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HORSEPOWER TAX

Q. Why not tax new automobiles on a horsepower basis, to discourage purchase of "gas-guzzlers" and induce people to buy smaller cars with smaller engines?

A. The Administration carefully considered a horsepower tax, and concluded that the President's proposals to increase the price of gasoline would have a more immediate effect. We have made an agreement with the Big 3 auto manufacturers to increase gasoline mileage by 40%. It would meet energy conservation goals more equitably than horsepower taxes.

Taxes on new cars based on horsepower would not affect the majority of cars on the road until 1980, at the earliest. Further, purchasers of large cars are the least sensitive to price increases, and a reasonable tax would be unlikely to deter many purchases.

Also, prices of used cars would be driven up, artificially penalizing low-income families.

QUESTION - SENATOR MUSKIE SAYS THE ENERGY AND TAX PACKAGE WILL PROBABLY COST JOBS, NOT SAVE THEM, AND IT WILL STIMULATE INFLATION. HE SAYS THE ENERGY TAX IS EQUIVALENT TO A CUT IN PAY. WHAT DO YOU THINK?

ANSWER - I THINK SENATOR MUSKIE IS WRONG. IF YOU LOOK AT THE ENERGY TAX IN COMBINATION WITH THE PROPOSED PERMANENT TAX REDUCTIONS, MOST PEOPLE WILL GET THE EQUIVALENT OF AN INCREASE IN PAY.

IT IS NOT THE PURPOSE OF THE ENERGY PROPOSALS EITHER TO SAVE JOBS OR TO STIMULATE THE ECONOMY. THE TEMPORARY TAX CUT IS DESIGNED FOR THAT PURPOSE. THE ENERGY PROPOSALS AND PERMANENT TAX REDUCTIONS ARE SUPPOSED TO HELP US SOLVE OUR ENERGY PROBLEMS. IT WILL REQUIRE SOME ADJUSTMENTS IN OUR WAY OF DOING THINGS, AND THAT IS ITS PURPOSE. WE DO NOT THINK IT WILL HAVE AN OVER-ALL ADVERSE IMPACT. NOR WILL IT REDUCE PEOPLE'S REAL INCOME (EVEN THOUGH IT MAY HAVE A MODEST EFFECT ON THE CPI STATISTICS) BECAUSE IT IS MATCHED BY TAX REDUCTIONS.

RIPPLE EFFECT

Q. How did you arrive at your estimate of only a 2% increase in the Consumer Price Index and no ripple effect to speak of from the President's program?

A. We are estimating the total cost increase resulting from this program to be about \$30 billion. Such an increase would cause a 2% increase in the Consumer Price Index in the first full year of the program. This estimate includes both direct and indirect energy cost effects.

Some estimates show that, with the ripple effect, the CPI could increase as much as 2.5%, but we believe that the indirect effects will probably not generate increases beyond 2%.

There are two major reasons for our view: first, there will be a major rebate going to corporations which will reduce their tax bite. Second, the demand for goods and services in today's economy is very soft, and manufacturers will be anxious to maintain their current markets.

ECONOMIC ACTIVITY

- Q. Won't the President's energy proposals tend to depress economic activity at a time of recession and low business and public confidence?
- A. Since the \$30 billion in taxes and fees is returned to the economy in the form of a permanent tax reduction and non-tax payments, the aggregate effect on economic activity should be neutral. Adjustment to higher energy costs will impose some strains. These strains will be offset, however, by the improvement in business confidence that should result from prompt action which showed the people that the country has begun to move on our long-term energy problem.

Delay in moving forward with a comprehensive energy conservation program, or choice of a system of allocation or rationing to conserve energy, would only postpone the problem, reduce business confidence and delay a healthy and constructive recovery from the current recession.

The energy problem has contributed strongly to the current recession and decline in confidence; the energy issue must be faced squarely and acted upon promptly to restore and sustain improved confidence.

RATIONING

Q. Recent opinion polls indicate that the American people favor coupon rationing to increases in the price of gasoline. Wouldn't rationing be just as effective as price increases, and easier to legislate?

A. First of all, rationing is a one-sided coin -- controlling gasoline consumption -- whereas our plan will reduce consumption of all fuel products, and at the same time stimulate an increase in supply. Second, coupon rationing requires the establishment of a cumbersome bureaucracy. It would take 4-6 months to implement, require 15,000 - 25,000 full-time people to run and an additional \$2 billion in Federal costs.

Yet, given the fluid nature of our society, it is probably limited to a useful life of no more than two years. The longer a rationing program is in place, the more ways people find to get around it.

Also, there would be gross inequities under rationing that could not be resolved by any classification system we have yet devised. For instance, a family of four with 2 teenage children could have a ration of as much as 36 gallons per week, whereas a family of four with one adult driver and 2 infants would receive only 9 gallons a week at the coupon price.

Another victim of the rationing proposal is the GNP. An allocation/rationing program would create a drop of an estimated \$13 billion in the GNP and would place several hundred thousand more workers on unemployment.

We feel that the only reason rationing is even being seriously considered is that the facts on it are not fully known; anyone who studies it carefully will, we think, understand the need to implement the President's program.

RATIONING

Q. In effect, isn't your energy program price rationing? If so, wouldn't it be more equitable to impose coupon rationing, so that the poor or moderately poor aren't proportionally overburdened by price increases?

A. In some ways the energy conservation program is price rationing, but there are crucial differences: first, the President's program focuses on all petroleum products and natural gas -- not just gasoline, which is the favorite target for most who think rationing is the answer.

There is a second crucial difference between coupon rationing and price increases. Under our program, the consumer decides where his dollar is to be spent. Under coupon rationing, that decision is made by the Federal Government.

SECTION II
ENERGY

UNEMPLOYMENT

Q: The unemployment rate has risen much more rapidly than you expected. Why don't you provide an additional 250,000 public service jobs beyond the 500,000 already authorized for local governments?

A: The public service employment program will be useful to help cushion the effects of the recession. But there are limitations on how quickly and effectively that program can be expanded.

At the last report there were many public service job openings unfilled. We are making a strong effort right now to see that the State and local governments fill those openings as quickly as possible. Before long we will have a better idea of how much need there is under present conditions.

Our first line of defense, however, is the unemployment compensation program. It has been designed expressly to deal with cyclical unemployment. It is designed to expand with the need and, likewise, contract in times of high employment.

SOCIAL SECURITY

Q. In trying to hold down Government spending, why did the President single out Social Security benefits and Federal retirement programs?

A. Social Security benefits and Federal retirement programs were not singled out. The President has submitted a series of budget recisions and deferrals on a wide range of programs to help reduce the Federal budget.

The 5% limit applies not merely to Social Security benefits but to all Federal programs tied to the cost of living, as well as Federal employee pay increases.

It is important to remember that since 1970 prices have increased 30% while Social Security benefits have on average increased 47%.

We are currently in a period in which the GNP is declining. Our best estimate is that the country as a whole will have between 3 and 4% less in goods and services during the coming year. Thus, a 5% limit on Social Security increases instead of the estimated full increase of about 8-1/2% means that Social Security recipients will bear their share but no more than their share of the burden.

WHOLESALE PRICES

- Q. Is there any hope for the rate of price increase to come down?
- A. The rate of inflation should continue to gradually improve in coming months. The rate of wholesale price increases has been improving for several months, particularly for industrial raw materials. Shortages are no longer a problem and we currently have the capability to produce goods. Most of the price distortions caused by controls and the quadrupling of oil prices last year have worked through the system. The further amount of relief in the wholesale price index suggests some relief in consumer prices in the months ahead.

FINANCIAL MARKETS

Q. Can the large Federal budget deficits in the next 18 months be financed through borrowing by the Treasury without straining financial markets and raising interest rates?

A. We believe that the deficits can be financed without undue strain because private credit demands typically decline sharply during a recession and remain low until recovery is well under way.

However, some financial market observers believe that the projected deficits will cause some moderate strains on the market. Larger deficits, resulting from either larger tax reductions than proposed or failure to control Federal spending, could create a problem in the financial system.

CONSUMER SPENDING

- Q. Can you be certain that people will spend the additional money they receive through tax reductions and provide the hoped-for stimulus to the economy?
- A. No one can be sure what consumers will do with more money in their pockets. It is our expectation that a substantial part will be spent in areas where the economy is the weakest. This is based on observations of past tax cuts. If consumers do save a large fraction of the tax reduction, additional funds will be available to invest in housing construction and other job-creating activities.

Q: Some critics say that on balance the proposed economic program will have a negative fiscal impact. What do you say?

A: The net fiscal impact of the proposed energy taxes, the return of the energy revenues to the economy, and the temporary tax cut would be positive during 1975. These measures taken together would result in a \$5.7 billion stimulus in the second quarter, a \$7.6 billion stimulus in the third quarter, and would continue to be positive throughout 1975.

TAX REBATE

Q. Will the \$16 billion tax rebate proposed by the President cause an increase in the inflation rate?

A. It is our view that under present economic conditions -- with unemployment high and many factories operating well below capacity -- there is sufficient slack in the economy that the predominant effect of the tax cut will be to stimulate spending and increase output with only a slight impact on prices. However, some economists do suggest the possibility of an increased rate of inflation during the year ahead, due to Government financing requirements. This emphasizes the need for spending restraint.

It is also important to remember that the tax rebate is temporary. After the economy gets well into recovery, stimulus will have been removed so that there will be no lasting effect on the inflation rate.

EFFECT ON THE POOR

Q: Why is your temporary tax reduction an across-the-board reduction and not designed for lower-income people?

A: The \$16 billion temporary tax cut is designed to provide an immediate boost to the economy. Individuals would receive \$12 billion and businesses the other \$4 billion which will help stimulate current spending and investment to create jobs. The President's proposal limits the total rebate to \$1,000 but provides meaningful rebates for a larger number of families that will help to stimulate retail sales, particularly for appliances, furniture and cars so that employment will increase.

Adjustment of the tax rates is provided in another part of the President's program which will use the revenues raised by the energy taxes to increase the low-income family exemption and to reduce the tax rate. This part of the package is tilted in favor of low and middle-income families as indicated. A special \$2 billion package is set aside for people with low incomes who do not pay any taxes.

Q. What is your position on the provisions of the tax bill being developed in the Ways and Means Committee as reported in the press?

A. The Committee has not yet reported a bill, so I will not comment on approaches that have been discussed. I am very pleased that the Committee is giving the question of tax reduction prompt attention and that quick action is being taken. I am also pleased that there is apparently broad agreement in the Congress that a tax reduction is needed and that the tax reduction should apply both to individuals and to corporations in the form of an increase in the investment tax credit.

GOVERNMENT SPENDING

- Q. Why does the economic program concentrate on tax cuts rather than increasing Government expenditures?
- A. At the present time a tax cut is preferable for two reasons: first, a tax cut will have a much quicker and more immediate impact on the economy. Government spending programs, if they are to be effective, require much time and planning prior to implementation. The recession should be dealt with now. Secondly, and equally important, past history suggests that increased Government expenditures tend to become permanent and place increasing demands on the Federal budget. Even while dealing with recession it is important that we not lose sight of our long-term objectives of bringing Federal expenditures under control to bring the budget into balance when the economy recovers.

It is interesting that in recent weeks opinions among economists are virtually unanimous that under current conditions tax cuts are preferable to an expenditure stimulus.

GOVERNMENT SPENDING

- Q. Why has the President decided that there should not be any new spending programs in FY 1976?
- A. We must restrain Government spending. Federal spending will actually jump \$80 billion from July 1974 through FY 1976. Much of this increase is caused by programs to aid the unemployed and to expand benefit payments of many social programs. But we need to carefully consider our future priorities. When we close the books on FY 1975 we will have reported a Federal deficit in fourteen out of the last fifteen years. Over this period we will have accumulated \$159 billion of budget deficits and another \$180 billion will have been borrowed for Federal programs not included in the budget. The President is determined to regain control of Federal programs and the first step is to stop taking on new burdens, which we cannot pay for, until we can determine our future priorities.

PRESIDENT'S PRESS CONFERENCE
Atlanta, Georgia
February 4, 1975

SECTION I - ECONOMIC

SECTION II - ENERGY

SECTION III - GENERAL DOMESTIC

THE WHITE HOUSE
WASHINGTON

February 1, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: RON NESSEN

Here are Q&A's on economics, energy and general domestic matters in preparation for your news conference Tuesday in Atlanta.

On Monday, you will receive additional Q&A's on foreign policy and the budget.

If you wish to pursue economic and energy policy in more detail, you have received a separate notebook on these matters.

THE WHITE HOUSE

WASHINGTON

Defense Budget Increase

Of the \$15.7 billion increase in TOA (total obligation authority) from \$89.0 billion to \$104.7 billion, \$7.5 billion (47.8%) is due to pay and price inflation over FY 1975.

Question:

In recent days there has been considerable comment about President Nixon's future in public life, including Senator Goldwater's statement of his role in Party affairs as well as reports that President Nixon would like to be named Ambassador to Red China. What do you see the former President's role to be?

Answer:

My first hope is complete and speedy return to a state of good health for the former President. I believe the former President's future role will be determined in large measure by his health, and until he is fully recovered, it is too early to speculate on what that role might be.

JOM
2-3-75

Question:

What is your view of the recent changes in the organization of the Congress, resulting in the deposing of several Committee Chairmen?

Answer:

The situation you have described has occurred largely in the organizational efforts of the Democratic party. When I was Minority Leader, I was cautious about making remarks on the internal workings of the other party. As Chief Executive, I believe it is sound advice to forego comments on Congressional organization in general.

JOM
2-3-75

Question:

On February 9 the transition officially ends. What, if any, relationship will you continue to have with former President Nixon, in an official sense?

Answer:

There are two statutes in question here. As you observed, the Transition Act terminates on February 9, six months after my swearing-in. However, President Nixon will, as of that date, come under the Former Presidents Act, which by law provides him with certain continuing benefits which include pension, a staff allowance, office space and limited operational costs. This is the same statute that has been available to other former Presidents in recent years.

The number of people who will be working with him will be substantially reduced from the transition period. It should be kept in mind, however, that under separate statutes, he will be receiving Secret Service protection, and there will be some support furnished from time to time pursuant to Secret Service requirements.

Question:

Do you see the Congress acting in such a way as to frustrate and obstruct your requests, particularly in light of the influence of the Caucus and the role of the freshmen Democrats?

Answer:

My hope is that Congress will act responsibly. I do not think their constituents sent them to Congress to either frustrate or obstruct the President nor to engage in confrontations with the Executive Branch. In our country, it takes two to govern. Only the Congress can legislate, and only the Executive Branch can execute the programs and policies of the government. In the critical times in which we live, there is nothing to be gained by stalemate, but much to be lost through no action. I am willing to meet the Congress more than half-way, and it is my hope they will do their part. I am convinced the new members of Congress are responsible and intelligent individuals who want to do the best thing for the country.

Question:

What do you think will happen to the Defense program now that Hebert has lost his Chairmanship of the Armed Services Committee?

Answer:

The question of the Defense program in the Congress is one of concern notwithstanding who the Chairman is. As you are aware, Mr. Hebert has long been a strong advocate and great supporter of the Defense program; however, I have known and served with his successor, Mel Price, for many years. He too is deeply committed to a strong National defense, and I believe that he will do everything he can be promote that cause in his Committee and on the Floor.

JOM
2-3-75

Question:

Some of us have observed that your Clemency Program has not been successful, in which case why did you extend the time for applications?

Answer:

I do not agree that it has not been successful. It is a program of clemency available to those who wish to earn their way back into the main stream of American life. The program was extended principally for two reasons. In general, the Clemency Board had begun an extensive nationwide educational program through advertising which accelerated substantially the number of applications and that, together with a substantial increase of applications as the deadline ended, made it feasible to extend the program for one month.

JOM
2-3-75

Q. & A. on FBI data furnished the President when he was House Minority Leader in connection with his investigation of Justice Douglas (see Jack Anderson's column of February 3, 1975)

Question

Now that the FBI is being charged with having wrongfully compiled information on public officials, how do you defend its having furnished you with information from its files on Justice Douglas when you were House Minority Leader?

Answer

That House Judiciary Committee at the hearings on my nomination to be Vice President had before it the materials furnished by the Department of Justice to me, which involved only limited information from the FBI. I believe that if the Committee at that time had believed it was not proper for the Department of Justice or FBI to cooperate even in this limited way with another branch of government, the Committee would have pursued the matter.

Question

Mr. President: Last week in Washington, the Mayors of some of the largest cities pleaded for \$16 billion in emergency Federal aid. What is your response?

Answer

My budget recommends \$56 billion in grants to State and local governments -- a new all-time high. This is a \$3 billion increase over 1975. This represents about one out of every \$6 in the Federal budget. I have also proposed as a part of this, an increase of \$2 billion to flow through the General Revenue Sharing formula and the extension of General Revenue Sharing itself.

I hope that the course the Mayors are following does not jeopardize the Coalition which succeeded in getting General Revenue Sharing passed in the first place, and I think when they see the budget in detail they will realize that the effort we are making is the best effort we can make at this time.

Background

The States and Counties and other local governments are concerned that the Mayors effort to obtain fiscal relief for the cities alone, will cause problems. Some feel it may cause a split among the Mayors, Governors, Legislators and County Officials which could jeopardize the reenactment of the General Revenue Sharing effort.

The \$56 billion in the '76 budget compares with only \$13 billion of Federal grants to State and local government in 1966. This is a tremendous increase in the immediate past 10 years.

CIA-FBI

Talking Points

BUDGET TOTALS SINCE 1974

- ° Budget outlays will increase from \$268.4 billion in 1974 to \$349.4 billion in 1976, a 30% increase.
- ° Budget outlays will increase 11.5% (\$36 billion) from 1975 to 1976.
- ° Budget receipts will increase 12%, from \$264.9 billion in 1974 to \$297.5 billion in 1976.
- ° The budget deficit in 1974 was \$3.5 billion, and is estimated to be \$34.7 billion in 1975 and \$51.9 billion in 1976.

Talking Points

OUTLAYS AS A PERCENT OF GNP

- ° Budget outlays have increased from 18.7% as a percent of GNP in 1966 to 21.9% in 1976.
- ° Outlays for national defense have declined from 7.7% as a percent of GNP in 1966 to 5.9% in 1976.
- ° Outlays for payments to individuals and grants have increased dramatically from 5.9% of GNP in 1966 to 11.9% in 1976.
- ° Interest and other non-defense outlays have declined as a percent of GNP from 5.0% in 1966 to 4.0% in 1976.

Talking Points

THE BUDGET AND THE ECONOMY

- The budget totals for 1975 and 1976 reflect the "automatic stabilizers" of the budget (i.e.: certain expenditures rise automatically, and revenues "decline" automatically, providing fiscal stimulus).
- If the economy were operating at the same level of capacity as in 1974 (5.0% unemployment):
 - receipts would be \$30 billion higher in 1975 and \$40 billion higher in 1976;
 - outlays for unemployment assistance would be \$9 billion lower in 1975 and \$13 billion lower in 1976; and
 - the 1975 and 1976 budgets would be in surplus.
- In addition, in the absence of the President's energy and tax stimulus proposals, the 1975 and 1976 budgets would be in surplus by \$10 billion and \$14 billion, respectively.

ISSUE

INCREASE IN ACTIVE ARMY DIVISIONS

Between 1968 and 1975, the general purpose forces were sharply reduced following the United States disengagement from the conflict in Vietnam. Military personnel was reduced by 1.4 million, from 3.5 million in 1968 to 2.1 million in 1975. This is the lowest level since before the Korean War and 556,000 less than in 1964 prior to the Vietnam conflict. The number of active divisions, tactical air wings and warships has also been reduced below pre-Vietnam war levels.

The United States has initiated negotiations between the NATO Alliance and the Warsaw Pact on mutual and balanced force reductions. If these negotiations are successful, some U.S. forces stationed in Europe could be withdrawn. For the time being, however, the United States and its allies must maintain present manpower levels and strengthen conventional combat capabilities. This will be accomplished by shifting manpower from support activities to combat functions, and by modernizing weapon systems and equipment. Increase standardization of weapons will also be emphasized.

With little or no increase in present manpower ceilings, combat capabilities will be strengthened by an increase in the number of active combat elements and an offsetting reduction of headquarters and general support activities. More extensive use of reserve combat components will further augment the active forces. This will result in greater combat power in the early days of a conflict. The major change planned is an increase in the number of active army divisions from 13 in June 1974, to 16 by September 1976.

INCREASES FOR DEFENSE

Our defense forces contribute to peace and international stability by maintaining the military equilibrium. An equilibrium of force is as essential to support our diplomacy in a time of detente as it is vital to protect our freedom in a period of tension.

Between 1968 and 1974 it was possible to hold defense outlays about level and to offset rising costs by making substantial reductions in defense manpower and forces. It is no longer realistically possible to compensate for increasing costs by further reducing military strength. Therefore, an increase in defense outlays in current dollars is proposed that will maintain defense preparedness and preserve personnel levels in the face of rising costs. An increase in Department of Defense outlays of \$8 billion, from \$84.8 billion in 1975 to \$92.8 billion in 1976, will permit us to:

- Continue strategic force modernization, within the limits of the Vladinostok understanding, to insure a credible strategic deterrent;
- Strengthen the general purpose forces by continuing to modernize weapon systems and equipment; and
- Improve conventional combat capabilities, with little or no increase in present manpower ceilings, by increasing the number of active Army divisions and reducing headquarters and general support activities. Despite this increase in current dollar outlays, twice as much money is proposed in the budget for aid to individuals and State and local governments as for defense.

As President Ford emphasized in his budget message, "These proposals are the minimum prudent levels of defense spending consistent with providing armed forces which, in conjunction with those of our allies, will be adequate to maintain the military balance."

It is expected that the overall prices that are actually paid for defense will turn out to be 7-1/2 to 10% higher in 1976 than 1975. If the actual rate of inflation for defense turns out to be 10%, then the 1976 request will provide about \$1/2 billion fewer real resources than the 1975 level. If the actual rate of inflation for defense is closer to 7-1/2%, then the 1976 request will provide about \$1-1/2 billion more real resources than the 1975 level. (See following table)

While defense will cost more in inflated dollars, by any real measure, defense will take fewer resources:

- In 1964, prior to Vietnam, less than 1/3 of our Federal dollar was spent for human resource programs and almost half was required for defense. In 1976, the priorities are reversed, with defense decreased to below 30% of the budget and human resource programs increased to over half.
- As a "burden" on the economy, defense has been cut from about 9-1/2% of gross national product at the Vietnam high in 1968 to below 6% in 1974 through 1976.
- The size of the armed forces is now down to about 1% of the nation's population. This is a percentage about the same as that reached in the sharp demobilization after World War II--with the lower population base at that time. Compared to pre-Vietnam, military manpower has been reduced almost 600,000, from 2.7 million in 1964 to 2.1 million in 1975 and 1976.
- Since fiscal year 1968, the size of the Army has been cut in half. This is 200,000 or 20% smaller than the pre-Vietnam Army.
- Because of the retirement of many World War II ships, the active naval fleet will dip next year to below 500 ships, a level lower than at any time since 1939--two years prior to Pearl Harbor. Although Navy ships today are more capable than earlier ones, the challenge they face from the expanding Soviet fleet has also increased.

Talking Points

OUTLAYS FOR INTERNATIONAL AFFAIRS

- ° Outlays for international affairs are estimated to be \$6.3 billion in 1976, an increase of \$1.6 billion over 1975. The bulk (\$1.0 billion) of this increase is for the proposed special financing facility.
- ° The United States has proposed a \$25 billion special financing facility to help industrialized countries finance balance of payments deficits resulting from high oil prices and associated financial distortions. Outlays for this facility in 1976 are estimated to be \$1 billion.
- ° Foreign economic assistance outlays in 1976 are estimated at \$4.1 billion, including:
 - \$1.1 billion for Food for Peace, $1.165B + .178B = 1.343B$
 - \$1.0 billion for multilateral assistance,
 - \$780 million for bilateral development assistance programs,
 - \$.8 billion for Indochina postwar reconstruction, and
 - \$.4 billion for security supporting assistance primarily for the Middle East.
- ° Outlays for military assistance, which is classified in the defense function but is considered foreign aid, are estimated at \$2.8 billion in 1976.
- ° Credit will become a more important tool for development assistance. Direct loans and loan guarantees outstanding will increase by over \$500 million to about \$12.7 billion in 1976.

ISSUE

WHY INCREASE FOREIGN AID SPENDING WHILE RUNNING A LARGE BUDGET DEFICIT?

Foreign aid consists of economic and military assistance to foreign recipients. This year's functional discussion of the budget for the first time lists those programs considered foreign aid (see page 83). Economic assistance including food aid is classified in the international affairs function and represents approximately 60% of foreign aid outlays. The remaining foreign aid outlays are primarily for military assistance, which is classified in the defense function.

Though foreign aid outlays increase from an estimated \$6.0 billion in 1975 to \$6.9 billion in 1976, foreign aid is decreasing in relative terms. Outlays for 1976 will be slightly less than 2% of Federal outlays and about .4% of GNP, roughly the same percentages as in 1975, but will represent a decline from the past in relative aid levels. In 1956, for example, outlays for foreign aid represented 7% of total budget outlays, while in 1966 they represented 3.5% of total outlays.

Despite the relative decline in foreign aid levels, aid programs serve as a vital and flexible complement to our diplomacy. They are indispensable in furthering our foreign policy objectives of (a) enhancing the self-defense capabilities of friendly nations; (b) supporting political stability abroad; (c) promoting economic development of poorer countries; and (d) meeting humanitarian emergencies overseas.

To meet these foreign policy requirements, about 14% of the total foreign aid program supports the progress toward a peaceful settlement in the Middle East, and about 38% of the program encourages negotiated settlements to conflicts in Indochina. Of the total military assistance program, 56% is planned for Indochina, which is equivalent to 83% of the military assistance grant program.

Housing Credit

Action

The Administration has authorized almost \$23 billion for mortgage support through temporary housing programs. These short-term credit measures were authorized to assist mortgages covering 600,000 housing units during the period of residential credit stringency.

- . The FHLBB has advanced \$4 billion to savings and loan associations at subsidized interest rates to support mortgages covering 133,000 units.
- . The FHLMC has made commitments to purchase \$3 billion in mortgages to finance around 100,000 homes at below-market interest rates.
- . HUD's GNMA is authorized to purchase nearly \$16 billion of mortgages carrying below-market interest rates under the various tandem plans.
- . 333,000 Units with FHA or VA guaranteed mortgages are authorized for tandem support.
- . 167,000 Units will have conventional mortgages.
- . FHA mortgage insurance will aid the financing and refinancing of existing apartment buildings.
- . Construction loans will be made to nonprofit sponsors of the Lower-Income Housing Assistance Program.

Background

The Administration has proposed a basic reform of the financial system in order to meet the Nation's housing objectives. The Financial Institutions Act would enable savings and loans to compete more effectively for credit funds and would encourage additional residential investment through a tax credit on mortgage income.

Justification

Until the proposed basic reform of the financial system is enacted, the Administration has taken a succession of short-term housing credit measures designed to combat temporary dislocations in financial markets. Mortgage rates are dropping and disintermediation is being reversed to normal, there will no longer be a need for these temporary programs.

ISSUE

Community Development Grant Program

The 1976 Budget requests \$2.55 billion for block grants supporting local community development.

Background

The Housing and Community Development Act of 1974 (signed August 22, 1974) authorized a new block grant approach for Federal support of local community development to replace seven categorical grant programs. This Community Development Grant Program began January 1, 1975. The FY 1975 appropriation is \$2.5 billion.

Justification

- . The \$2.55 billion level in 1976 will allow each subgrouping of potential recipients to be funded at a level equal to or higher than the 1975 level.
- . The block grant approach uses local judgment and initiative in planning community development activities while minimizing Federal involvement.
- . Funds are allocated by formula based on objective measures of need, rather than by "grantsmanship" ability.
- . Entitlement localities will know in advance the amount of funds they will receive in contrast to the current, uncertain competition for categorical funds.

Talking Points

OUTLAYS FOR AID TO THE UNEMPLOYED

- ° The Administration will spend \$15.5 billion in 1975 and \$18.8 billion in 1976 to aid the unemployed.
- ° The bulk of this assistance represents unemployment benefit payments; in 1976, these payments will equal \$17.5 billion.
- ° Approximately 14.2 million workers will receive unemployment benefit payments in 1975 and 14.4 million in 1976.
- ° Under a new program based on an Administration initiative, workers covered by unemployment insurance may receive up to one full year of unemployment benefits; those not covered may receive up to 26 weeks.
- ° The other component of this assistance package, public service jobs, will amount to \$1.3 billion in 1976. This program will enable States and localities to create temporary jobs for unemployed workers, primarily those who have been out of a job for a long time or have used up their unemployment compensation. The program has special provisions to accelerate hiring in areas of high unemployment.

Issue

Elimination of funding for the Commerce Department "Job Opportunities Program" (known as the "public works" Title of the Emergency Jobs and Unemployment Assistance Act)

Title III of the Emergency Jobs and Unemployment Assistance Act of 1974 (P.L. 93-567) created, as a new Title X of the Public Works and Economic Development Act, the Job Opportunities Program in the Department of Commerce. The law requires Federal agencies to review their programs and projects to find which ones could create jobs quickly in areas of high unemployment with additional funds. Agency recommendations go to Commerce for joint review with the Department of Labor. Commerce then allocates funds to the agencies. The urgent supplemental appropriation act of January 3, 1975, provided \$125 million for this purpose, derived by transfer from the \$1 billion appropriated for direct public service job creation through the new Labor Department program authorized by Title I of the Emergency Jobs Act. (Title I created a new Title VI for the Comprehensive Employment and Training Act -- CETA, which provides for public sector jobs through December 31, 1975. The program is funded by an appropriation for "Temporary Employment Assistance -- TEA.)

The Budget proposes restoring the \$125 million to Temporary Employment Assistance. Use of the funds has been deferred to permit action on the President's request. This follows from the President's statement on signing P.L. 93-567. At that time he stated his belief that the Labor Department program could create more jobs more efficiently than the Commerce Department program.

The Secretaries of Labor and Commerce are proceeding with the review of agency recommendations as required by law.

If the President's proposal is accepted by the Congress, the \$125 million would be added to the \$875 million now available for the public job creation. The new funds would be used to create 14,000 public sector jobs in addition to the 97,000 being created by existing TEA funds. The Budget also provides for approximately 170,000 more public sector jobs in 1975 and 1976 with over \$1 billion under the appropriation for Comprehensive Manpower Assistance.

ISSUE

DEPARTMENT OF HEALTH, EDUCATION AND WELFARE
NATIONAL INSTITUTES OF HEALTH (BIOMEDICAL RESEARCH)

Under the 1976 Budget, cancer research will receive \$605 million, but all of the other biomedical research at the National Institutes of Health will receive \$1200 million.

The increased funding of \$72 million for biomedical research for the National Institutes of Health is divided evenly between cancer and other disease areas. These increases should provide for important advances to be made in all areas of biomedical research.

ISSUE

GRANTS FOR CHILD FOOD ASSISTANCE: AN ALTERNATIVE TO CURRENT CHILD NUTRITION PROGRAMS

This comprehensive approach would require legislation to provide bloc grants to States based on the number of needy children in each State in an amount sufficient to provide for one-third of their daily nutritional requirements for a full year. The bloc grant would substitute for the overlapping and fragmented child nutrition program now in effect including direct cash reimbursements, special milk, non-food assistance, commodities, and all other related school and non-school feeding programs.

By calculating the grant on the basis of needy children in each State, the program would:

- permit expanded reimbursement to States for all needy children (not all are currently receiving assistance);
- Increase the per capita Federal grant to cover full costs of needy feeding; and
- reduce Federal costs by eliminating Federal subsidies to the non-needy.

The alternative would allow States the flexibility to adjust programs to meet local needs and continue subsidized assistance to non-needy children as desired using State/local funds. In addition, the bloc grant would simplify Federal and State administrative requirements.

Under the program, States would be required to provide free lunches to all needy children. This proposal would save \$542 million in 1976 outlays.

ISSUE

TERMINATION OF PROGRAMS AND REDUCTIONS OF FUNDING IN 1976 FOR
THE COMMUNITY SERVICES ADMINISTRATION (FORMERLY OEO)
AFTER THE PRESIDENT RECENTLY SIGNED LEGISLATION (ON JANUARY 4, 1975)
EXTENDING SUCH PROGRAMS AND CREATING NEW ONES

When he signed the bill creating the Community Services Administration as the successor to OEO, the President indicated that while he had several reservations about the bill, he wanted to break the deadlock on the Community Action Program.

In line with this position, the budget for 1975 funds support for Community Action agencies at the current rate of \$330 million. For 1976, the new law requires a reduction in the Federal matching share and the 1976 request is consistent with the new matching rate while assuming that the overall program (Federal and non-Federal resources) will not diminish.

In addition, the Community Economic Development and the Legal Services programs are being continued at the current levels of \$39 million and \$71.5 million, respectively. We anticipate that the Legal Services Corporation will be fully operational by the end of this fiscal year.

The President also indicated that he would not propose funding for duplicate program authorities. Since broad and overlapping authority currently exists in HEW and other Federal agencies, there is no need to fund the duplicatory authorities of the new law.

ISSUE

THE INCREASED PURCHASE PRICE FOR FOOD STAMPS

The decision to include in the President's general program to slow the rate of growth in Federal spending a uniform charge of 30% of net income for food stamps was based on the following factors:

- The uniform charge of 30% of net income is equivalent to 16% of total income on the average, taking into account income deducted (for medical costs over \$10 a month, excess shelter costs, tuition and education fees, work expenses including child care, financial losses, training) and other benefits such as food stamp bonus and housing and medicaid payments.
- The amount of the increase in the bonus (net benefit) paid to food stamp recipients is running well ahead of actual increases in food prices. In the past 2 years, the bonus has gone up 44% while food prices have risen 36% (price of food at home).
- The increase in the bonus has been almost completely absorbed by increases in Federal payments -- since the purchase requirement has stayed about constant. The increase in the purchase requirement provides for a more equitable sharing between program participants and the general taxpayers of the costs of inflation.
- Prior to this change, the percentage of net income that participants pay has varied from almost 30% for large-sized households to 5% for smaller households with the same income.
- Food stamps will continue to be completely free for all one- and two-person households with a net monthly income of less than \$20 a month and for all other households with a net income less than \$30 a month.

Talking Points

FEDERAL AID TO THE ELDERLY

- ° Federal benefit payments to the elderly will reach \$83.6 billion in 1976, an 80% increase over what was spent in 1970.
- ° The elderly receive aid from a number of different programs.
- ° These programs include: social security; medicare and medicaid; railroad and civil service retirement systems; veterans compensation and pensions; supplemental security income; and the food stamp and subsidized housing programs.
- ° Social security retirement payments alone will have increased from \$22.5 billion in 1970 to \$53.8 billion in 1976, a 140% increase in 6 years.
- ° During the same period, medicare and medicaid will approximately double -- from \$7.8 billion in 1970 to \$15.5 billion in 1976.

Talking Points

LAW ENFORCEMENT AND JUSTICE

- Outlays will increase by \$262 million to \$3.2 billion in 1976.
- Over the last 10 years, Federal outlays for law enforcement and justice has increased almost 500% from \$.6 billion to \$3.3 billion.
- Drug Enforcement Administration outlays will increase \$17 million to \$153.
- The FBI will concentrate on white collar and organized crime.
- An increase of almost 20% (+\$34 million) for the Immigration and Naturalization Service will be directed toward apprehending and deporting more illegal immigrants, thus free-up jobs for American workers.
- An additional 247 personnel will be added to the U.S. Attorney's Offices.
- The Justice Department Antitrust Division will increase its activities in order to promote competition and reduce artificial inflationary pressures.
- Funds are provided for construction of 2 new correctional facilities and 7 new community treatment facilities.
- LEAA outlays will increase to \$887 million, but its budget authority will decline to \$770 million.
- The new Legal Services Corporation will provide \$72 million for assistance for indigent defendants.

Issue

THE INCREASING NUMBER OF LLLEGAL IMMIGRANTS WITHIN THE U.S.

The Administration is:

- ° Expanding the Immigration Services funds by almost 20% (outlays rise from \$175 million to \$209 million) to cope with this problem;
- ° Supporting legislation to provide penalties against employers of illegal aliens; and
- ° Developing policy to deal more effectively with the problem through a Cabinet-level Committee headed by the Attorney General.

Issue

WHITE HOUSE, EXECUTIVE OFFICE, AND RELATED EXPENSES

- Expenditures in 1976 for White House Office, Executive Office of the President, and related activities will be reduced from the 1974 level of \$117 M to \$71 M -- even in the face of increasing costs for pay, rent, and communications. (In addition to the \$71 M, an estimate of \$35 M is included for public financing of Presidential nominating conventions and primary elections through optional \$1 check off on individual income tax returns.)
- Staffing for these activities will be reduced by 1/3 from 1974 level of 2,519 to 1,641 for 1976. This reduction primarily consists of a greatly reduced and less cumbersome mechanism for monitoring price stabilization activities. Personnel directly associated with monitoring prices and inflationary pressures will decrease from 1,019 in 1974 to 41 positions in 1975 for the Council on Wage and Price Stability which is to be terminated by June 30, 1976. The White House Office has reduced the 540 positions requested for 1975 to 500 for 1976. Summary of staffing attached.
- The reduced totals for 1976 funding and staffing of these activities, include \$3M and 72 positions for new requirements which have developed since 1974 -- namely the Federal Election Commission, the Office of Federal Procurement Policy, and the Official Residence for the Vice President.

Talking Points

GENERAL REVENUE SHARING

- ° General revenue sharing distributes over \$6 billion per year to State and local governments. The minimal Federal restrictions address such concerns as assuring nondiscrimination and public participation in spending decisions.
- ° In accord with its efforts to decentralize authority, the Office of Revenue Sharing (ORS) has delegated to 30 States the responsibility for auditing the use of general revenue sharing funds by their local governments. ORS follows up on audits that reveal any form of non-compliance.
- ° The Administration will recommend that the general revenue sharing program, which terminates December 31, 1976, be extended through 1982 with only minor changes. The funding relationships between the current program and the proposed renewal are described in the table below.

SOUTH ASIA

Q: Mr. President, will you tell Pakistani Prime Minister Bhutto that you are lifting the arms embargo on the sale of military equipment to South Asia when you meet with him on Wednesday? What is our policy on this and on South Asia in general?

A: This will be my first opportunity for a personal meeting with Pakistani Prime Minister Bhutto and we will have a wide-ranging discussion on many issues of interest to our two nations in view of the close and friendly ties that exist between us.

Our main objective in South Asia is to see that area move towards peace and prosperity. Within this framework, our policies are designed to contribute to South Asian stability and to the harmonious long-term integrity of all states in the area. We seek good relations with all states in the area.

I would expect arms sales to be a subject for discussion during Prime Minister Bhutto's visit. At this time, no decision has been made to revise our arms policy toward India and Pakistan, but of course our policy remains under continuing review.

FYI: Pakistan has been urging a change in our policy to permit cash sales. At present the U.S. has limited embargo for both India and Pakistan -- that is our supplies are restricted to non-lethal end items, and spare parts for previously supplied lethal items and some ammunition on a case-by-case basis. Any supplies are for cash only.

PALESTINIANS AND THE PLO

Q. In view of the statements by Senator Percy about the need for a Palestinian state following his recent trip to the Middle East, how do you feel about an independent Palestinian state on the Occupied West Bank of Jordan and about negotiations between the PLO and Israel?

A. The question of negotiations between the PLO and Israel is really academic since the PLO does not recognize Israel's right to exist.

We continue to believe that an eventual overall peace settlement must pay due attention to the legitimate interests of the Palestinian people. However the solution to the Palestinian problem is a matter for the parties to decide in the negotiations.

MIDDLE EAST -- OIL AND MILITARY FORCE

Q. Could you state your position again on the use of force in the Middle East with reference to Secretary Kissinger's recent statements?

A. Secretary Kissinger was addressing a specific question on a hypothetical situation involving only the gravest kind of emergency. In doing so, he accurately reflected my views but I want to stress that neither he nor I see such a situation arising. Our basic policy is to deal with this question through cooperation between consumer and producer.

We seek no confrontation with the oil producers, either politically, economically or militarily. Instead, we are seeking cooperative efforts to bring about a stable supply and pricing system.

FYI: The issue has subsided in the Arab world where we now get friendly words from Faisal and Sadat. No further reassurance is necessary.

WAR IN THE MIDDLE EAST

Q. Mr. President, would the US support a pre-emptive strike by Israel?

A. I will not speculate on a situation I don't see arising. I have made clear that the US does not want to see a resumption of hostilities in the Middle East, and that the purpose of our diplomatic efforts is to avoid the risks of war.

BUDGET-ECONOMY-
ENERGY

Q: What is the Administration's view on the reported forthcoming Iranian investment in PanAmerican?

A: Administration officials have recently been briefed by PanAm officials, and others involved (FYI - Lehman Brothers) in negotiations between PanAm and Iran. It would be inappropriate for me to comment on the PanAmerican/Iranian negotiations at this time. US officials are examining the issues involved. Although I am not familiar with all the details, it is likely that the final arrangement will have to be considered by the CAB.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

INFORMATION

WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: PAUL H. O'NEILL

SUBJECT: Food Stamp Reductions

The Budget reflects two actions on the Food Stamp program:

- 1) holding the automatic increase in benefit amounts to 5%, as we are with all CPI indexed programs; (requires legislative action)
- 2) increasing to 30% of net monthly income, the amount participants must pay for food stamps (administrative action under current law).

The increased payment requirement was first proposed in your November 26 package with a planned implementation date of March 1. Fiscal year 1975 savings were projected at \$325 million and FY 76 at \$650 million.

Over the last few weeks, increasing public attention has been paid to this proposal as the Department of Agriculture issued the regulations necessary to implement the change.

As we have discussed, sooner or later you are sure to get a question on this proposal at a news conference. A hypothetical question and proposed answer follow:

Mr. President: You have proposed cutting \$650 million out of the food stamp program, hitting especially hard the poor and the aged and the disabled at the same time you are proposing an increase of \$522 million in military aid for South Vietnam and Cambodia and a \$200 million increase in food shipments to foreign countries for political purposes. Can you explain to us why the American people should support these proposals?

Proposed answer: (Comment on importance of Southeast Asia aid including Food for Peace) Now let me turn to the first part of your question on Food Stamps. As you say, I have proposed that food stamp recipients pay 30% of the cost while asking the taxpayers to pay 70%. There are several important aspects to this change:

- 1) It is part of my total economic program. If the Congress does not permit us to make this change and fails to adopt the rest of my proposed budget reductions, the deficit would be \$17 billion higher - \$69 billion; this is bad economic medicine.
- 2) It is important to look at this proposed change in the context of all of our income security programs; totaling \$152.8 billion in FY 1976, an increase of \$14.4 billion over FY 75.
- 3) On the specific facts of this change. It is true that this change would require participants to pay more for their stamps. But it should be clear that people are asked to pay for stamps out of their income. Those who have no income pay nothing - and I am not proposing that they pay. What is at issue here is the question of how much participants should pay out of their own income for food stamps.

Under past practice, individuals and families have paid between 5% and 30% of their income for food stamps.

The change would require that all participants pay a uniform rate of 30%.

Especially during these difficult times, it seems fair to me, to ask people who do have income, to share 30% of the burden of their own food cost with the hard pressed taxpayer who has his own problems.

One further point that has not been clearly reported in the stories I have seen. Participants in the food stamp program do not pay on the basis of their total income. They pay 30% of their net income. This means that they pay 30% of their income after they deduct medical expenses, work expenses including child care, all housing costs exceeding 30% of income and so forth.

The Department of Agriculture estimates that when all of these adjustments are taken into account, participants really pay 16% of their total income for their own food needs.

One final point, none of my decisions on proposed reductions were easy to make. It would be much easier for me personally to avoid such unpopular decisions. But I do not think we can shirk the hard decisions if we are to work our way out of our economic and energy difficulties and therefore it is my intention to continue to make the hard decisions.

Q. You have indicated that you might not seek reelection in 1976 if we are still experiencing double digit inflation and high unemployment. Isn't that what your budget predicts?

A. No that is not what my budget projects. The underlying inflation projections for 1976 suggest a significant improvement with an average rate of inflation during the year of a little over 7 percent. Unemployment will still be high but it will be declining because the economy will be expanding again. Between the second quarter of 1975 when we expect the decline in economic activity to end, and the end of 1976, our projections suggest an average annual rate of expansion in real GNP in excess of 5 percent. This will add some 2 million workers to the Nation's payrolls and begin to reduce unemployment.

Q. How much do you think the policies of your predecessor contributed to the problems that we face now -- the recession and the inflation?

A. The economic policies followed during the past decade were major factors in bringing us to where we are today. Although there is a great temptation to see our inflation problem as the result of special or unique forces such as the rise in food or energy prices, this is not an accurate view. Viewed over the past decade governmental policies have, on occasion, been overly expansive. This was the root cause of the wave of inflation that built gradually at first and then swept over us in 1973 and crested last year. Inflation and the urgent need to bring it under control caused the onset of the recession of 1974-75. Our problem for 1975 is to avoid remaking past mistakes. We must provide support for the economy but this must be done in a way that will prevent another recovery, inflation, recession cycle during the last half of the 1970's. We simply cannot afford more expansive policies in 1975 until we see how much success we have in reducing inflation and interest rates and in holding government expenditures down.

The causes of our energy problems are well known. We have proposed remedies. The energy problem and our dependence upon potentially unreliable foreign source petroleum has come upon us gradually over more than a decade.