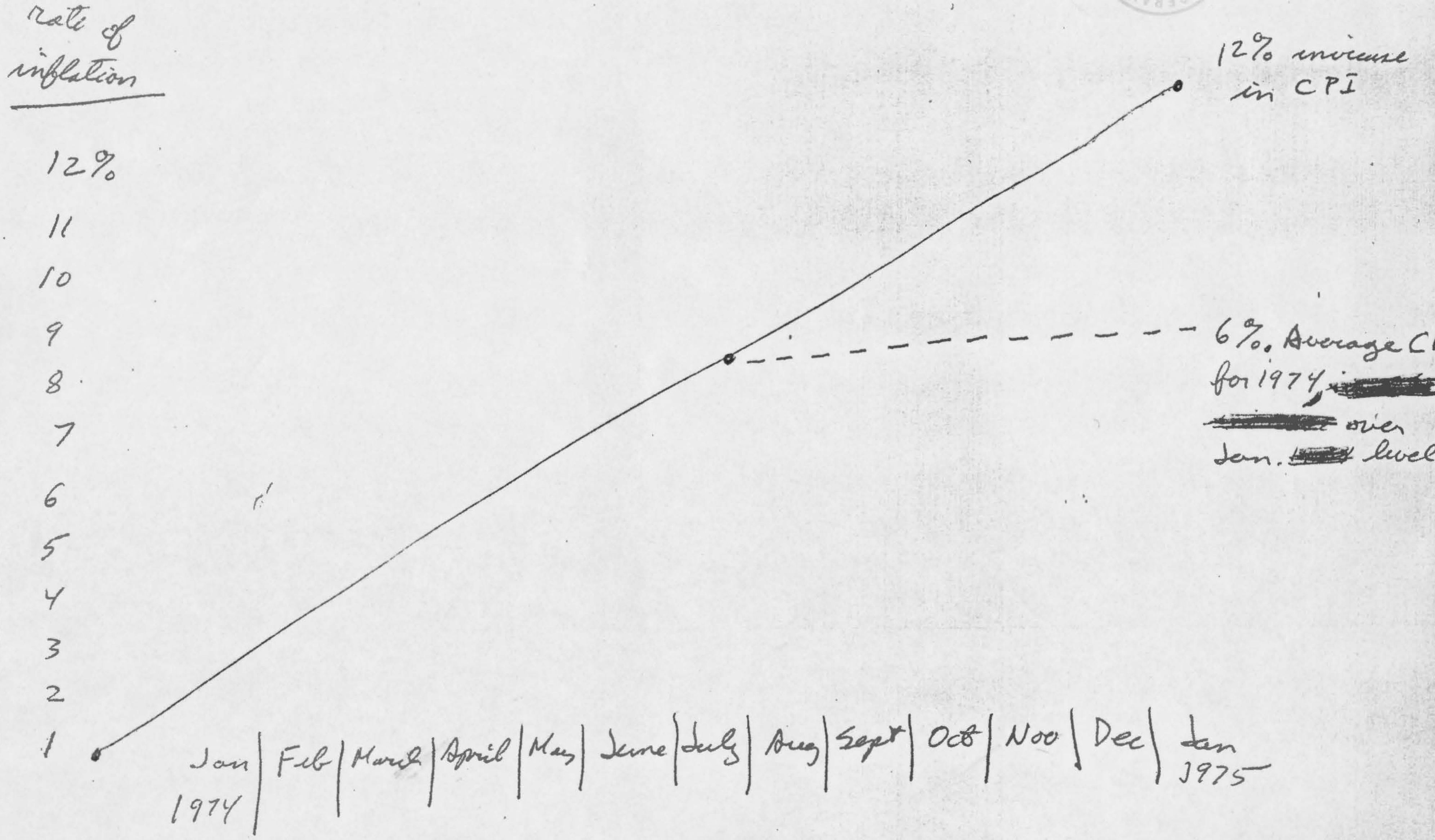
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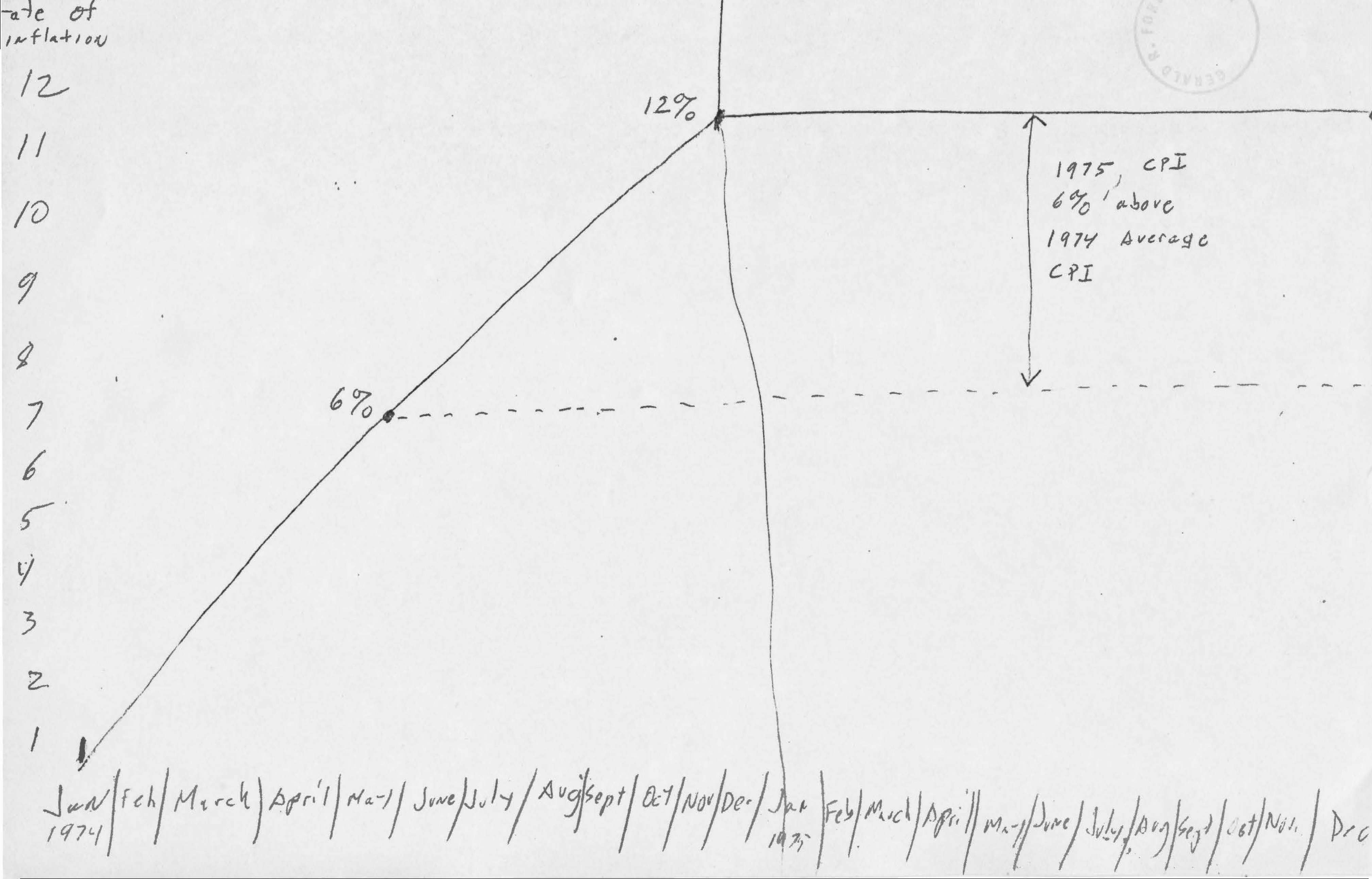
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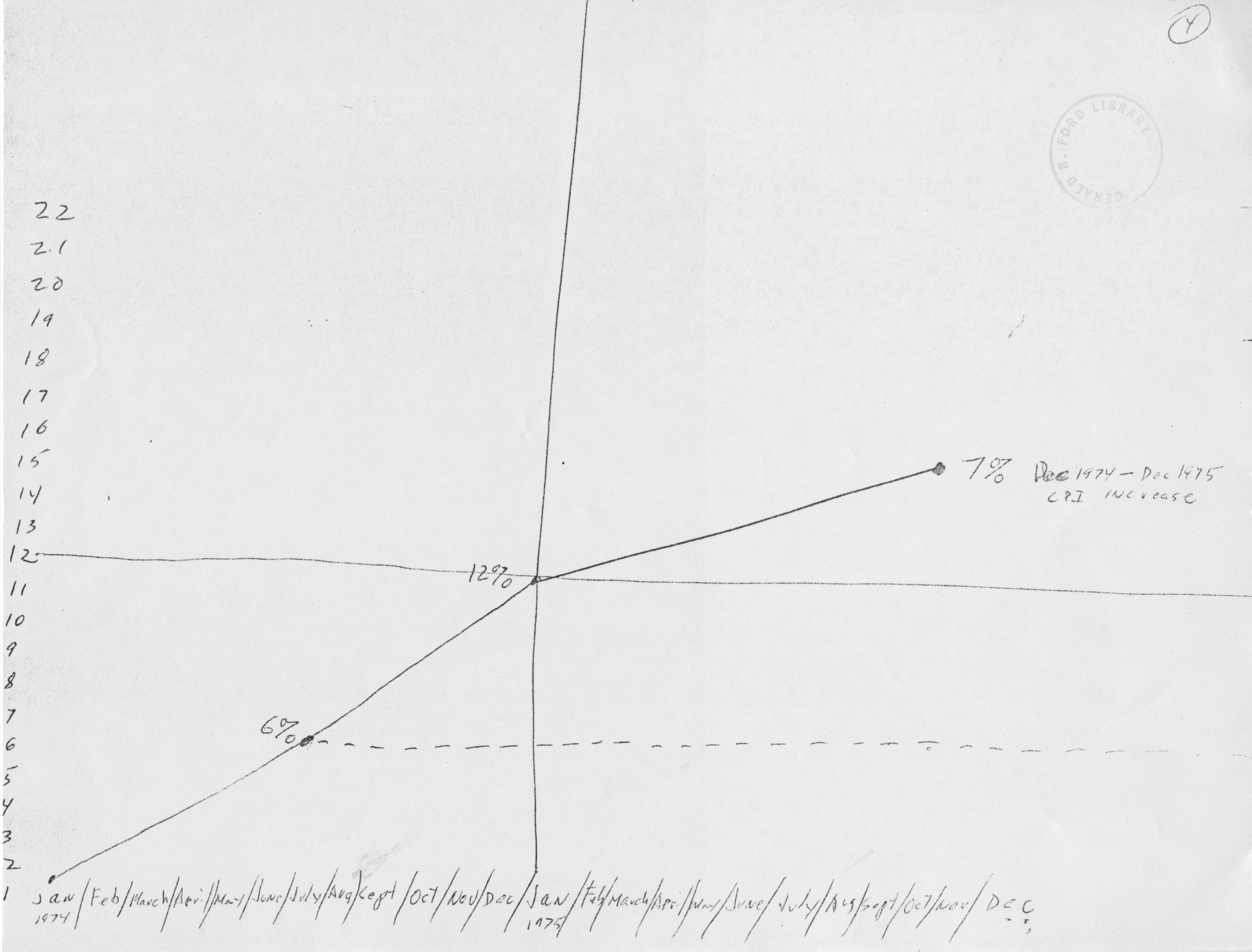
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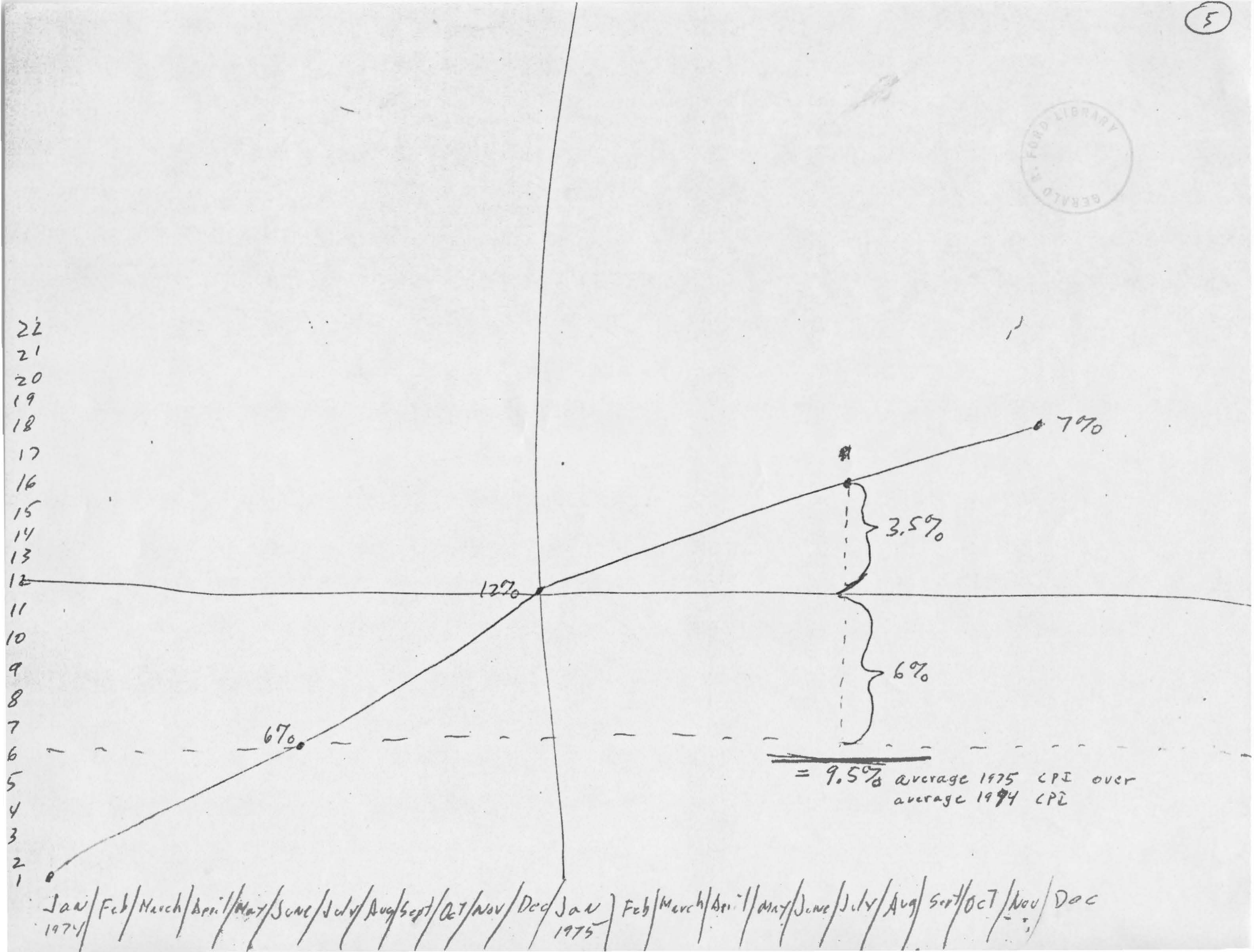
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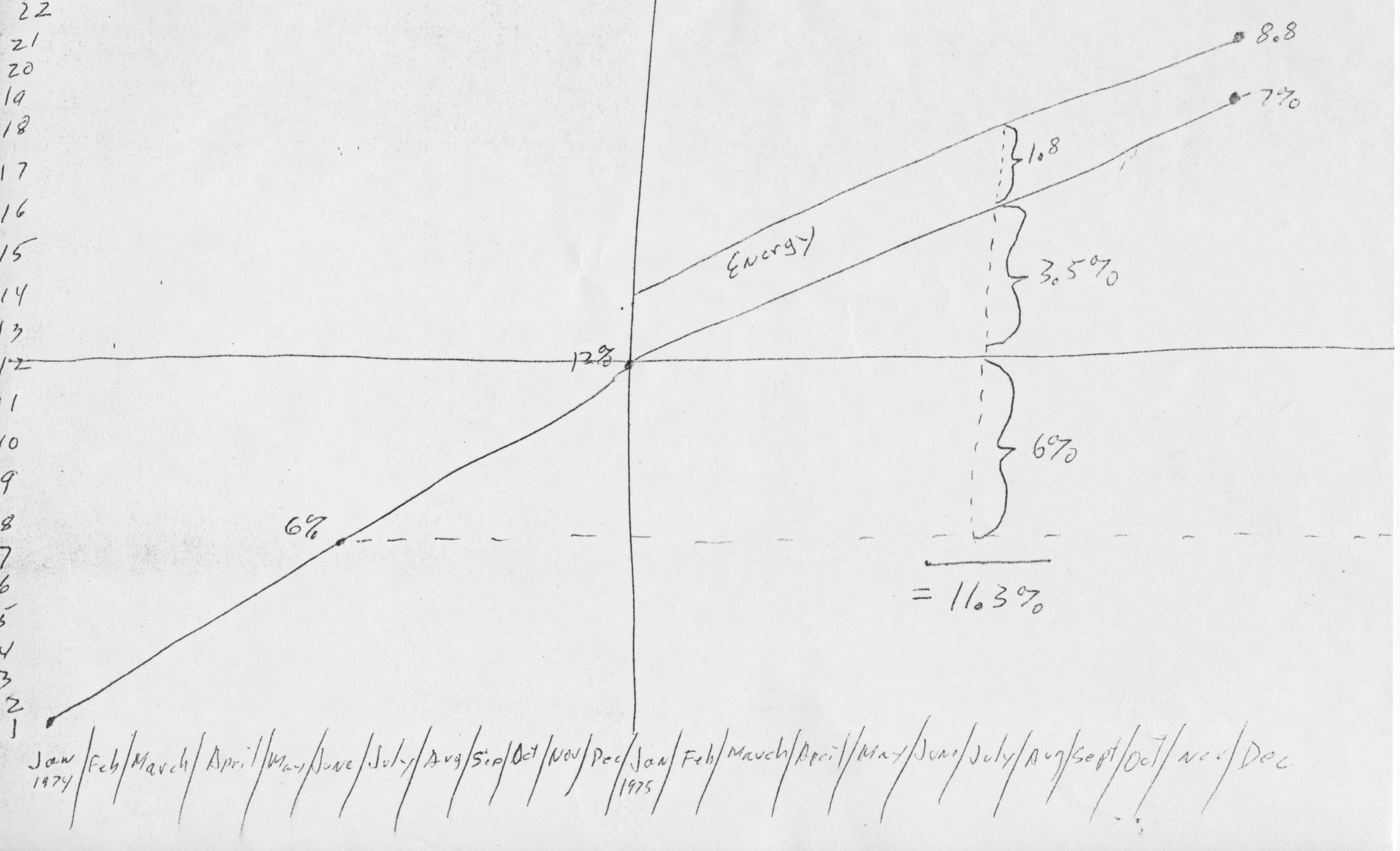
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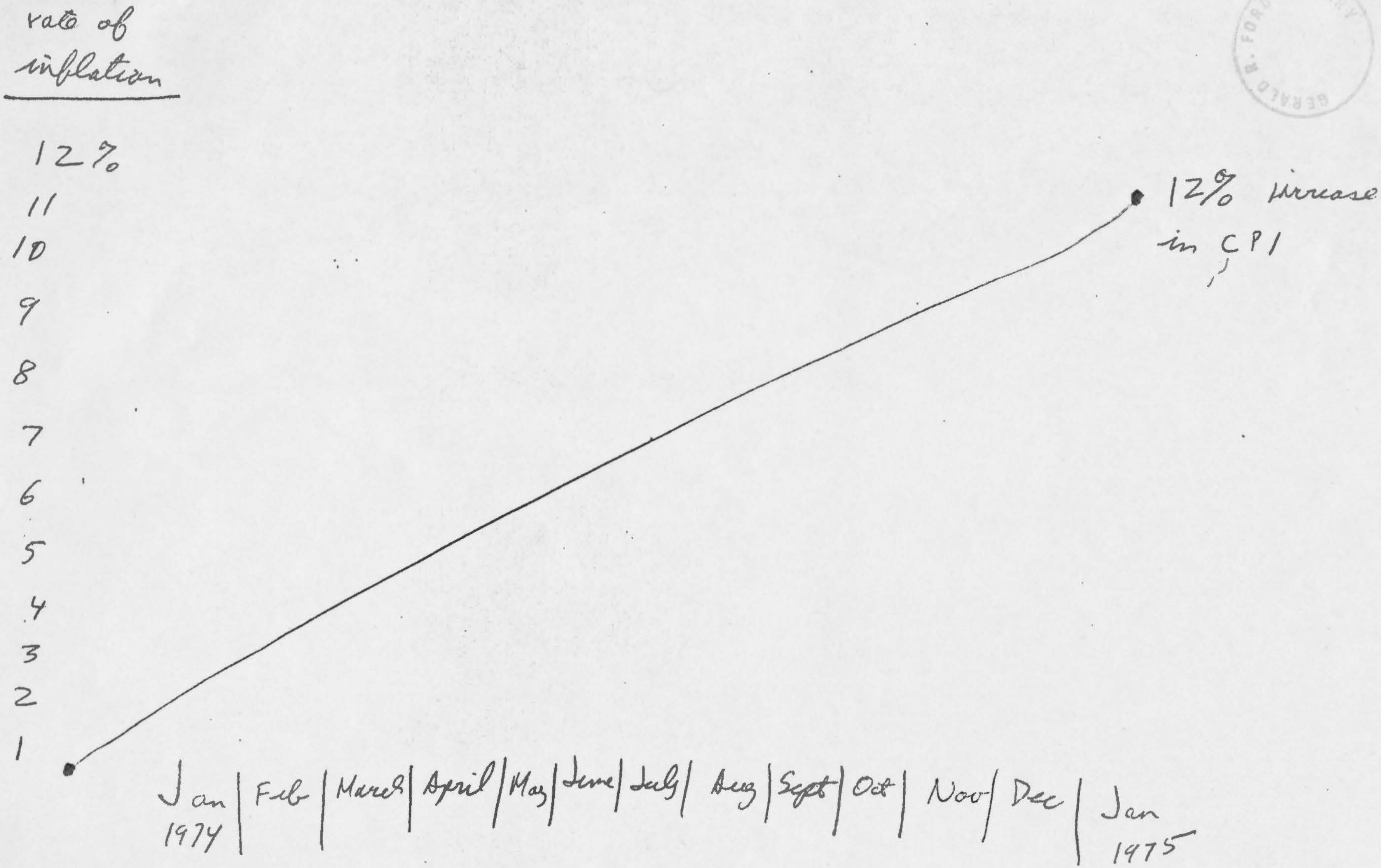
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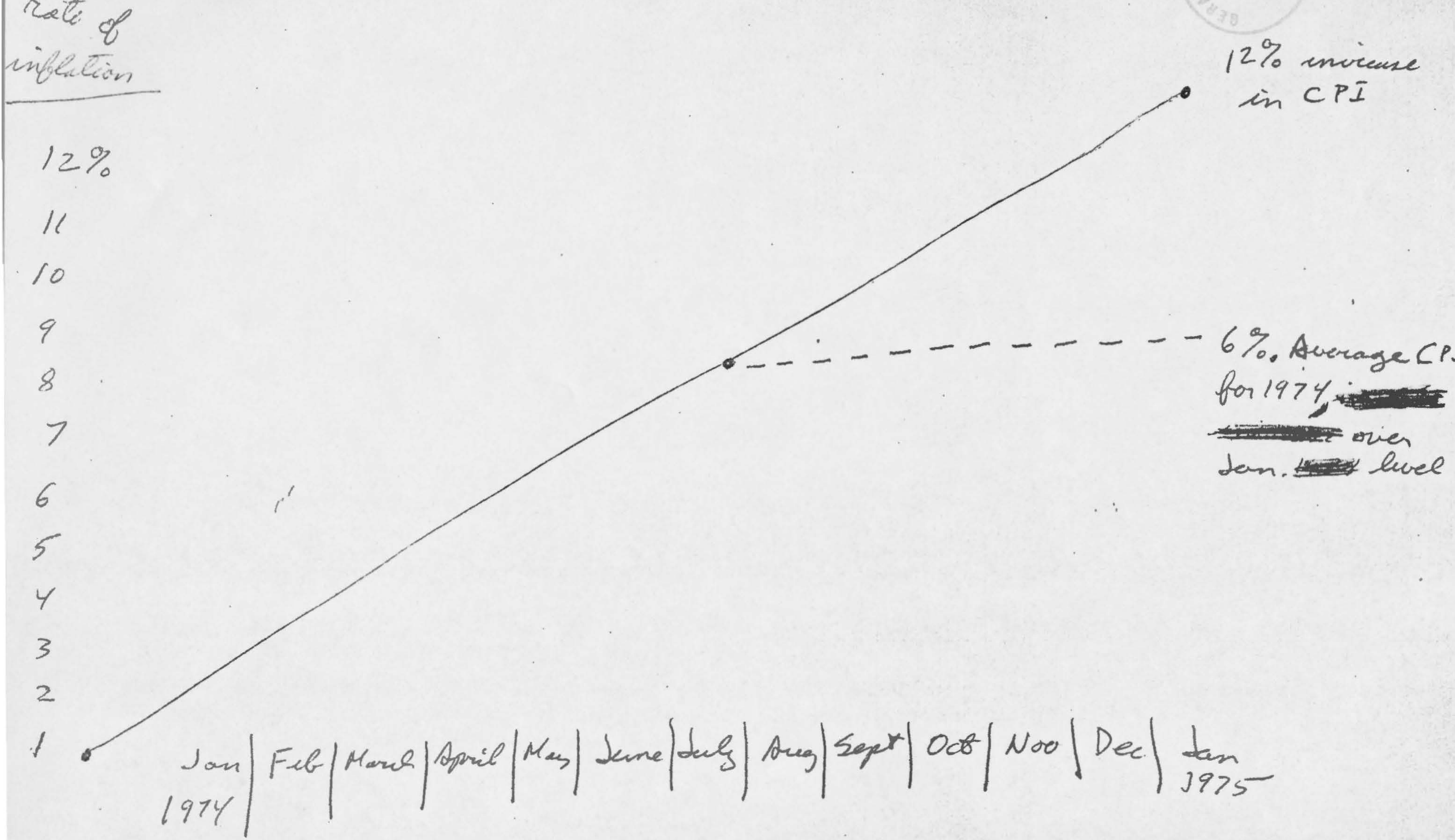
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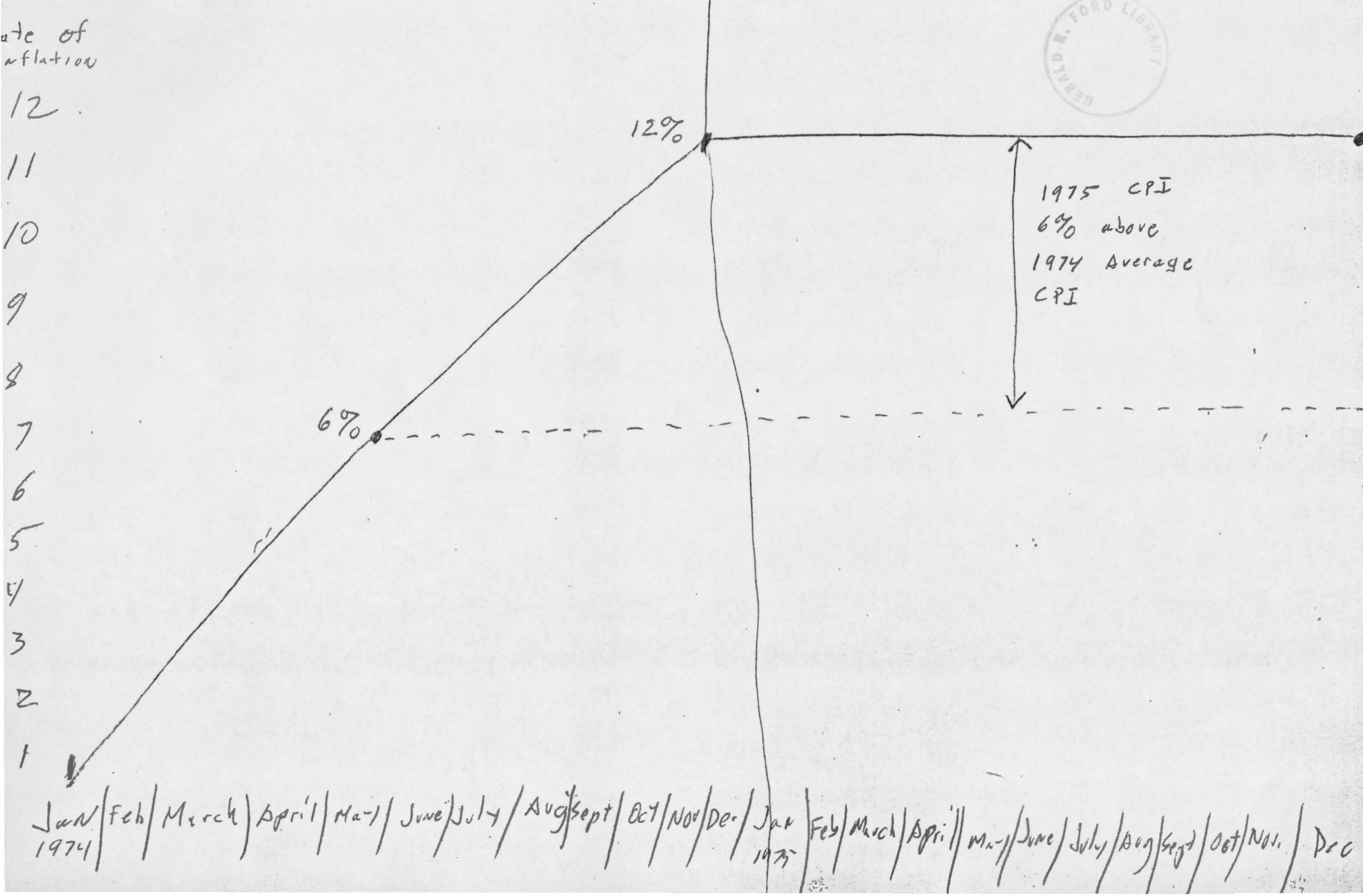
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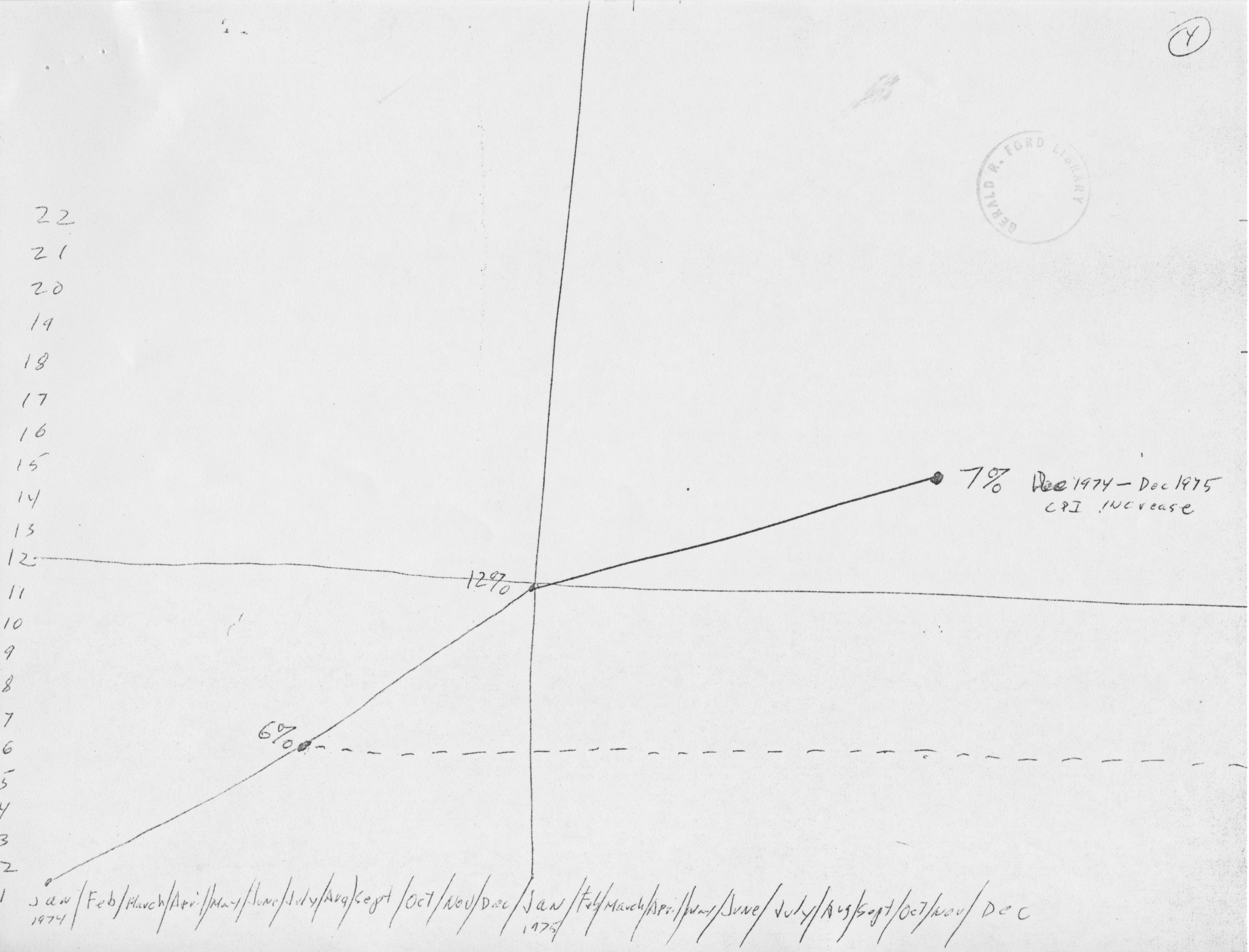
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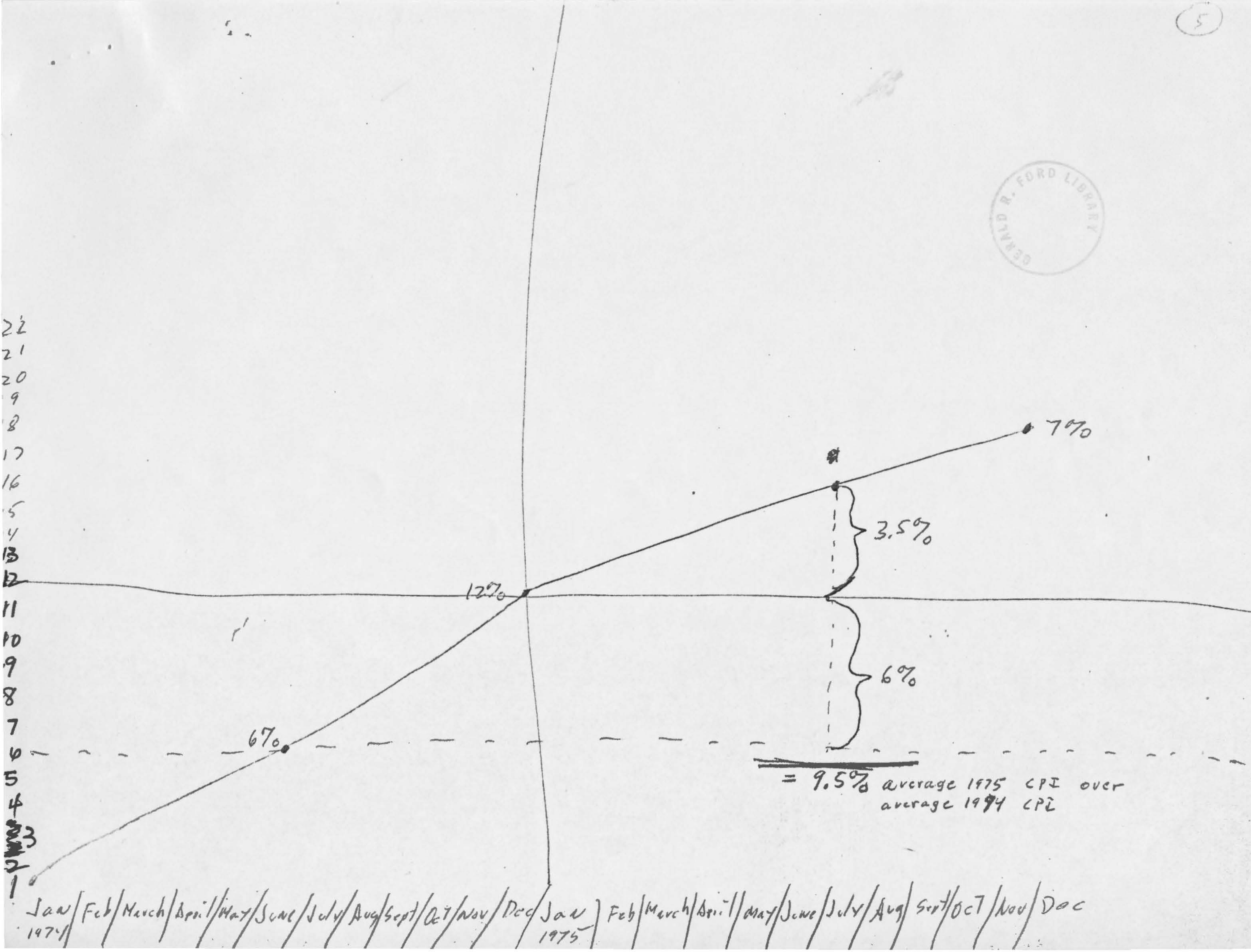

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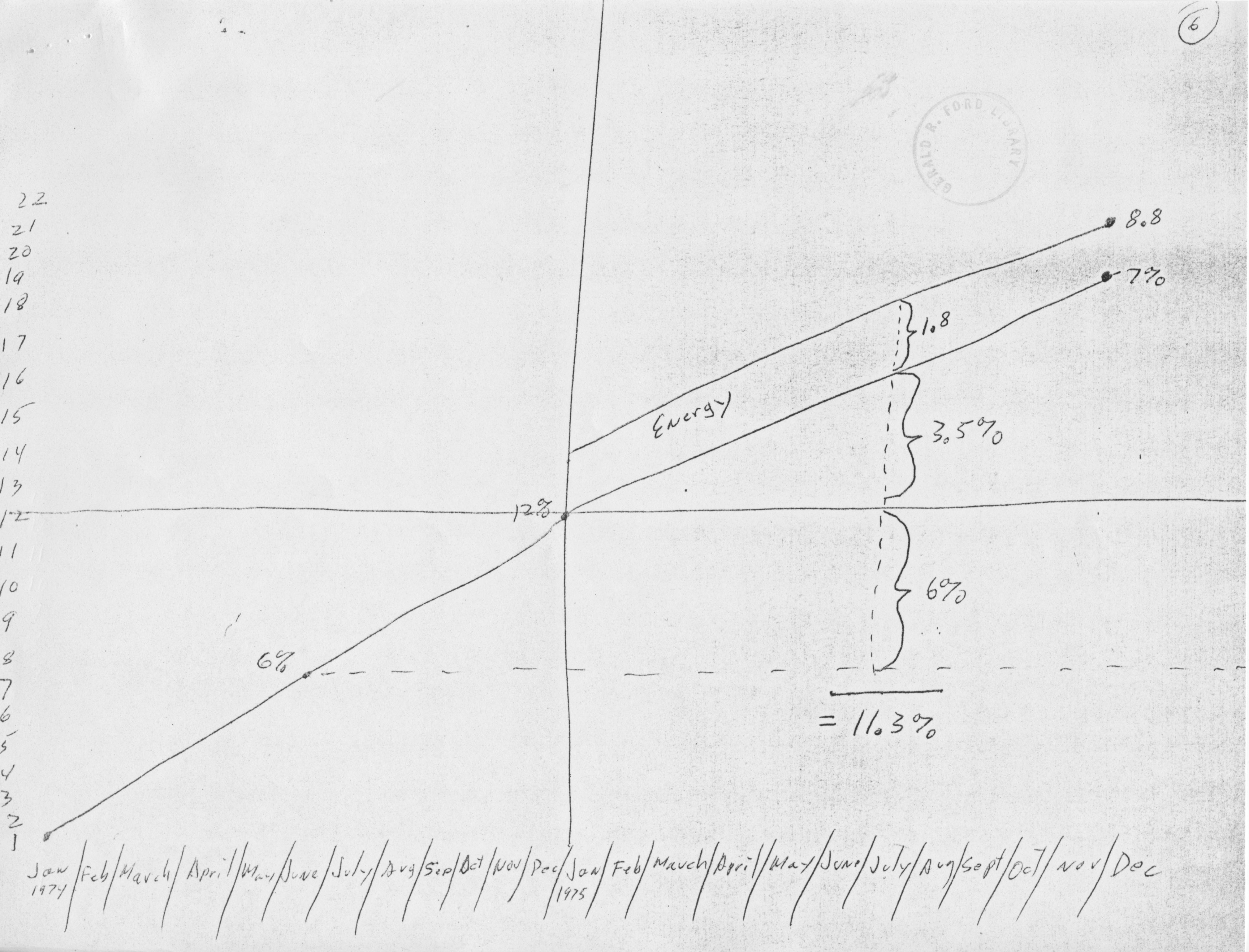
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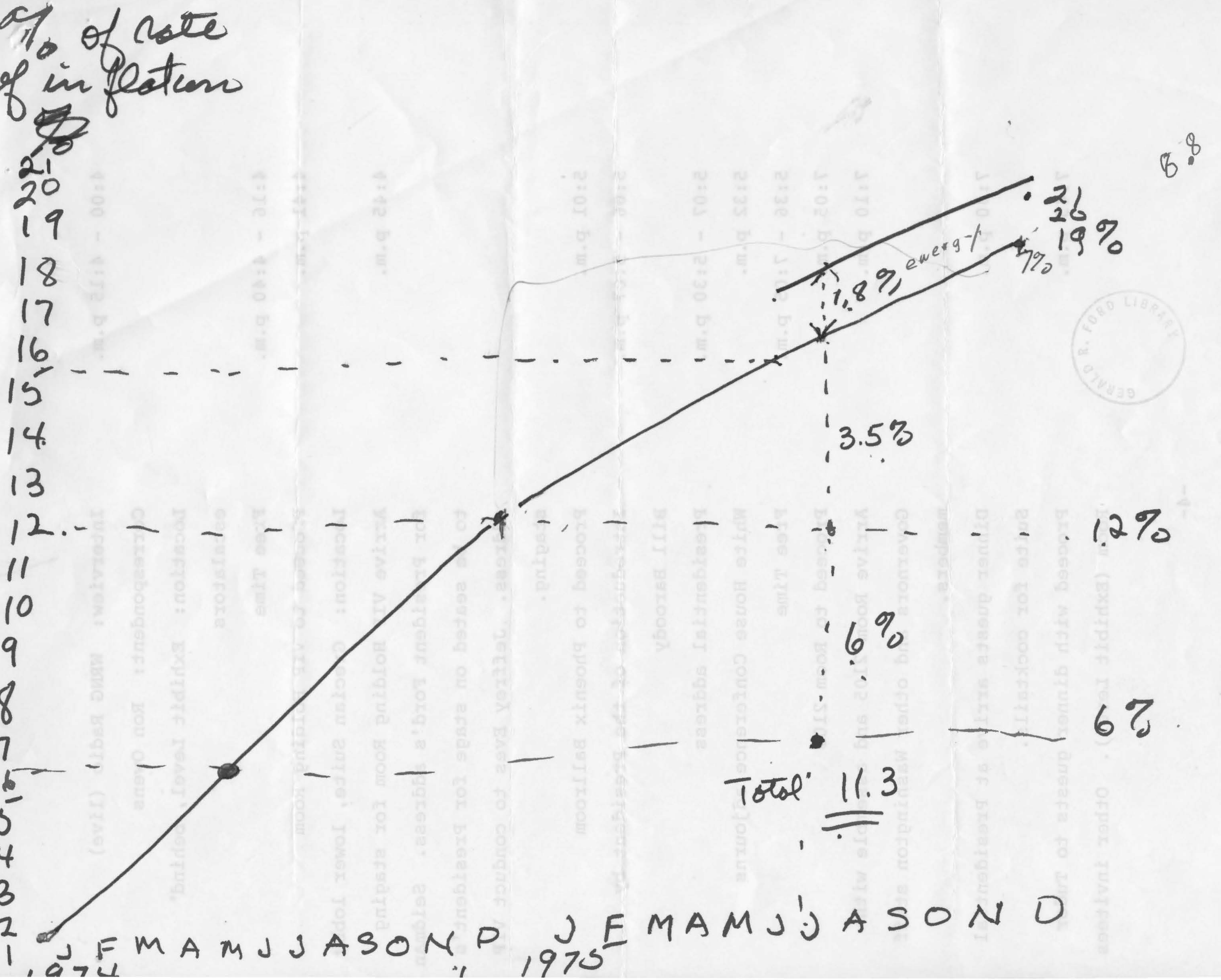
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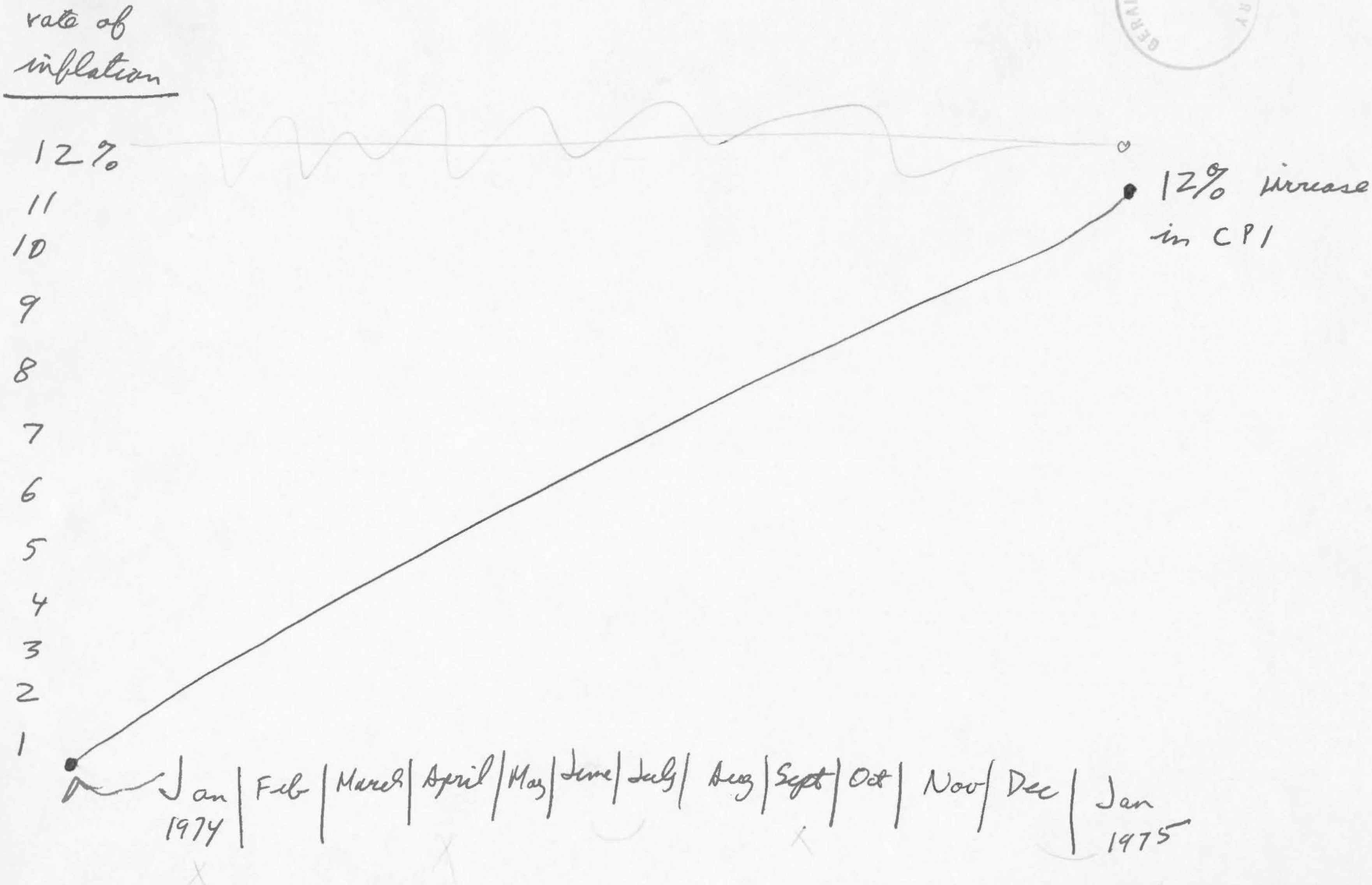

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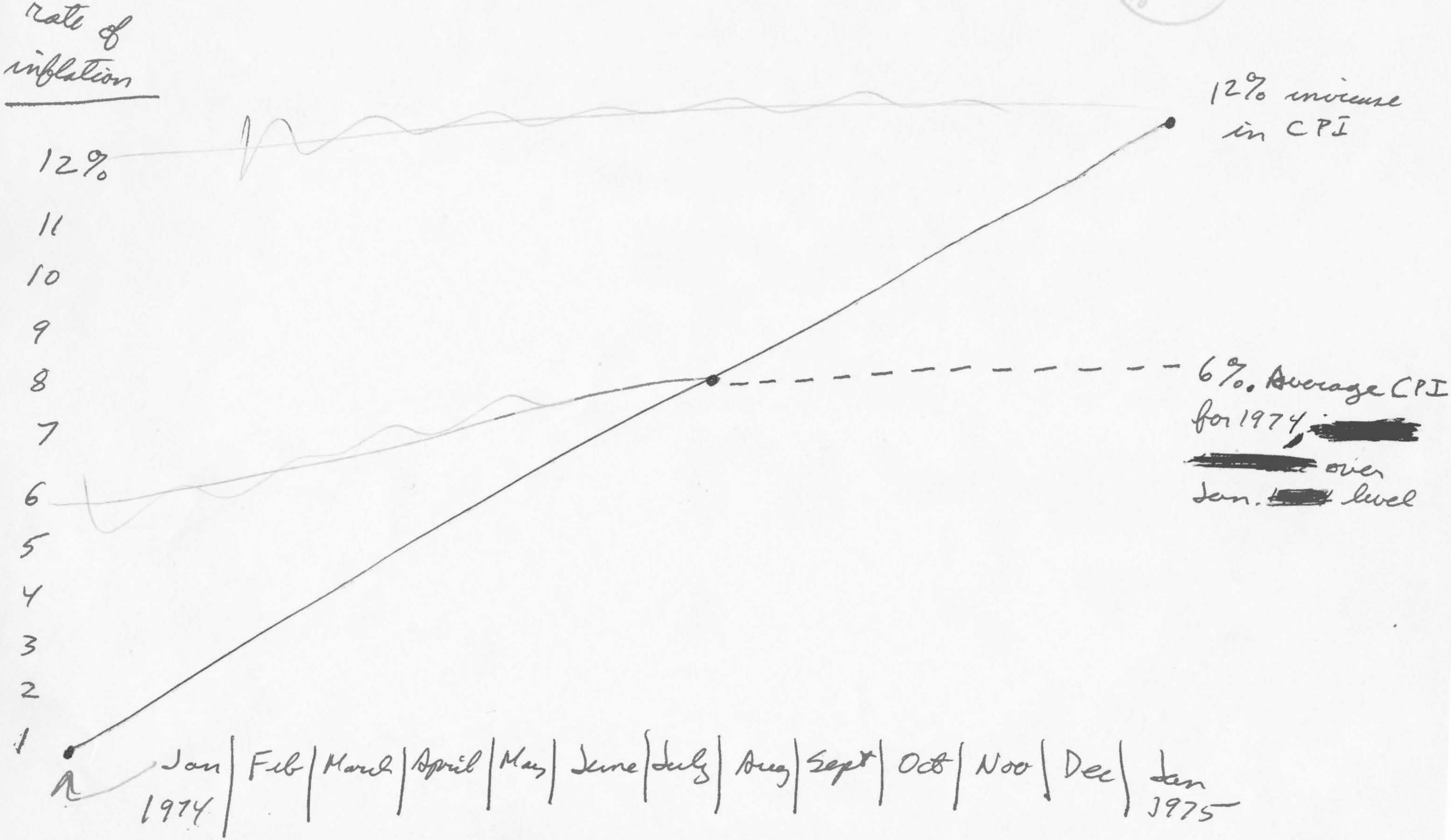
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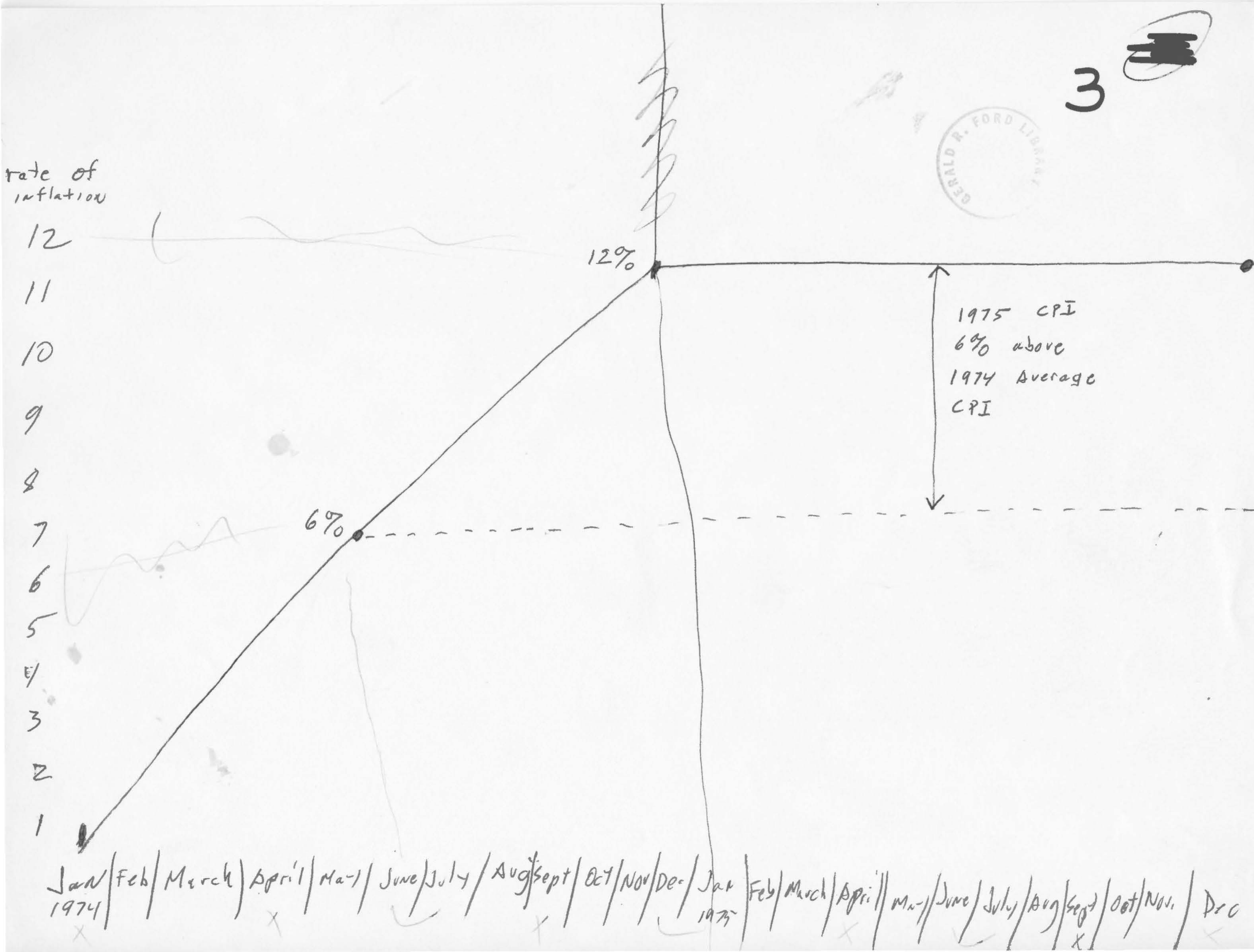
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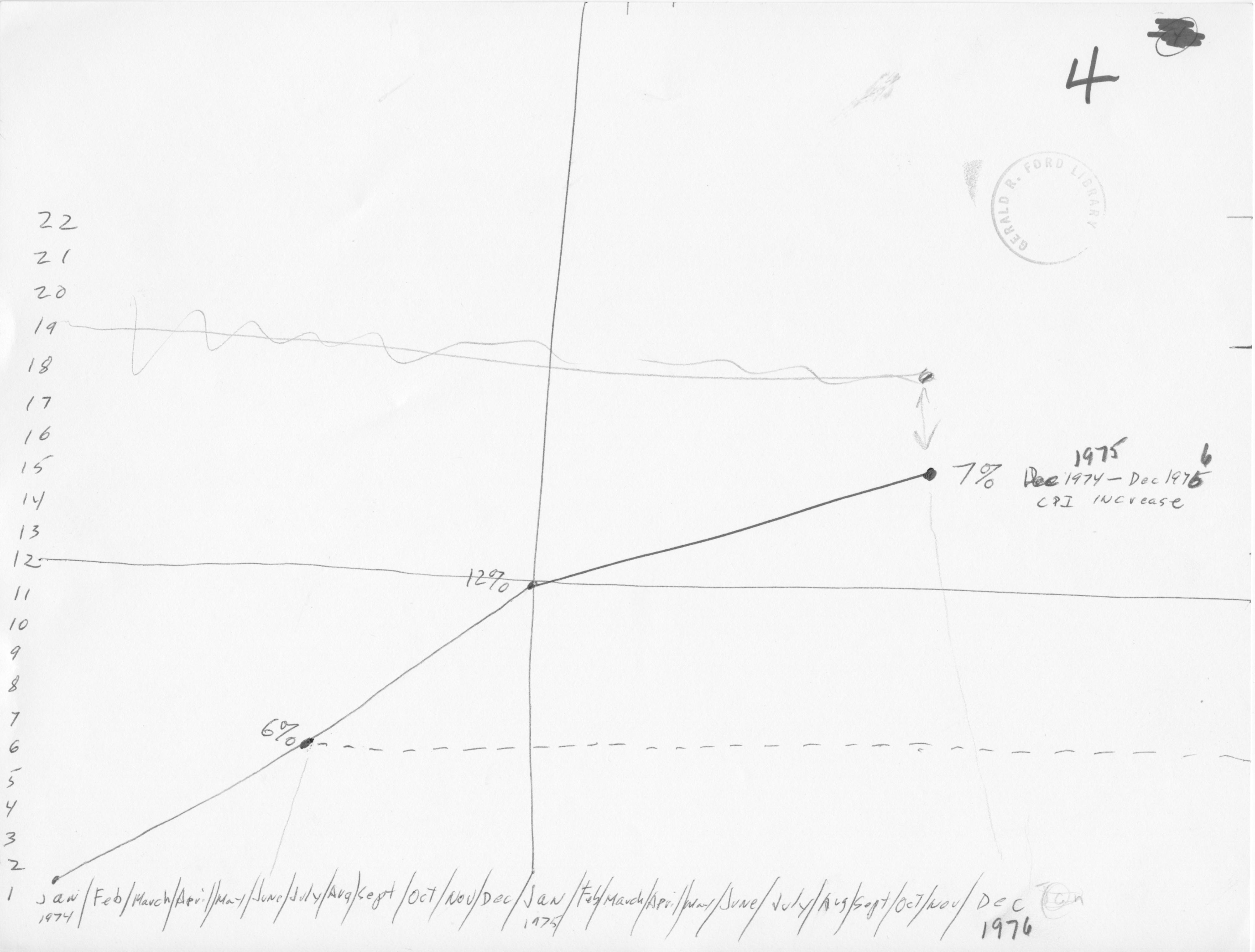
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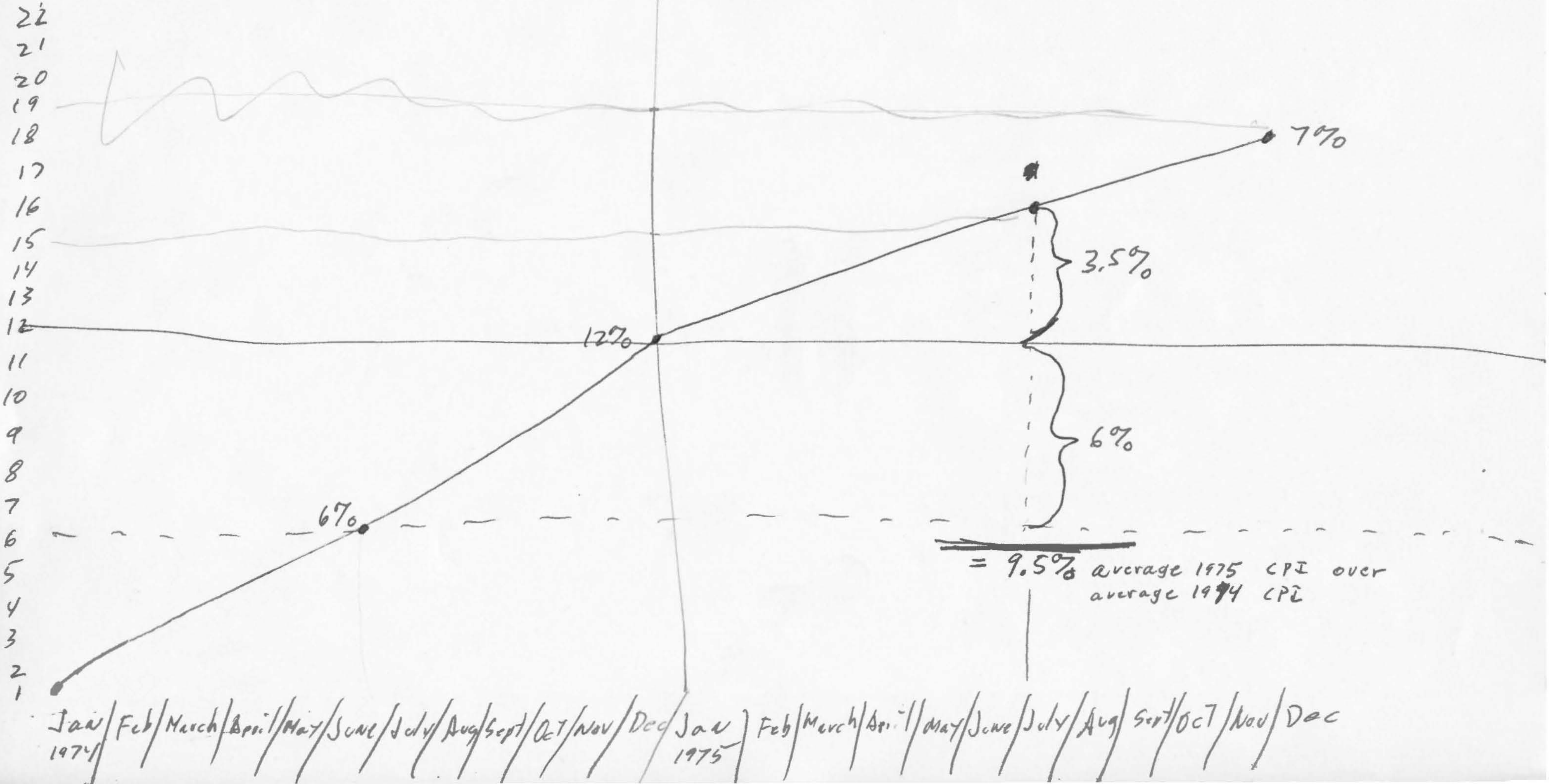
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GUIDANCE: GNP

The GNP rose at a rate of 4% in the third quarter, after a 4.2% increase in the second quarter, and a 9.2% increase in the first quarter. At the same time, the Commerce Department announced that the cost of living increase for the third quarter was 4.4%, down from 5.2% in the second quarter.

What is the President's reaction to the GNP increase, which is less than was expected?

The 4% growth rate for the third quarter is in line with earlier expectations; -- you may remember that the President predicted the other night the growth rate for the fourth quarter to be "about 4%." News conf.

This is essentially the same annual rate of growth as in the second quarter, and along with other major forecasters, we anticipate that the growth rate will accelerate in the current quarter.

Furthermore, the President was pleased that the inflation rate for the third quarter was only 4.4% (down from 5.2% in the second quarter), somewhat less than our expectation. (of 5%).

I. The data released today indicate that the pause is lasting longer than we had anticipated. However, adjusted for strike activity, payroll employment continues to edge higher. Total manhours continues to increase. We continue to expect increased homebuilding and capital goods to accelerate the recovery in 1977.

II. In response to any question on whether the President will recommend a tax cut in his budget message, refer to his $10 billion tax cut proposal; but indicate it is part of his long term proposal to ease tax burdens on middle income taxpayers and create incentives for capital (job creating) investment <u>not</u> in response to sluggish economic activity.

III. In response to any questions on forecasts, indicate Economic and Budget messages will have forecasts and you don't want to scoop the documents.

Star-News

Capital Special

CLOUDIER — Sunny followed by increasing cloudiness today. High today in 40s, low tonight in upper 30s. Details: B-4.

ON, D. C., WEDNESDAY, DECEMBER 11, 1974—116 PAGES Phone (202) 484-5000 CIRCULATION 484-3000 CLASSIFIED 484-6000 15 Cents On newsstand

WORD FROM THE WHITE HOUSE

Surtax a 'Dead Horse'

By Norman Kempster
Star-News Staff Writer

NEW YORK — President Ford has given up hope that Congress will pass his proposed 5 percent income surtax, according to White House spokesmen.

Press Secretary Ronald Nessen said Ford still believes the only responsible way to finance antirecession programs for the unemployed is to raise revenue through increased taxes on middle- and upper-income taxpayers.

"But realistically he does not think it has a chance," Nessen told a reporter during Ford's 10-hour trip to New York to attend a football awards dinner and meet with members of Vice President-designate Nelson Rockefeller's Commission on Critical Choices for America.

Ford's 90-minute brainstorming session with seven members of the Rockefeller commission was, some White House aides conceded, little more than a cover story to place the President in the Waldorf Astoria Hotel prior to the 17th annual dinner of the National Football Foundation.

Ford invited the bipartisan leadership of Congress to a meeting early today to assess the prospects for passage of key legislation.

Nessen said the President is particularly eager to see the House and Senate complete action on the trade reform bill before Congress adjourns.

NESSEN SAID that during the meeting with commission members Ford's new energy chief, Frank Zarb, endorsed a proposal by an official of a private research firm that management of the nation's troubled energy conservation program be turned over to a private contractor.

The meeting was not open to press coverage but Nessen, who took extensive notes, summarized the discussion for reporters.

Nessen said John Foster, vice president for energy research of TRW, Inc., suggested that the government hire a contractor to manage energy policy.

"This large industrial contractor would not make the decisions, it would only take the decisions of the government and carry them out," Nessen related. "He called it a midwife for bringing the energy program to life."

FOSTER'S FIRM, a Redondo Beach, Calif., organization, was the contractor that provided some of the management services for the space program.

After Foster completed his presentation, Nessen said, Zarb commented: "If we don't go down that road some distance, we won't get the job done."

Ford has shown little enthusiasm for the surtax in recent public statements, but Nessen's answers to reporters' questions marked the first concession that the plan will never become law.

Nessen said Ford has not yet decided if he will resubmit the plans as part of his 1975 legislative program. But if the plan is sent back to Congress, the spokesman indicated, it would be only to dramatize Ford's belief that the lawmakers should pass such a revenue bill even though he has no hope they will.

But there will be little effort to lobby for the plan, Nessen said.

See FORD, A-14

FORD

Continued From A-1

"HE DOESN'T want to beat a dead horse," the press secretary said.

Ford suggested the surtax on corporations and families earning $15,000 a year or more as part of his economic package Oct. 8. At that time, he said it would raise about $5 billion to pay the cost of a public-service jobs program and increases in unemployment compensation to cushion the impact of the recession.

But since Oct. 8, the economy has sagged more than the administration anticipated, causing the administration to conclude that a more costly jobs program may be necessary.

Ford said at his press conference Dec. 2 that it would be "irresponsible" for Congress to pass the jobs bill without the revenue to pay for it. But opponents of the tax say it would be an additional drag on the already sluggish economy.

ALTHOUGH the White House tried to stress Ford's meeting with the members of the ockefeller commission, there was little doubt that the chief purpose of Ford's trip to New York was to permit him to attend the football banquet for the third straight year. About 1,500 people were in the audience.

The President presnted the National Football Foundation's Distinguished American Award to comedian Bob Hope. Ford, whose speeches are often marked by muffed jokes, traded quips with Hope.

"There are many similarities between football and government," Ford said. "In both areas nothing is ever done without discussing it first. Sometimes the talk goes on for hours on end. In Washington it's called a filibuster. In football it is called Howard Cosell."

"It's always exciting to watch the Redskins play because you are never sure which they will reach first, the playoffs or Social Security," Ford said at another point.

After receiving the award, Hope said in mock anger: "Awfully funny — I hate a funny President, don't you."

THE COMEDIAN tossed off some one-liners about Ford's Vladivostok summit with Soviet Communist party chief Leonid I. Brezhnev including: "Ford and Brezhnev got along like buddies — they had something in common — neither of them was elected."

The subject for Ford's meeting with the members of the Rockefeller commission was the energy crisis. Ford is still searching for a unified policy to prevent oil shortages and to cope with the high cost of the fuel.

At his briefing following the meeting, Nessen was asked why Ford did not summong the commissioners to Washington for a White House meeting instead of flying to New York in his Air Force One.

"I think he thought he could combine this with the dinner that he is going to later," Nessen responded.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

DEC 13 1974

MEMORANDUM FOR RON NESSEN AND JOHN CARLSON

Subject: Follow up on Questions Concerning the Presidential Letter to State/local Officials Re: Fighting Inflation

The following information may be used in responding to questions regarding the attached Presidential letter sent to officials of State and local government.

What is the purpose of sending a letter to State/local officials?

GUIDANCE:

The Administration has launched a major initiative to achieve significant reforms in our system of regulation. Recognizing that many regulations which directly affect prices paid by the American consumer are issued by State and local regulatory agencies, the President has called for a cooperative effort of all levels of government to examine and modify or eliminate those practices whose costs appear to be greater than the public benefit they provide.

Also, because combined State/local expenditures are nearly 15 percent of GNP, he has requested these public officials to periodically review their fiscal policies to assure they are in keeping with changing economic conditions.

Finally, the letter forwards a copy of the Executive order directing the preparation of inflation impact statements for new legislative proposals, rules, and regulations. The letter suggests the adoption of a similar procedure at the State/local level.

To whom was the letter sent?

GUIDANCE:

All State Governors, 150 Mayors in our largest cities, and Speakers of the House, and Presidents of the Senate of all State legislatures.

Will there be further communications or is this it?

GUIDANCE:

In this letter, the President suggested several specific types of regulations that might be reviewed by State/local groups, e.g., building code restrictions, occupational licensing laws, etc. He also requested any thoughts or suggestions these officials might have so that new and different approaches to this problem might be shared with interested officials at all levels of government. Depending upon the response to this request and further developments in Federal reform efforts, follow-up correspondence may be sent.

Has there been much interest in regulatory reform at the State/local level thus far?

GUIDANCE:

Yes. Shortly after the President originally announced the regulatory reform initiative in his October 8 economic speech, a telegram was sent to many of these same people encouraging them to initiate similar efforts. The Citizens' Action Committee also urged State/local officials to reduce restrictive practices. Since that time, there has been considerable interest in obtaining additional information regarding what State/local governments could do to help fight inflation. The purpose of this letter is to provide such suggestions.

Walter D. Scott
Associate Director for
Economics and Government

Attachment

THE WHITE HOUSE

WASHINGTON

December 4, 1974

Dear Governor Wallace:

I am writing to enlist your aid in the Nation's current efforts to fight inflation. During the Economic Summit, I met with representatives from all levels of State and local government and they clearly expressed your interest and concern in taking positive steps to check inflation.

As you are aware, the role of State and local governments in our national economy has been growing. Today, they spend a combined total of over $200 billion, representing almost 15 percent of the GNP. They employ 11.5 million persons. Because this sector plays such a key role, it is essential that we work closely together to slow the growth of outlays which fuel inflationary trends.

There is much to be done. The development of national fiscal policy is not the job of the Federal Government alone. We must together move towards a policy that takes full advantage of the contribution that can be made by State and local government to help reduce prices and increase production. Currently, new State and local borrowing often adds to our capital shortage problems. Tax policies may contribute directly to consumer price increases. Therefore, we must continue to insist that priority attention be given nationwide to fiscal and economic responsibility. I urge you to periodically review your fiscal policies to assure that they continue to be in keeping with changing economic conditions.

Additionally, there is much to be done in modifying or removing regulations that stand in the way of effective competition in business and industry. I have announced several steps to be taken at the Federal level to examine systematically the regulatory practices of the Federal Government and identify and eliminate those activities which promote inflation. For example, enclosed is a copy of a new Executive Order directing the preparation of inflation impact statements for all major legislative proposals, rules, and regulations proposed by Federal Agencies. Such action will help to assure that the inflationary effects of government actions from now on are fully analyzed before they are put into effect. I have also asked the Congress to create a National Commission on Regulatory Reform to review the policies, practices, and procedures of the Federal independent regulatory commissions to determine what can and should be done to assure that these agencies and their rules are today fulfilling the purposes for which they were established. Regulatory practices of other Federal Agencies whose costs to the public appear to outweigh their benefits will also undergo a thorough review. Those which are found to have an adverse or inflationary effect greater than their other benefits will be modified or eliminated through appropriate legislative or administrative action.

I urge you to initiate and support similar efforts toward eliminating wasteful regulatory practices in your jurisdiction. For example, building code restrictions, occupational licensing laws, and price-fixing arrangements such as real estate settlement fees are representative of the type of restrictive practices that should be reexamined to ascertain their current value to the public welfare. I look forward to receiving any innovative thoughts or suggestions you may have along these lines, and I will see that your ideas are shared with interested officials at all levels of government. Together, we must assure that government actions serve the public interest without adding to our inflation problem.

There is much that can be done -- and none of it is easy. I urge you to take an active role in ensuring that the policies and practices of your government contribute to this battle. Working together, I am certain we can bring an end to inflation and set the economy on the road to stable growth and prosperity.

Sincerely,

Gerald R. Ford

The Honorable George C. Wallace
Governor of Alabama
Montgomery, Alabama 36104

Joy - Do want this for your file? It doesn't fit @ min. C.9

Econ File

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

January 7, 1975

MEMORANDUM FOR RONALD NESSEN

Through: Gerald Warren
Robert Kelly

From: Morris Feibusch

Subject: Jawboning

Attached is a Memorandum of Understanding sent by Albert Rees to the Executive Committee of the Economic Policy Board regarding jawboning. It is of special interest because of the desire to withhold public comment on the part of the White House on the merits of an announced price increase pending some investigation of the justification for it.

As was the case following the initial announcements in the steel action, we would work closely with your staff in preparing appropriate comments for the daily briefing.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

January 3, 1975

MEMORANDUM FOR: EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

FROM: ALBERT REES Albert Rees

SUBJECT: JAWBONING

It is my understanding from the discussions with the Executive Committee this morning that the procedures used in dealing with U.S. Steel, Bethlehem Steel, and Colorado Fuel & Iron were generally considered appropriate and should be followed again in cases where the circumstances warrant them. This class of cases has never been precisely defined. The two desirable changes from the procedures followed in the steel case are:

1. CWPS, in requesting justification for price or wage changes, should give more specific guidance as to the kind of information being requested.

2. When the President or his Press Secretary is questioned about a particular price or wage increase, it is appropriate to respond that CWPS is looking into it, if that is the case, or that the President is directing CWPS to look into it. It is desirable that the President not express a view on the merits of the increase until some data about it have been received and examined.

There was discussion of whether it would be desirable for CWPS to have prenotification of certain types of price or wage increases, and it was decided that the costs of such a procedure outweigh the benefits. It was recognized that not having prenotification may at times involve CWPS in making decisions or recommendations very quickly, and that this quick action could result in errors of judgment.

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: January 30, 1975 Time:

FOR ACTION: Alan Greenspan
Bill Seidman for EPB
Jack Marsh
Ron Nessen

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Friday, January 31, 1975 Time: 3:00 p.m.

SUBJECT:

Attached WIN Mailing

ACTION REQUESTED:

___ For Necessary Action X For Your Recommendations

___ Prepare Agenda and Brief ___ Draft Reply

X For Your Comments ___ Draft Remarks

REMARKS:

The attached letter has been coordinated with Robert T. Hartmann.

I'm strongly against this letter. For the President to be urging efforts now against inflation, when the recession gets ~~[illegible]~~ worse every day is a way for him to look out of touch. RHN

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry H. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

January 22, 1975

MEMORANDUM FOR: JERRY JONES

FROM: BILL BAROODY, JR.

Attached is a letter for Presidential signature. This letter is urgently needed by the WIN Committee in their mailings. After signature, they have requested ~~25,000~~ copies of the letter be reproduced for their use.

If there is any problem in meeting this request, I would appreciate it if you would call me as soon as possible.

Thank you.

THE WHITE HOUSE

WASHINGTON

Dear Fellow American:

As you know, I have recommended to the Congress comprehensive programs to regenerate the economy and, also, make our country once again independent with respect to energy.

But government alone cannot do the job.

Last year you pledged yourself to conserve energy and fight inflation. Now, your voluntary efforts are even more important. I know I can count on you to continue.

P.S. The enclosed WIN Buttons are provided through the courtesy of the Citizens Action Committee, Inc., a non-partisan organization dedicated to voluntary local programs to combat inflation and conserve energy. If a local Committee has been formed in your area, I hope you will join their effort.

COPY OF LETTER

February 1, 1975

Dear Mr. Chairman:

Thank you for your January 29 letter to the President in which you were joined by 13 other members of the Joint House-Senate Economic Committee in commenting on the President's energy program. You also urge that he defer imposing further increases in import fees on petroleum products and that a task force be created to develop an energy policy that would be mutually agreeable to the Administration and the Congress.

I shall call your letter to the President's early attention, and also will share a copy with his advisers who have the substantive responsibility in this area.

With kind regards,

Sincerely,

William T. Kendall
Deputy Assistant
to the President

The Honorable Hubert L. Humphrey
United States Senate
Washington, D.C. 20510

1-37

Congress of the United States

JOINT ECONOMIC COMMITTEE

(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)

WASHINGTON, D.C. 20510

January 29, 1975

The President
The White House
Washington, D. C.

Dear Mr. President:

The undersigned members of the Joint House-Senate Economic Committee commend your attempt to cope with the current problems of energy and the economy in a comprehensive fashion. We agree that our economy cannot attain, much less maintain, steady and healthy growth in the absence of a just and effective national energy program. It is equally clear that a reduction in the level of oil imports is essential in meeting this goal. In short, we share your long-term goals and we support many of your energy proposals designed to accomplish these ends.

But we are writing to express our grave concern that the growing confrontation in Congress over your specific energy proposals will prevent the prompt and cooperative action on a tax reduction and energy program that is vital to achieving renewed economic growth.

Our first priority must be putting America's capital and human resources back to work. Congressional leaders of both parties recognize this fact and they are committed to passing a mutually acceptable tax relief bill.

We regret that similar agreement does not exist in regard to your energy proposals. There is agreement that your energy proposals will be inflationary, but little agreement as to how inflationary. Your own advisors have estimated two percent and others have suggested four percent. The Congress is naturally reluctant to enter on such a course until alternative proposals have been fully explored.

There is disagreement about the impact of your energy proposals on the standard of living of American consumers. Specifically, there are questions as to whether proposed tax reductions will balance off the average increases in energy costs which consumers will be obliged to pay. Estimates of the net outflow of funds from the economy due to higher energy costs vary from $3 billion to $25 billion. There are also differences of view on the reductions in energy consumption that will result from higher prices, the effectiveness of an excess profits tax in stimulating new domestic oil production and the amount of reduction in imports which is immediately necessary.

In light of these questions, Congress is seeking additional time to address your energy proposals in an informed and responsible way. Since our energy problems cannot be solved immediately in any event, we would propose that you defer imposing further increases in import fees on petroleum products. We would urge that the next 60 days be used to bring together a task force on energy policy made up of representatives in that field from your Administration and a bi-partisan group of Members of the House and Senate selected by the majority and minority leadership of both bodies. It would be charged with developing a mutually agreeable energy policy upon which prompt congressional action might be taken.

If you see merit in this course of action, Congress might move more swiftly to passage of critical tax legislation while continuing a responsible evaluation of your far-reaching energy proposals. It would be our hope that our proposal would result in the most prompt and effective agreement possible on both tax and energy proposals and obtain the maximum support from the American people.

Sincerely,

Lloyd Bentsen
Hubert H. Humphrey, Chairman

Clarence J. Brown
William Proxmire

Richard Bolling
Jacob K. Javits

William S. Moorhead
Edward M. Kennedy

Gillis W. Long

Margaret M. Heckler

Lee Hamilton

Abraham Ribicoff

Henry S. Reuss

John Sparkman

REDISCOVERING FISCAL RESPONSIBILITY

L. WILLIAM SEIDMAN

Detroit Economic Club
December 15, 1975

1975 is drawing to a close and, as we look back I believe we would all agree, "it's been a rugged year." In fact, it is probably well that we don't have perfect foresight. We would have seen:

- A recession worse than any since the 1930's.
- A U.S. withdrawal in Viet Nam.
- Criminal convictions of many of our national leaders.
- Energy dependence in OPEC increasing.
- New York City perilously approaching bankruptcy.

If we had been able to "crystal ball" the future we might have allowed the magnitude of the problems we faced to overwhelm us. In fact, personally I might have thought it was much wiser to continue residence in good ole Grand Rapids rather than making the journey to Washington.

Yet we have survived this difficult series of events--a sequence that only a few years ago would have seemed impossible.

Rarely have we faced such a complicated and difficult set of problems. But I have renewed hope and optimism about America's future. We have stood the test without the loss of our institutions or our good sense. In a short time we have made much progress:

- in repairing credibility in our basic institutions
- in recovering from the worst recession in 40 years
- in bringing inflation down below double digit levels
- and most importantly in restoring faith in ourselves and our future.

We are a long way from where we want to be, yet in my view, we are moving again in the right direction. Nowhere is this clearer than in the growing chorus on <u>both</u> sides of the aisle and all parts of America for fiscal responsibility. Even many of the big spenders are articulating the need for fiscal prudence. Still, the battle of the budget is not yet won.

This encouraging development results in part from what I call the "moral of the Big Apple," the New York City story. Let me briefly review some highlight in the New York City saga. For several years, New York City's revenues rose at an annual rate of 6-7 percent while its expenditures rose in excess of 12 percent a year. Finally, about a year ago, the creditors blew the whistle -- no more loans. For many months, New York's leaders seemingly refused to accept that the end of their "debt addiction" era was at hand. Their withdrawal symptoms were predictable -- borrow some more from the Federal Government to cover the deficits.

Six months ago, representatives of New York met with federal officials and insisted that they had exhausted their own resources. What was needed, they said, was a massive and immediate infusion of money (or guarantees) from Washington. The only realistic option, they claimed was for the Federal Government to rush to the rescue with a huge assistance program -- a program what would inevitably have continued for years. We did not agree.

In September, the New York State Legislature approved a plan that would enable the city to meet its financial obligations through early December. For the first time, city pension funds were tapped. Cuts in municipal expenses were begun. But this was a temporary bandaid remedy, and everyone knew it. The plan committed the State of New York to help the City, but the plan was clearly short-term. At the end of three months, it was probable that both the State and the City would need to be bailed out. Could the Federal Government resist such an urgent plea from a "debt addict."

Predictably a crisis materialized and I received a call at 1 a.m. requesting that I advice the President that unless Federal help was forthcoming New York City would default the next day. No Federal help was offered but New York City rescued itself for the moment with a loan from the City pension funds. New York officials began to believe what the President had been saying--there would be no Federal bailout.

On October 29, in an address before the National Press Club, the President said that he would veto any bill which had as its central purpose a Federal bailout in order to prevent a default. By bailout he meant assumption by the Federal Government through guarantees or otherwise of New York City's past indebtedness of about $4 billion and help to finance current deficits. Losses by investors, banks, and others would not be made whole by the Federal Government. The American taxpayer would not be asked to underwrite the past profligacy of New York City.

The President said that the responsibility of the Federal Government was twofold:

First, in the event New York was unable or unwilling to meet its own obligations, the Federal Glvernment should ensure that the process of default was as orderly as possible, requiring a change in the federal bankruptcy laws.

Secondly, the Federal Government would assure that services essential for the protection of life and property were maintained.

After the leadership in New York heard this, and believed it, we began to witness a revival of the "can do" spirit of New York that is the pride of the Empire State. The political leaders of New York faced up to hard realities. Businessman, such as Felix Rohatyn, were in the forefront of the effort. Together they began a concerted, all-out effort to put the finances of the City on a sound basis.

The program put together by the bankers, businessmen and public officials of New York is impressive:

1. More than $200 million in new taxes have been voted.
2. Additional personnel reductions of 40,000 beyond the layoffs of 22,000 city employees already made were mandated.
3. A partial wage freeze and deferral was imposed.
4. The city reduced its subsidy to the City University by $32 million. The trustees were told to make up the difference by charging tuition.
5. The transit fare was increased from 35¢ to 50¢.
6. Municipal employees will be required to contribute $107 million per year to pension systems. The City has been directed to stop the practice of using, for budgetary purposes, income of pension systems in excess of four percent per annum. Designated business leaders have been asked to report on the actuarial soundness of such systems.

Abuses of the pension system through improper use of overtime in computing pension levels were terminated.

7. Extensive management changes including a new Deputy Mayor for Finance and a new Chief of Planning were instituted.
8. The Emergency Financial Control Board developed a three-year plan to produce a modest surplus in the city's expense budget by fiscal year 1977-78.
9. Payments to the city's note-holders will be postponed and interest payments reduced through passage of legislation by New York State.
10. Banks and the large institutions agreed to postpone collection on their loans and to accept lower interest rates.
11. The city pension system will provide up to $2.5 billion in additional loans to the city.

All of these steps, totalling $4 billion in refinancing and spending cuts are part of an effort to address New York's financing needs and to bring the city's budget into balance.

The distance between what was said to be impossible and what is actually being done today is the best measure of how far New York has come toward accepting primary responsibility for their financial crisis.

This plan was not a Federal bail-out. The Federal Government will not assume any past debts or current deficits. The city and state found the way to bail themselves out. It was not easy or pleasant, but it was possible.

Why then was any Federal help necessary? Because the City's tax receipts come late in the year, the City needs to borrow funds for a period of time early each year to ensure that essential services are provided. This seasonal borrowing is normal practice for most cities and is financed through borrowing in the private market.

But the private credit markets remain closed to New York City due to their past record of fiscal irresponsibility. This can only be corrected by time--time to demonstrate that they have returned to fiscally responsible management of their affairs. This is why the President asked the Congress for authority to provide a temporary line of credit. The seasonal assistance legislation provides for Federal loans to be repaid by the end of each fiscal year. This two-and-a-half year revolving fund to meet New York's seasonal financing needs will be carefully monitored on a month-by-month basis to ensure strict adherence to the payment schedule. Failure to meet the terms of the loans will result in swift termination of the assistance. Congress responded quickly and favorably to this proposal and the President on December 9 signed the authorizing legislation. We are all anxious to see New York implement and succeed with the plan that they have developed.

What lessons have we learned from the story of the "Big Apple"? First, no city, no state, no national government can spend beyond its means forever. I say "learned." Perhaps I should say, relearned or rediscovered. Edgar J. Levey in a pamphlet entitled "New York City's Progress Toward Bankruptcy" wrote these sobering words: "When a city is growing as rapidly in wealth and population as New York, the temptation to incur expenditures for any ends that seem good in themselves is generally irresistible, and the tendency is to refrain as long as possible from fixing any limit to the incurring of new obligations. But no community, however rich, can defy forever the operation of financial laws." Equally sobering is that Mr. Levey wrote this prophetic passage in 1908.

Secondly, we learn that when the need for fiscal responsibility is understood and believed -- people act to restore responsible behavior.

Rediscovery of the need for fiscal responsibility is also underway at the federal level. It is the motivating force behind the President's proposal that the Federal Government view its financial situation like any soundly run economic unit and consider its expenditures and revenues at the same time.

Thus the President has proposed a permanent tax reduction of $28 billion coupled with a spending ceiling for fiscal year

1977 of $395 billion. The proposal recommends the largest single tax cut in American history. The spending ceiling represents a $28 billion reduction in the projected growth of Federal expenditures. The objective is to begin a program of fiscal restraint that will result in a balanced Federal budget within three years.

While the Congress has not yet accepted the President's plan, its acceptance is growing. Moreover, I believe the American people have not only accepted the need for a return to fiscal responsibility but will demand it. The New York City experience has been a lesson to the country. As the President said when he reviewed New York City's problems, "When the day of reckoning comes, who will bail out the United States of America"?

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

September 3, 1976

MEMORANDUM FOR: RON NESSEN

FROM: Rudy Penner RP

SUBJECT: Economic Forecast of House and Senate Budget Committees

In light of the problems created by the unemployment rate announced today, Jim Lynn thought that it would be useful for you to know that within the last few days the House and Senate Budget Committees have produced forecasts of economic activity and unemployment that are virtually identical to those published in our Mid-Session Review.

I have attached a description of the House Final Report which contained their detailed forecast. The Senate forecast was less complete, but as nearly as we can tell, it was very close to that of the House.

Needless to say, the attached description should not be made public.

Alan Greenspan does not think that much can be made of the similarity of all of our forecasts, since we shall all have to raise our unemployment estimates slightly.

Attachment
Description

The Director

September 2, 1976

Rudy Penner Signed by R. G. Penner

Economic Assumptions in House Report on Second Concurrent Resolution

Either as a result of our efforts or their own good conscience, the Report publishes economic assumptions for 1976 and 1977 that contain virtually all of the information contained in our own standard table. They do not include the Federal pay raise, and some price changes and rates of growth are omitted. However, the Table contains sufficient information to compute almost everything but the pay raise. I do not think that we have anything left to complain about.

The following Table compares their latest forecast (SCR) to that in the House Report on the First Concurrent Resolution (FCR) and to our Mid-Session Review forecast.

		1976	1977
GNP:			
Current dollars	-SCR	1685.0	1885.0
	FCR	1685.0	1878.0
	Mid-Session	1687	1890
Constant 1972 dollars	-SCR	1262.0	1338.0
	-FCR	1259.5	1330.4
	-Mid-Session	1267	1339
Incomes:			
Personal income	-SCR	1382.0	1542.0
	FCR	1382.0	1542.0
	Mid-Session	1381	1531
Wages & salaries	- SCR	893.0	995.0
	FCR	893.0	995.0
	Mid-Session	889	992
Profits before tax	- SCR	153.0	177.0
	FCR	163.0	181.0
	Mid-Session	152	178

	1976	1977
Unemployment rate - SCR	7.4	6.4
FCR	N.A.	N.A.
Mid-Session	7.3	6.4
Consumer price index - SCR	6.0	5.5
FCR	N.A.	N.A.
Mid-Session	5.7	5.6
Interest rates (90-day Treasury's)- SCR	5.3	5.8
FCR	5.5	5.5
Mid-Session	5.2	5.4

As noted previously, they have made minimal changes since the FCR. Nor are there any significant differences from our own Mid-Session Review forecast. Since we published that document, revisions in 1975 and early 1976 GNP figures have pushed my own staff's forecast upward. In an earlier memo, I noted that Testers avoided upward adjustment by assuming very low rates of real growth for the rest of the year.

Their forecasts of personal income and wages and salaries have been kept precisely constant between the SCR and FCR. Oddly enough the forecast of corporate profits was lowered in the SCR, but the forecast of corporate tax receipts was kept constant to the last decimal point at $57.8 billion.

On page 6 the Report says, "Adoption of economic stimulus spending measures which, if enacted and effectively implemented will produce one million jobs over the number that would have been created under the Administration's original budget and economic proposals." This is patently absurd and implies that our Mid-Session Review should have forecast a 1977 unemployment rate around 7.4 percent. I doubt that they could find any respectable Democratic economist to testify in favor of that proposition.

10/19/76

Forecast Real GNP Comparison

	III-76*	IV-76	I-77	II-77	III-77	IV-77	1976	1977	date of forecast
			Real	GNP					
Troika	1272.3	1289.3	1312.4	1328.1	1343.1	1358.6	1267.0	1335.6	9/24
Chase Econometrics	1273.2	1291.4	1311.4	1325.7	1332.8	1339.8	1267.7	1327.4	9/24
DRI	1270.3	1286.2	1309.3	1328.2	1347.0	1365.6	1265.7	1337.5	9/27
Wharton	1275.1	1291.3	1310.2	1327.3	1345.5	1364.1	1268.2	1336.8	9/26
			Percent change (saar)						
Troika Not official	4.0	5.5	7.4	4.9	4.6	4.7	6.3	5.4	9/24 Not for quotation
Chase Econometrics	4.2	5.8	6.3	4.4	2.2	2.1 ✓	6.4 ✓	4.7	9/24
DRI (Eckstein)	3.3	5.1	7.4	5.9	5.8	5.6	6.2 ✓	5.7	9/27
Wharton (Klien)	4.9	5.2	6.0	5.3	5.6	5.6	6.4 ✓	5.4	9/26

* BEA ~~preliminary~~ estimates are 1272.2 and 4.0 percent

"Possible citation"

"4Q76 between 5% + 6%

1Q77 " 6% + 7½%"