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THE PRESIDENT HAS SEEN... *de*

THE WHITE HOUSE
WASHINGTON
February 28, 1975

INFORMATION

I agree / we must ACT

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CAVANAUGH *JC*

SUBJECT: Secretary Weinberger's Memorandum on the Ways and Means Tax Bill Earned Income Component

Attached is a memorandum from Secretary Weinberger urging you to strongly oppose a provision for an earned income credit in the Ways and Means tax bill. We will see that the Secretary's recommendations are staffed to your senior advisors.

The credit would provide for a cash payment of no more than \$200 that would be equal to 5 percent of an individual or married couple's earned income less 10 percent of their tax filing unit's adjusted gross income. The cost is estimated at \$3 billion.

The Secretary is concerned because the proposal is seen by its supporters as either welfare reform to aid the working poor or, since the sum would be somewhat equal to a worker's share of the payroll tax, a means of refunding the social security tax to low-income workers.

According to the Secretary it would be an ineffectual, inequitable, and expensive addition to our already incoherent set of welfare programs. As for the social security aspect, the Secretary points out that this would not deal with the system's long-range financing problems and would, in effect, initiate general fund financing.

Finally, he says that this form of an earned income credit is likely to be pushed by Senator Long as it is similar to his Work Bonus idea and generally has strong political support as a measure to rebate money to nontaxpayers.





THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

FEB 26 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: The Earned Income Credit Component of the Ways and Means
Tax Bill

I urge you to take a strong negative position on the earned income credit component of the Ways and Means tax bill. It is a disastrous piece of legislation from almost any perspective.

The proposal would provide for a cash payment, not to exceed \$200, equal to 5 percent of an individual or married couple's earned income less 10 percent of their tax filing unit's adjusted gross income. It would cost about \$3 billion and be administered by the IRS in conjunction with income tax filing. Although at present the bill only authorizes the credit for CY 1975, it is intended that it become a permanent feature of the tax law.

Proponents of this proposal see it as either a desirable welfare reform that would cover the "working poor" with a cash program or as a means of reducing the burden of the payroll tax on low-income workers by distributing directly to them a sum roughly equal to their share of the payroll tax. (Thus, effectively, using general revenues to finance a substantial portion of Social Security.) Let me address each of these in turn.

- o Regarding welfare reform, it is a major step backwards and totally inconsistent with the need for greater simplification and equity that we recognized in our year-long study of the welfare system. Among its many undesirable attributes, this proposal would result in
 - the addition of new categorical programs administered by yet another agency without the replacement of any of the existing welfare programs;
 - higher cash payments to those with higher incomes (up to and often in excess of \$4,000) without any account for family size; and
 - unacceptable exacerbation of existing inequities in means tested transfer programs since the credit would not be taken into account when calculating benefits under existing welfare programs.
- o Viewed as a means of reducing the burden of payroll taxes on low-income families, it also has undesirable characteristics:



WHITE HOUSE
MAIL ROOM

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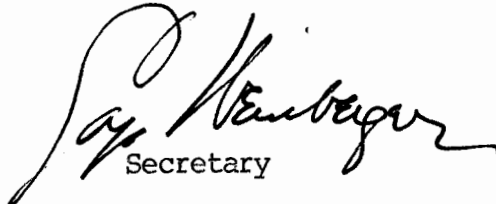
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- The credit is not well-targeted on low-income families. Much of the payments will go to those well above the poverty level; and
- it does nothing to alleviate the problems of the sizable trust fund deficits that we face in the future.

As you are aware I have strong misgivings about the use of general revenues for financing Social Security, which is what this proposal would accomplish in an indirect manner. If such a measure is to be taken, however, it is important that it result in a reduced trust fund deficit. In any event such action is premature until the Social Security Advisory Council's report is in and your overall position with regard to changes in Social Security is formulated.

Despite its presence in a tax bill, the proposal is not a tax cut but a new welfare program which would add some 15-20 million people to the numbers of those presently receiving public assistance and cost nearly as much as the welfare replacement proposal I have presented to you. As such it should fall under your ban on any new spending. I think it would be a grave error for this much new money and coverage to occur in a manner that runs exactly counter to the goals of sensible welfare policy. It was my sense of the certainty of support for measures like this and other new categorical welfare programs that led me to propose the ISP to you despite its initial net costs.

Senator Long surely will push for adoption of this proposal in the Senate Finance Committee since it is in essence the Work Bonus that he has been advocating as a welfare reform measure for years. (The other two components of his welfare reform package are absent parent pursuit, which has been passed, and government-as-employer-of-last resort.) Its political support is generally strong; most members of Congress have accepted the need to rebate money to non-taxpayers, unfortunately without discriminating among the various ways of doing so. Thus, it is important that we begin immediately to indicate the undesirable attributes of the earned income credit. Both the current Administration proposal of an \$80/per adult refundable credit or a more extensive refundable tax credit as an option to the personal exemption (as I outlined in my February 14 memorandum) are vastly superior alternatives.


Secretary



THE WHITE HOUSE
WASHINGTON

March 3, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JIM CAVANAUGH

FROM:

JERRY H. JONES

SUBJECT:

Secretary Weinberger's Memorandum
on the Ways and Means Tax Bill
Earned Income Component

Your memorandum to the President of February 28 on the above subject has been reviewed and the following notation was made:

-- I agree/we must ACT.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld

