The original documents are located in Box D23, folder "Rubber Manufacturers Association, New York, NY, December 8, 1967" of the Ford Congressional Papers: Press Secretary and Speech File at the Gerald R. Ford Presidential Library.

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CONGRESSMAN
GERALD R. FORD
HOUSE REPUBLICAN LEADER

NEWS RELEASE

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On Nov. 17 the President talked at a press conference about a possible $35 billion deficit and caused shudders and a cold sweat to break out in the financial capitals of Europe.

On Nov. 29, after the British had devalued the pound, Budget Bureau Director Charles L. Schultze said the outlook was for a $22.4 billion deficit without a 10 per cent tax surcharge and without figuring in upcoming spending cuts.

This was a breath of fresh air--this honest appraisal of the budget deficit at $22.4 billion without a tax increase or all possible reductions. The Administration didn't volunteer the information. Rep. John W. Byrnes of Wisconsin, ranking Republican on the House Ways and Means Committee, drew the figure out of Schultze during reopened hearings on the President's tax proposal.

Let's take it from there and let's get something else straight. The deficit is not going to be $22.4 billion regardless of whether Congress approves a tax increase. Schultze has indicated it will be less than $20 billion. If House Republicans have their way, spending will be cut deeply enough to reduce the deficit to $18 billion, also without the President's tax increase.

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President Johnson has called for Congress to demonstrate fiscal responsibility. The best way for Congress to do that is to force the Johnson Administration to adopt an austerity course, to slice away the fat in its guns-and-butter policy and go on a wartime footing.

President Johnson at his Nov. 17 press conference expressed wonderment that the American people are opposed to his tax increase. He also criticized Ways and Means Chairman Wilbur Mills and me for opposing it and said we would "rue the day" we decided to do so.

Mr. Johnson noted that President Truman asked for a tax increase to pay for the Korean War and the people supported it.

May I point out that President Truman declared a state of emergency over the Korean War. He did not pretend we could do business as usual. He did not pursue a guns-and-butter policy at a time of great danger for our Nation's security.

Harry Truman was more forthright and had a better sense of timing. He asked for a tax increase precisely when it was needed. I submit that President Johnson sent his tax increase request to Congress more than a year and a half too late.

Let me round out the picture by saying that the only way Congress could get the Johnson Administration to reduce non-Vietnam spending was to give the President's tax increase proposal the cool treatment and write spending cuts into law.

Let me go back to the point that the President's tax increase request is tardy--much too late.

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William McChesney Martin urged a tax increase late in 1965 because he saw then that the economy was becoming dangerously overheated. When the President refused to seek a tax increase, the Federal Reserve Board raised the Nation's basic interest rate--and was promptly denounced by the President.

Leading Republicans in the House demanded a setting of national priorities and a sharp cutback in non-Vietnam spending. Our position was that federal spending should be reduced to cool off the economy and offset Vietnam War costs. If that failed we were prepared to consider a tax increase.

President Johnson did neither in 1966. He neither curtailed federal spending,nor did he seek a tax increase.

I am not going to examine the President's reasons for refusing to hold down spending or to ask for a tax increase in 1966. But I suggest this was a major mistake in fiscal policy which directly led to last year's upsurge in inflation, the highest interest rates in 40 years and to inflationary wage settlements which now further complicate the fiscal situation.

Let me interpret that phrase "inflationary wage settlements" for you. They are inflationary in the sense that the cost of the total package exceeds gains in productivity. It is difficult for a President to preach fiscal restraint if he himself is not practicing it. I do not blame the rank and file union member for what has transpired. In my view, the worker is reacting normally to the impact of inflation. The Administration is the villain of the piece.

There are those among us who are impatient with a review of past mistakes. But I believe we must examine what has gone before if we are to gauge properly where the Nation stands now and what may lie ahead.

We currently are reaping the whirlwind that was sowed with policies of excessive federal spending, business as usual in time of war, and lack of restraint on the part of government and the private sector in a period of rising inflationary pressures.

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When are we going to face up to the fact that even the richest nation on earth cannot solve all of its problems at once, that total government programs are not the answer to our social ills, that the merits of a federal program should not be measured in terms of the number of dollars pumped into it, that the local communities could tackle their problems more efficiently than the federal government and at less cost if only they had sufficient revenue to do the job, that we cannot afford an unlimited outflow of federal dollars for social experimentation and a crash trip to the moon while fighting a $25-billion-a-year war?

We are suffering from a hangover. In 1965 and 1966 this Nation went on a federal spending binge. President Johnson and the 89th Congress did the pouring.

Is this a partisan statement? Consider, if you will, the remarks made by Appropriations Committee Chairman George Mahon, a Texas Democrat, on the floor of the House roughly a month ago--on November 6th.

Mahon said at that time:

"In the last two years, for example, the defense buildup that began in mid-1965, including the Southeast Asia war effort, the inauguration of many new domestic programs, military and civilian pay increases, and increases generally in the cost of Government programs, resulted in an increase in unexpended carryovers between mid-1965 and mid-1967 of some $28 billion. In other words, this buildup in unexpended carryovers to be spent in years following the original appropriation results not from actions taken by the present Congress, but rather from actions of the last two sessions of Congress. These higher carryovers inevitably add to the level of spending in subsequent years, as is true, for example, with the current fiscal year."

You remember the last Congress. It was made up of 294 Democrats and 139 Republicans. Lyndon Johnson called it "my Congress."

On Oct. 13, 1966, President Johnson accorded the highest praise to the 89th Congress. Returning from the political campaign trail, he said: "From what I have seen in the country, I think we are going to have the best Congress in the history of this Nation when we finish our record this session. The 89th Congress, my prediction is, historians will record as the Great Congress."

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Now the President is asking for a tax increase and is accusing the 90th Congress of fiscal irresponsibility for refusing to give it to him. He talks about "avoiding" inflation through an income tax increase although he is well aware that consumer prices rose 3.3 per cent last year and now are rising at a 4 per cent annual rate.

Treasury Secretary Henry H. Fowler talks about a "consensus" for a tax increase.

The Administration, as everyone knows, has engaged in a campaign to line up prominent businessmen behind a tax increase. The chairman of the board of one of the largest companies in the rubber manufacturing industry rejected such Administration efforts. I applaud such action. He feels, as I do, that the best weapon against inflation and high interest rates is a cutback in federal expenditures.

Those economists and business leaders who have endorsed the President's tax increase proposal should be having second thoughts. I say this because there is good reason to believe an income tax increase now could be more harmful than helpful.

Some economists presently are arguing against a tax increase on the ground it would be too damaging to the economy.

Economist Daniel B. Suits of the University of Michigan rejects the idea of a 10 per cent income tax surcharge. He fed the tax increase into his computerized version of the U.S. economy and came up with some startling answers: The tax boost would slow inflation next year only slightly--from 4 per cent to 3.7 per cent. But at the same time it would slow economic growth from a projected 5.3 per cent to 3.4 and would cause unemployment to rise to 4.7 per cent.

I think it would be accurate to predict that if a tax increase is approved it would not complete its trip through the Congress until next March or April. This prompts Alan Greenspan of Townsend-Greenspan & Co. to say that a tax increase as late as April 1 would be "fiscal overkill." Tilford C. Gaines, vice-president and economist at Manufacturers Hanover Trust Co. believes a tax increase as late as April would fail to ease price pressures but definitely would curtail economic growth.

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The Federal Reserve Board may have to raise interest rates again to keep short-term U.S. capital from flowing to England in pursuit of a higher return. Interest rates may continue to rise regardless of whether there is a tax increase, just as there will be more inflation, tax increase or not.

It can be argued, and quite persuasively, that a tax increase would have a minimal effect on inflation but would be damaging to the American economy.

My thinking is based in part on indications that we now are experiencing primarily cost-push inflation--increased production costs forcing business to raise prices where possible to offset a squeeze on profits. This contrasts with the situation in 1966 when we had basically a demand-pull kind of inflation--too much money chasing too few goods.

It escapes me how we would be acting to hold down prices if we raised the corporate income tax and thus added to the cost of doing business. As for the consumer, he might simply react to a tax increase by putting less of his income into savings and continuing to spend at virtually the same level. Thus consumer demand would not be appreciably dampened.

It appears to me that government spending restraint is the best way to deal with the present fiscal crisis. The Federal Government itself must set an example for business and the consumer.

I also suggest that the less loose talk there is about huge government deficits and runaway inflation the better. Such restraint in words and action should start at the top.

It does the economy no good for the President to talk about a $35 billion deficit when the outlook actually is for a deficit of less than $20 billion. As Hobart Rowen, financial editor of the Washington Post put it in a commentary on Dec. 3, "There is almost no description of the $35 billion estimate other than 'irresponsible.'"

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