gone on in our economy in recent years and most specifically in the financial area.

As best we try, and we tried extraordinarily hard, to capture these very subtle financial impacts as they affect the levels of production and employment. To the extent that we have failed to do that, it is clear that what we have done is underestimated the negative impacts of the so-called expansionary policies on interest rates, on inflation and, therefore, on real growth.

So what I am suggesting is that while we do have these various sorts of figures which you discuss, I would not, by any means, describe simply the fact that we do have somewhat higher deficits in fiscal year 1976, specifically the first three calendar quarters, as being ipso facto stimulus.

MORE

MR. LYNN: If I might just add one thing to that, if I can, when you look at the figures we have here with regard to fiscal year 1976 expenditures, we are making some guesses, some estimates as to where Congress is moving.

With the kind of restraint I talked about a little bit earlier, that amount of expenditures for fiscal year 1976 could be kept lower than that, and I would hope also get the difference I cite lower than the number we show there.

Q Just one more question. We are going to have $21 billion of $28 billion tax cut effective by October 1 so you have a net increase of money in the spending stream of $21 billion. You are not having any reduction in spending during that same period so, in effect, don't we have a $21 billion stimulus for the first three quarters? That is the question I have.

MR. GREENSPAN: No, I am not sure those numbers are correct.

Q Excuse me. I think to answer that question we have to be given the numbers. This table that adds up to $27.20, $.7 billion you talk not in terms of the comparison with 1974, but in terms of present law. Can we have those numbers, just that little five or six item breakdown on page two here?

SECRETARY SIMON: We can get those numbers for you. The reason that we didn't do it on the figures that you wish is because the 1975 tax laws are temporary law.

Q Just a second.

Mr. Greenspan, is it reasonable or even rational to compare what you are proposing for the year ahead with two years ago in terms of assessing the economic impact? Can we really balance a two-year change on the tax side with a one-year change on the spending side, and you are trying to say they are the same thing?

MR. GREENSPAN: No, no. Let me tell you what the comparisons are. We have ongoing forecasts of the economy and what we tend to do is to reflect various different options that are involved in them. The latest forecasts that we have set up are not reflective of obviously 1972 or 1974, but essentially what has been going on within the tax structure as it stands now.

What we have done is superimposed upon them, starting off with expenditure expectations of no actions of any sort and running our best estimates that we can, we came up, as I indicated several weeks ago, with a real growth rate approximating 7 percent to mid-1975 to mid-1976.

MORE

What I am suggesting to you is this: We have reinstituted new estimates based on this program, and it does not significantly alter those numbers.

Q Okay. I wondered, however, if we can't have a figure to compare existing 1975 law to see what these tax changes really are.

MR. GREENSPAN: I agree with you. I think that is correct and those data should be made available shortly.

Q Now, the second question on the same subject of these numbers, differently. I assume that everything, Mr. Simon, that you have told us about the percentage tax increases by tax bracket eliminates, leaves out of consideration the fact that you are asking that the work bonus, the earned income credit, be eliminated, and you are now calling it an expenditure.

Therefore, this thing which is for the low income is nowhere in any of these figures, percentage change or otherwise, that you have given us, is that correct?

SECRETARY SIMON: The earned income credit is not in the President's tax proposals, that is correct.

Q Or in any of these comparison numbers?

SECRETARY SIMON: That is correct.

Q Including the tables that show by income bracket and so forth?

SECRETARY SIMON: That is correct.

Q Mr. Simon, as I see this, the tax reductions that are in effect may begin at the first part of the calendar year, but the spending reductions do not go into effect until the third quarter, and so your proposition is to cut taxes for the first three quarters for no spending and then what happens in November of 1976 is that there is an election.

Now, was that taken into consideration in deciding on the timing?

SECRETARY SIMON: It most certainly was not taken into consideration. The consideration was that we wanted a determination by the Congress that fiscal 1977 budget expenditures would be held to $395 billion, which from today's estimates mean that the proposed cut in the future would be equivalent to the amount of the tax cut that the President is proposing today, and it had nothing to do with the election in November 1976.

MORE

Q Did you seriously discuss any of these proposals with Congressional leaders before making them public?

SECRETARY SIMON: The President is discussing these right at this very moment with Congressional leaders.

Q But since your Administration, as I understand it, has a minority in both Houses of Congress and since this will require legislative action, it seems to me that you could be accused here of presenting a political ploy to the Democratic Congress.

SECRETARY SIMON: I would assume that you can always be accused of presenting a political ploy to Congress, but that does not concern us. We believe that this proposal makes good long run sense to the American people, that they begin to reverse this trend that has been going on in Government, especially in the last ten years.

If they want to attach certain slogans to it, some people, well, so be it. That was not the intent of the proposal.

Q The long-term effect you say is this reduction of Federal spending.

SECRETARY SIMON: The growth in Federal spending.

Q The short-term effect is to increase the Federal deficit and increase the Treasury's borrowing on the market, I believe was the question. Correct me if I am wrong.

Why is that a good idea now, and why don't they have all the dire consequences that you have been warning about for many months?

SECRETARY SIMON: The near term effect is slightly raising the President's ceiling that he put on at $60 billion. That is a fact. The point is that for the longer run considerations they outweigh these shorter run considerations, and I think that if this program were enacted in this fashion, the expectations of the marketplace would be that the Federal Government is finally getting their spending under control and we begin to work away at the important inflationary expectations that are so deeply ingrained, plus the loss of confidence the American people obviously had based on every policy that is taken in the ability of Government to manage their economy and, more importantly, to get their spending and inflation under control.

MORE

I think on the whole the positives far outweigh the negatives of a short-term, as I say, slight increase in the deficit.

Q How much will the deficit go up?

MR. LYNN: It depends on an awful lot of factors. As you have heard me testify on the Hill, we have a good deal of uncertainties right now, ranging all the way from just trying to get a good handle on estimating entitlement programs, whether we are talking about food stamps or supplemental unemployment benefits and so on.

Quite apart from that, we have to engage in a guessing game as to what Congress will do from here on out by way of the kind of salami tactics that we have had up to now, where we propose "X" and Congress always feels disposed to add "X plus Y" to the particular program.

My hope would be that Congress, in the spirit of this proposal, will now make a genuine effort to go along with the proposals that are still before the Congress that the President has made. I would think, to give you a rough estimate, that we would be able to have a deficit somewhere in the middle 60's before we are done.

We had to look at the reality that if Congress does not show that kind of restraint and looking at the total estimating that is involved, you can have a deficit of about $70 billion. But, I have to urge you once again this early in the fiscal year -- and also given all of the uncertainties with respect to the estimate -- you can't give a positive single figure at this point and feel confident that it is so.

Q Just this itself, how much would this add to the deficit?

Q What year?

MR. LYNN: What are you talking about? Fiscal 1976?

Q Fiscal 1976.

MR. LYNN: The effect of this proposal by way of receipts lost over and above, let's say, the magnified extension is what? Do we have that? It is what? Five?

Q All by itself?

MR. LYNN: All by itself.

MORE

Q It is 11.

MR. LYNN: It is 11 by itself for what, on a full year basis?

Q It is 28.

MR. LYNN: The 28 again, in answer to Miss Shanahan's question, the 28 is from the 1972-1974 kind of package, so what I was giving you was a figure of the net additional amount if you were to assume things continued the way Miss Shanahan talked about it.

Q What is that total figure from 1975 to 1976? These tax cuts are what?

MR. LYNN: Say that again.

Q From present law --

MR. LYNN: From present law?

Q From present law the total tax cut herein proposed is $11 billion, is that right?

MR. LYNN: About 11, that is right. On an annualized basis?

Q No.

MR. LYNN: On an annualized basis?

Q She asked how much the increase is from 1975.

SECRETARY SIMON: Break it down. First we had the rebates in there, and they are out, so we forgot these. Right? Then, we take the individual reductions, which were $12 billion in 1974 and now they are $20.6, so we are up $8 billion for the individuals, 1975 over 1976. Then the business cuts.

In 1976, the investment tax credit does not expire until January 1977, so the impact is not felt until fiscal 1977. So, leave out the 2 percent reduction.

Q Leave that out?

SECRETARY SIMON: Yes, the 2 percent reduction in corporate tax rates, the impact is on there, so that is roughly it.

Q Let's get clear. This proposal is that you are proposing tax law changes which would reduce taxes in 1976 by $11 billion compared to tax liabilities under present law?

MORE

MR. LYNN: You are talking about calendar year 1976?

Q Yes.

MR. LYNN: See, that is where our confusion was coming. I was talking fiscal year. You are talking calendar year. As far as receipts, it lost about $11 billion.

Isn't that right, Bill?

Q Where does that put you?

Q In comparison with present law.

MR. LYNN: In comparison with present law?

Q That is not my question.

MR. LYNN: That answers one question. Let's take another one. You go ahead.

Q My question is, how much will be added to the deficit by proposing by this tax proposal, and that is assuming that the 1975 tax cut would have expired.

MR. LYNN: Totally?

Q Period.

MR. LYNN: I suppose the way you would estimate that is, first, to take a half of a full year's effect. The full effect of the tax package is roughly $28 billion, right? So, you take a half year's effect of that, and I am being very rough in that.

My real expert, Bill Macomber, please feel free to correct me. Take roughly half of that and that would be the additional receipts lost for the period. But, what the economists also do is take a look at all of the factors that enter into the economy, and what you think that kind of tax cut will do by way of signals -- more importantly, what the restraint provision you are trying to get for 1977 will do to the business community and to the individuals and, therefore, some part of that receipts loss will build into the deficit.

Q Sure you figured it out. I am just asking for the figure. I know what the process is, but what is the figure? Is it $11 billion?

MORE

MR. LYNN: It would not be the total $11 billion by any means.

Q It is not the total $14 billion.

MR. LYNN: All right, the total $14 billion.

Q What is it?

MR. LYNN: It would be something less than that.

Alan, would you care to comment on that?

MR. GREENSPAN: One of the problems he has got is the fact that when taxes are received -- and I think that unless you can go through a simulation of the specific tax receipts differences, that is not a number you can get that simply.

Do you have that?

Q You cannot say how much this will add to the deficit?

MR. GREENSPAN: No.

MR. LYNN: We have said that. We have said it in the fact sheet.

What we said at the end of the fact sheet was that taking into account the factors that we know of now, and that includes putting in somewhat of a cushion for Congressional reluctance in the future, as they have in the past, to adopt the kinds of restraints that we have proposed, that the deficit for fiscal year 1976 would be about $70 billion.

Q Dropping the 40 to 44 in following fiscal year?

MR. LYNN: Yes.

Q Can we have the breakdown again of that $11 billion on the 1975 comparison of the tax cut? In calendar 1975, compared to the temporary 1975 law, you said earlier, how do you break that down?

MR. LYNN: The way I got to that in my head was-- and again, Dale, the way we calculated it was--that if you take the 1975 law, the way it is being applied now and with withholding rates, as you have it now, the effect on a full year basis on whether you take fiscal or otherwise, but once it is in effect is about $17 billion -- $17 billion, $18 billion, somewhere in there.

So, therefore, if you look at your $28 billion, that is what your differential is.

MORE

Q $17 billion revenue loss?

MR. LYNN: Yes. That is revenue loss again. That does not necessarily mean your deficit loss.

Q Can we get a breakdown of numbers parallel to the 1972-1974 numbers?

SECRETARY SIMON: We can pass out what the 1975 tax act was in the old sheet that gives you the revenue impacts on the 1975 tax act. You have the 1976 act here proposed with the revenue impacts and a good many of the business tax cuts are the same.

The investment tax credit, as I say, does not expire until 1977. Your major difference is in your individual tax cut. Of course, that is offset by the rebate, which the $8 billion is off already.

Q What you are saying now is the $28 billion is made up of the $17 billion worth of cuts this year in calendar 1976 and 11. Is that the 28? There was 17.

MR. LYNN: Try it again.

Q The 28 is a combination of $17 billion worth of tax revenue loss in this calendar year. What you are proposing is 11 for calendar 1976, and that is how you get your 28.

MR. LYNN: It is not quite that because you have to distinguish between what the total amount of tax deduction is locked into, not individual taxpayers or the like, and that gets you to an annualized amount of about $14 billion, I think it is. Is it 14? No, 12 plus. It is somewhere between $12 billion and $13 billion.

If you assume the taxpayers continue to get the same take-home pay, in other words you try to get an annualized base so that they keep the same withholding that they have now, you have to add another $4 billion plus to that, and that is what gives you the $17 to $18 billion.

If you were to have taxes just continue now the way our American taxpayers are paying them, with their take-home pay as they get it every month, it would cost you on an annual rate about $17 billion, somewhere between $17 and $18 billion. What this does is add about another $11 on top of that.

Q Yes, but if we get to the end of 1976 --

MR. LYNN: Are you talking calendar?

MORE

Q Calendar.

MR. LYNN: Okay, I just wanted to know.

Q If we ever get to the end of calendar year 1976 --

MR. LYNN: I hope we do.

Q Then what you will be saying is that $11 billion will be lopped off in 1976, isn't that right?

MR. LYNN: In one way, I see what you are saying. If you were to assume that the temporary tax cut were there forever, if that is the way you looked at it, and we looked upon it as a new ball game that we have to decide now what is the best tax policy for the United States effective January 1 -- but if you looked at it your way, you are absolutely right.

It was decided in the old law to add at the rate of $17 billion a year and under this new change you are adding another $11 billion a year. We prefer not to look at it that way. We prefer to look at it overall as to what does this mean by way of a tax program that makes sense for this country for a longer term direction.

One thing I will urge you to look at is that in the President's statement--and it should have been reflected in the fact sheet, and I am sorry it is not there, it should be there -- the President says that this ceiling is the first step moving toward a balanced budget within three years.

Now we think the net effect of all of these actions that the President is proposing will be to, one, get a much healthier economy; two, return some freedom of our taxpayers to spend the money they are earning that they have rapidly been losing over many years in the past.

MR. NESSEN: There is a Cabinet meeting that these three gentlemen need to go to. It started a couple minutes ago, so we probably should knock this off.

Q Does this program mean you will initiate no new programs next year?

MR. LYNN: Yes, no new spending.

THE PRESS: Thank you.

END (AT 6:24 P.M. EDT)

EMBARGOED FOR RELEASE
UNTIL 8:00 P.M. EDT

OCTOBER 6, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S PROPOSAL FOR TAX CUTS AND FEDERAL SPENDING RESTRAINT

President Ford is proposing that permanent large tax cuts be made possible for American taxpayers by Congress joining with him in limiting the growth of federal expenditures. The tax reductions proposed by the President total about $28 billion compared to 1974 law. This proposal is linked to the adoption by the Congress now of a spending ceiling of $395 billion for FY 1977. This represents a reduction of about $28 billion from projected levels for that year unless action to limit federal spending is taken.

The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning $14,000 a year would receive a reduction in their tax liability of $412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

- $8 billion in cuts to replace the temporary 1975 tax reductions.
- $4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a $4 billion extra cut is provided to keep withholding constant.)
- $8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

(OVER)

C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	Individual Tax Cuts
Increase personal exemption from $750 to $1,000.	$10.1 billion
Replace $1,300 low income allowance and $2,000 maximum standard deduction with flat amount standard deduction of $2,500 for married couples ($1,800 for a single person)	$ 4.0 billion
Reduce tax rates	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
Extension of 1975 corporate rate and surtax exemption changes	$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	$ 2.5 billion
2% corporate rate reduction (48-46%)	$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

The effects on individual taxpayers of the President's tax proposals are shown in the following tables:

Tax Liabilities for Family with 2 Dependents, Filing Joint with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, family uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	98	0	0	98	0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	287
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

Office of the Secretary of the Treasury
Office of Tax Analysis

Tax Liabilities for Single Person with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, individual uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3.817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

Office of the Secretary of the Treasury
Office of Tax Analysis

# #

II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the $30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

-- Increase the personal exemption from $750 to $1,000.

-- Replace the present minimum standard deduction (low income allowance) of $1,300 and maximum standard deduction of $2,000 by a single standard deduction in a flat amount of $1,800 for a single taxpayer and $2,500 for a married couple ($1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of $1,625 by married couples and $1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)

-- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

-- Reduce the maximum corporate tax rate from 48 percent to 46 percent.

-- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from $25,000 to $50,000 of taxable income.

-- Continue the 1975 Act reduction in the rate on the first $25,000 of taxable income from 22 percent to 20 percent (the second $25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).

-- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.

-- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

more

III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around $53 billion in a single year. Budget outlays are approaching $370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach $423 billion or more. The main elements of an increase of $53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	+9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	+7
TOTAL	53

B. Decisions have not yet been made on which programs will be restrained or curtailed.

-- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.

-- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of $395 billion on FY 1977 expenditures now.

-- A $395 billion ceiling is $25 billion above the currently estimated spending level this fiscal year and $28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach $370 billion, the FY 1976 budget deficit would be about $70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of $40-44 billion.

# # # # #