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THE WHITE HOUSE

BRIEFING BY THE PRESIDENT
WILLIAM E. SIMON
SECRETARY OF THE DEPARTMENT OF THE TREASURY
ALAN GREENSPAN
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS
AND
JAMES T. LYNN
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
FOR 18 NEWSPAPER COLUMNISTS

THE ROOSEVELT ROOM

10:30 A.M. EDT

THE PRESIDENT: I just thought that before Alan and Bill had a chance to answer any questions, that I would come in and indicate for a few minutes my strong personal feeling and my personal identity with this approach that we have taken, and to give you an opportunity, if you want it, to answer some questions before either Bill or Alan respond to any other information that you might want.

Let me put at rest, at the outset, that this was not something that came out of thin air at the last minute. The whole thought really began sometime early this year and has been worked on over a period of several months in some detail.

The thought of really pinning them together, of course, was precipitated by the need to make a decision on whether we would support, or not support, or make revisions in the 1975 tax matter.

I, in a press conference -- I have forgotten where it was -- Omaha -- gave the first indication that this was an approach that we were actively considering, but the fact is that approach had been worked on for some time.

Now, there were some, obviously, fine details that had to be put together in the last 72 hours, when we got down to some of the charts and rates and so forth. But, the basic decision was made sometime before.

With that, I will be glad to answer any questions.

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QUESTION: Mr. President, are you saying that you will veto any tax cut bill that comes in unless you have this \$28 billion reduction from the anticipated increase in the 1977 budget?

THE PRESIDENT: In the speech I made, I said I would not hesitate to do that. I have since indicated a harder line. I think in all likelihood that would be the net result.

QUESTION: Mr. President, both you and Mr. Greenspan have said the program was not designed to have an economic effect in the short run; it was directed more to the long run in spending. But, doesn't it nevertheless have an economic effect in the short run, and what do you anticipate that would be?

THE PRESIDENT: I have to rely on Alan's analysis and that of others who are far more expert than I in that matter, and he can probably better speak for himself. It is his judgment, as I understand it, that the economic impact will be minimal in that nine-month period.

QUESTION: Mr. President, do you find the predicates for the kind of action you are asking Congress to take now, that you have cited in your press conference last Thursday, and that Ron Nessen has cited for you--I guess going back to 1967 1968--do you find them really convincing?

THE PRESIDENT: As I recall the history of those, President Johnson wanted some action by the Congress, and Wilbur Mills said no. Finally, Wilbur came down in putting together things that came to mind. Wilbur came down and finally agreed on the basis that there would be a spending limitation implemented at the same time in both instances.

The Congress, in 1967 in December, and in June in 1968, as I recall, did take action to tie the two together, as I recall. If they could be done, then I see no reason why they can't be done at this time.

QUESTION: Mr. President, that raises the question why you did not consult with Congress at this time, as Johnson and Mills consulted with Congress in 1967 and 1968, and why you just confronted them with a fait accompli in this tax cut.

THE PRESIDENT: I think there is a little differentiation. In 1967 and 1968, a then Democratic President had a substantial majority in both the House and the Senate. In our case, we are confronted with just the opposite situation, and we did do some consulting, or informing, I should say, but there was, I think, a different factual situation.

QUESTION: Mr. President, you said in response to Bart Rowan's question, that you thought -- or Mr. Greenspan thought -- there would be a negligible impact on the economy. Suppose the reverse happens? Suppose the Congress serves up a tax bill, which you vetoed, but the Congress did nothing about your bill? What would the economic impact of that situation be?

THE PRESIDENT: You have the further assumption that the Congress would sustain my veto?

QUESTION: Yes.

THE PRESIDENT: Do you want to speak to that, Alan?

MR. GREENSPAN: Do you mean override?

QUESTION: No, I mean sustain. Nothing would happen?

THE PRESIDENT: That was my assumption.

MR. GREENSPAN: Do you mean talking about the withholding tax rates rising close to \$12 billion? I will be glad to answer that in some detail, Mr. President, after you leave. I wonder if that is acceptable, gentlemen, or do you want to go through it now?

QUESTION: Wouldn't it have a very substantial impact of a negative kind, and doesn't it suggest you are going down a death valley route?

MR. GREENSPAN: Joe, I would say the analysis, which suggests a significant negative impact, requires that you accept the rather questionable rules of thumb which we are now building into our standard econometric models, from which that type of analysis emerges.

I think there is very serious question about the validity of that approach in the sense I would argue the models that we have now built, unfortunately, abstract from reality in a manner which I think is distorting. I think it is important for us to look at the real world as to what is happening and not really automatically assume that the real world is consistent with the models that we build. That is not so.

QUESTION: Mr. President, there has been some speculation as to how you reached that \$22 billion level of this transaction --

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THE PRESIDENT: \$28 billion.

QUESTION: The question is, whether it is true, as alleged in the Wall Street Journal, that you decided it in a golf course conversation with Mel Laird? (Laughter)

THE PRESIDENT: There is no validity to that latter part, that it was decided on the golf course, no truth whatsoever.

We were trying to find an area where we could believably achieve reductions and at the same time give the kind of tax relief which we believe is necessary, and the net result was we came up with, I think it is, a 7 percent increase in the growth of Federal spending, which takes us from 70 to 395 and, at the same time, gives us the kind of distribution of tax reductions which I think are long overdue to the middle-income people and, at the same time, holds the people at the other end of the spectrum -- they are held harmless.

QUESTION: When do you plan to make the proposed budget reductions public, Mr. President? There are already reports you are circulating a memorandum among the Cabinet officers with the cuts in them.

THE PRESIDENT: Jim Lynn has gone to the departments, and I can't give you precisely the -- there is Jim over there.

MR. LYNN: What we have done, Peter, is in typical OMB fashion, contacted each department with planning ceilings, which is the regular budget process, and we have also shared with them informally some of the alternatives that were identified in this process that has been going on well over two months with the President-- where it should be examined as to the ways they could be used to achieve this ceiling.

The one thing the President made clear to us in the OMB and made clear to the Cabinet officers was that these are merely suggested alternatives of some ways of doing it. What we want is each department and agency to use their own initiatives and own expertise to come up with the best and most equitable way of achieving the result we are after.

QUESTION: Mr. President, do you think the American public, let alone Congress, would be willing to accept substantial reductions in major social programs?

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THE PRESIDENT: First, Allan, you have to understand they are not necessarily substantial reductions. As I said a few moments ago, it is about a 7 percent increase in the growth of Federal expenditures. In actual dollars, it is a \$25 billion increase.

Now, there will have to be some tightening up. There may have to be some caps, as we proposed in the 1976 budget. I think the American public is very disturbed about the growth of Federal spending, very disturbed. I think the mood of the Nation is that something has to be done about it.

QUESTION: Mr. President, you said the other day that you expected to propose a \$1 billion cut in the present level of about \$6 billion for spending on the food stamps in your new bill. Could you tell us how that would come about?

THE PRESIDENT: That is going to be submitted to the Congress the day they come back, and I don't think I should pre-empt it in this gathering this morning. But, we will have a legislative program that will go up to the Congress the day they return from their recess.

QUESTION: Would this be by having possibly tighter rules on eligibility? Is this the general idea?

THE PRESIDENT: There will be a number of significant recommendations.

QUESTION: Mr. President, can I come back to the question of the economic impact of the program? As you know, one of the most persistent criticisms on Capitol Hill is that the tax cuts will take effect at one time and the spending cuts will take place at a point in time nine months later.

The criticism is that you have the tax cuts feeding into the economy, and that will stimulate the economy, and therefore might be too inflationary. Can we get some further guidance on how you respond to that?

THE PRESIDENT: I have been assured by Alan and his associates that that will not take place. I don't have the details.

SECRETARY SIMON: Can I say something in addition to what Alan said before, which is a little sophisticated, Joe, I agree with you. You get to a point, when we talk about stimulus, whether or not a budget deficit of a particular size in excess of that is indeed stimulative or just the opposite.

What are the financial implications you have heard me speak of so often -- the crowding out, that indeed has already occurred -- which is going to hurt as far as a broad base expansion if it were allowed to continue.

One can't argue, as in the case of other countries that have adopted stimulative measures in the past which did nothing but exacerbate inflation and unemployment, that indeed, at a certain level--which can't be quantified, admittedly, this is a matter of one's judgment--that in the short run it is not necessarily stimulative.

Certainly, if you begin to look, which economic policy makers should look, not at short run considerations-- we are always looking at the immediate impact of what our policies are going to produce--what it is going to be between now and the next election.

The purpose of this is once and for all, as the President said, to get the control over the growth in Federal spending to move toward a balanced budget, and it is our only hope to move toward a balanced budget before the end of this decade. We have to begin by controlling the growth.

QUESTION: Bill, aren't you nevertheless going to have to borrow more money in the first six months of the calendar 1977?

SECRETARY SIMON: Sure. You have what I call a partial -- a partial only, Bart -- Hobson's choice, and let me explain why I say it is partial. I would rather, knowing what my druthers are, finance an additional \$5 billion or \$6 billion budget deficit during the first period of 1976, calendar year 1976, during the period of obvious economic slack, than I would the very large deficit we were threatened with during 1977, when the economy will be moving back to high economic activity, we believe.

This indeed, at that point, the sustained combined deficits of many years, could then threaten to abort the recovery prematurely.

THE PRESIDENT: I would add this, too, Bart. If the Congress is concerned about this, there is no reason why they can't cooperate in a number of the authorizations and appropriation bills that they and I will be considering between now and January 1, which will have an impact on the spending in the first six months or nine months of calendar year 1976.

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As a matter of fact, we are probably going to have that struggle during that period of time anyhow, and our emphasis will be, as it has been, to hold the line on some of these spending proposals, whether it is an authorization, appropriation, or substantive legislation.

So, in effect, I will be seeking to put some lid on the second half of fiscal year 1976 spending.

MR. LYNN: If I might on that, Mr. President, on even remaining actions from your original \$17 billion proposals you made in the January budget that affected fiscal year 1975 and 1976, they still have time to take action on, I think, better than \$4 billion worth of reductions on the growth of rescissions and deferrals.

I think the other side of the statement is maybe they will look harder now at what I call the salami tactics of adding a slice here and adding a slice there in the regular appropriation and authorization process.

QUESTION: Sir, if, as you say, the American people are demanding that the Federal Government be reduced, won't Congress get that message during its vacation and other times and help you out there?

THE PRESIDENT: I think it is very opportune that they are home to get that message. We expect to get the benefits of that because it is my distinct impression that the American people are eager for this action, and I think it will be reflected on the Congress when they return.

QUESTION: Mr. President, why do you think it is the American people need this additional tax cut?

THE PRESIDENT: Why do I think?

QUESTION: Yes.

THE PRESIDENT: As we have had inflation, we have had, because of our progressive tax rates, as people have moved up the salary and wage levels, they have been hit by the progressive rates that are in effect at the present time.

I have read a number of articles that make this point very vividly, and the ones who have been hurt most are the ones who have moved into the middle-income group. Unless we do something to modify that, they are going to be hurt the most in the years ahead.

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QUESTION: Mr. President, coming back to the point of economic impact, it makes quite a difference what part of the budget, what kind of spending, you cut. Can you give us in general terms any thoughts you might have on what kind of spending needs to be cut at this point? It makes a difference in impact, as I understand it, whether you go after Social Security or military deployment or building a dam somewhere.

THE PRESIDENT: It is true that certain programs call for an immediate cash outlay and others have a delayed impact. On a long-term military contract, the big payout comes usually in the last 50 percent of the five-year program to build an aircraft carrier, just as an example, whereas some of these income supplement programs come out of the Treasury immediately.

I wouldn't want, at this point, to identify them until Jim's process gets concluded, but I have indicated -- and did in Detroit last Friday -- because we are in the process of now drafting the legislation and the preparation of the message in the area of food stamps.

Now, that is an immediate impact if the Congress acts.

I also said in Detroit that we had to get some better management out of the Defense Department and that some of the frills, as I use the word, have to be eliminated over there in the Pentagon. I repeat that.

I am not going to permit, to the extent that I can, any serious, any erosion of our weapon capability, but I think there are areas in the Defense Department where better management can produce better results.

QUESTION: Mr. President, if the Congress reacts with the same kind of stalemate it reacted on unemployment, do you see this as an important issue that will carry into the 1976 campaign?

THE PRESIDENT: I think the American people could and would make an issue, if my premise is correct, that the American people want a reduction in the growth of expenditures at the Federal level. If the Congress doesn't act affirmatively, I think the American people will make it an issue, which means in 1976 it will be in the political arena.

QUESTION: Mr. President, you used a billion dollar figure in your Detroit press conference, I think, on food stamps?

THE PRESIDENT: Right.

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QUESTION: You also spoke of medical payments. Do you have a rough ballpark figure on medical payment cuts?

MR. LYNN: I think that is very hard to do, Mr. President, until we hear from HEW as to the whole range of what they would propose to stay within their ceiling.

THE PRESIDENT: We have had a tremendous growth in medical payments by the Federal Government for the whole range of services, but the precise amount I think will have to wait until HEW comes back.

MR. LYNN: Let me add, if I might, on that, Mr. President, when we look at the cost per unit of care, in the course of recent years, particularly in the last year or two, it bears absolutely no relationship to inflation or any other indicator we can use. It looks like it is almost uncontrolled, so just as a total issue, even apart from this particular issue, when we get to the \$395 billion, it is an area HEW has to look at very carefully, and has been looking at for some time.

This effort, of course, will bring that to a head.

QUESTION: It would require major changes in the law, though, would it not?

THE PRESIDENT: In many instances, yes, it would.

QUESTION: Sir, Secretary Simon and others have mentioned from time to time that inflation depends on the kind of spending that you do: certain kinds of spending cause inflation and some do not.

Obviously, if you have a shortage of something and you spend and increase production, that does not cause inflation and if you spend for things that are in short supply, that does.

Has there been an analysis of that in your proposal so that you take this into account?

THE PRESIDENT: I would defer that to Alan.

MR. GREENSPAN: First, let me say the analyses that have been used, trying to get these different impacts, tends to show the differences are much less than a number of people have originally supposed. I think that the difference between, say, certain types of capital projects, and transfer payments, are there, unquestionably. But I think it is more important to recognize that the differences are really quite small, relative to the issue of the size of the amounts.

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In other words, it is an issue of small moment relative to the total size of the type of project in the program which the President has announced.

QUESTION: Mr. President, why did you decide to make the additional tax cut effective January 1 instead of delaying it and tying it to the tax reductions at the beginning of fiscal 1977, October 1?

THE PRESIDENT: That was a decision that I felt was -- in the first place, the American people, based on what the various Congressional leaders had indicated, were going to get a tax reduction; now a kind of a tax reduction that I didn't think was the right one.

Since I have strong views on what is a good and fair and equitable tax reduction, I felt it was the proper thing to join the issue at this time, rather than to have the probability of the wrong kind of a tax reduction going into effect January 1.

It seems to me it was better to fight for what I really believed in at this time rather than to delay it until sometime in 1976.

QUESTION: Mr. President, following that, if Congress were to extend the present reduction at the \$12 billion level and say they are willing to talk about a budget reduction of \$12 billion, what would your reaction to that be?

THE PRESIDENT: I don't think I ought to speculate on that. I feel very strongly, as I have indicated, about the kind of a tax reduction, and that is as crucial as the spending reduction. I think we have to stand firm on the combination that we have proposed.

I haven't seen any indication on their part they would do it, so I think it is too speculative to really make any judgments.

QUESTION: Mr. President, are you saying there is no room for compromise anywhere on this issue, that it has to be your program or no program?

THE PRESIDENT: We are all realistic enough to know that sometime you may have to, but our position is firm, and I think it is soundly based. To indicate that there is any major area of compromise I think just erodes our position, which is firm.

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QUESTION: Mr. President, do you fear that if there is an extension on these tax cuts, as Senator Long has indicated, without any reduction in the rate of growth, that you will go back to more inflation, possibly double-digit inflation?

THE PRESIDENT: If my recollection is accurate, if we have a \$12 billion tax reduction with no limitation on spending, the deficit for fiscal 1977 will be \$70 billion. With the prospects of a deficit of fiscal 1976 somewhere between \$60 and \$70 billion, you will have back to back deficits that will total \$140 billion. I think that is an inevitable invitation to reigniting of inflation.

QUESTION: Mr. President, you have said the people who make an issue of this in 1976, so will you yield to the clamor of the public on this and take up the cudgels?
(Laughter)

THE PRESIDENT: I also respect the judgment of the American people, and if they want to make it an issue, I will respond.

QUESTION: You won't resist it? (Laughter)

THE PRESIDENT: No.

QUESTION: I am a little confused, Mr. President, as to where these fiscal guidelines leave your welfare reform. With many sides of the Administration moving in that direction, everything you can learn from HEW, would you suggest that maybe it would cost more to go the income route?

THE PRESIDENT: The Vice President is having some hearings which will cover this area, and they will include the total spectrum of those who want to take the present law and modify it to try and tighten it up to those who want junk the present system and substitute another.

We are going to have a broad spectrum of witnesses, and when the Vice President comes back with a consensus, we will make the decision. There has been none made yet.

QUESTION: Would you like to move in January on some kind of welfare program?

THE PRESIDENT: It will depend on what the hearings produce, Charlie.

QUESTION: Mr. President, you spoke of frills at the DOD. Do you tie that also to the other departments and agencies?

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THE PRESIDENT: Yes, none will be immune, Holmes.

QUESTION: Mr. President, speaking of the Vice President, could I ask a fiscally related question? (Laughter) Are you and Mr. Rockefeller now taking different positions on the possible need for some Federal assistance to New York City?

THE PRESIDENT: I would say it is minimal. I couldn't help but be disappointed in what I read this morning, that the mayor's group -- or whatever they call that group -- has come up with only a \$50 million reduction of the recommendations that they have to make to the Governor's group, and the total that the Governor's group requires is \$200 million, and this is only \$50 million out of the \$200 million.

I have no way of knowing what the reaction will be of the Governor and his group, but I can't help but raise the question that if the municipal people can't satisfy the Governor's group, it certainly is an indication that they would have a hard time satisfying the Congressional requirements for fiscal responsibility.

Of course, fiscal readjustment or fiscal restructuring or fiscal responsibility at the city level would be a prerequisite, I would think, for any Congressional action.

MR. NESSEN: Mr. President, do you want to leave Bill and Alan to finish?

THE PRESIDENT: Yes. Thank you all.

QUESTION: Thank you, Mr. President.

SECRETARY SIMON: It was interesting at one point. You know the political issue and the clamor of the people, Peter, as I said, and I think that is exactly what this is, and I have felt so for a long time.

What I have read since the President made his proposal is that it is unrealistic, and that implies -- it is quite explicit -- that Congress or anybody who is not going to come to grips with the growth in Federal spending that has occurred, and indeed will continue unless we come to grips with it.

I think the more important question to ask is what happens if we don't control the growth in Federal spending, and we see the continued growth in fiscal 1977 and many fiscal years beyond?

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I will suggest that we have seen a lot of other great nations go to the brink of fiscal collapse as a result of these type policies, and no one suggests that after what we have done for many years -- as Jim Lynn has often said -- our budget today actually has a life of its own.

It increases each year, regardless of what we do, because the number of beneficiaries increase, and so, in that regard, it is, and of course the cost of living escalators as well. It is not going to be easy to change these habits. We don't suggest it is, there is no doubt about that, but I think the most important thing -- and this gets to the politics of it, if you will, regardless of which side of this issue you happen to be on philosophically-- that is, we are at a crossroads in this country today.

You can continue down this path, with the consequences we believe history only too clearly demonstrates, and you can see this by looking at the wreckage of these nations that have gone this route or go back to the route that brought us this great prosperity we have always enjoyed.

Anybody who thinks it is an easy choice, because it does require tough decisions, and a discipline that has been absent in this country for some time --

QUESTION: Bill in that context, the President said that his proposal would actually be a 7 percent budgetary increase of \$25 billion but, in fact, would not inflation alone account for more than that. So that instead of caps on programs, there are going to have to be widespread reductions?

SECRETARY SIMON: Our inflation number is approximately the 7 percent, so it is not, as someone suggested, the 10 percent.

QUESTION: Even that will allow for no real growth?

SECRETARY SIMON: As far as real growth is concerned, that again would depend on what areas you are cutting back. You couldn't, just overall.

Alan?

MR. GREENSPAN: That is only one year. Remember, you have had significant real growth occurring in a period when the economy's real growth has been negative. I think to postulate that the real growth of Federal expenditures must be positive, or a large positive every year, will give you an automatic ratcheting effect which inevitably will create, on the average, a much larger proportion of GNP going to the Federal budget.

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So, I think while it is certainly factually true that what is being presented here is for this particular period no real growth in Federal spending, I think to take that out of the context of recent years is to give a false picture of what the actual pattern of Federal spending has been.

QUESTION: Before we get away from history, do you know any example of a country that has reversed this kind of trend without a revolution? Has that ever happened?

SECRETARY SIMON: Without a revolution?

QUESTION: Yes.

QUESTION: Or with one. (Laughter)

SECRETARY SIMON: I had a partner some years ago, Sidney Homer, who believed when chronic inflation took hold that no nation in history has proven its ability through the discipline that is required to reverse it.

We aren't there yet. That is the point. What we are trying to do is reverse this before we get there because the social, political and economic upheaval of attempting to reverse when you have gone too far, as some countries in this world. It is not up to the Secretary of State to name countries. It wouldn't be proper -- the Secretary of the Treasury. It wouldn't be proper for me to be critical of any other country in the economic or financial policies or positions they find themselves in today. That is very clear.

QUESTION: Can I come back to that question? In addition to the discipline issue, there is the issue of equity. How are you going to spread around these cuts and curtailments? I have the impression the present tax law provides special protection for people with incomes under \$4,000 a year and up to \$8,000.

My impression is that your proposals do not have that same kind of protection.

SECRETARY SIMON: Let's talk about the earnings.

QUESTION: Is that equity?

SECRETARY SIMON: You are talking about the earned income credit. Now, what we proposed, as far as the tax changes are concerned, were consistent with the changes that were made in the 1975 Tax Reduction Act, which was heavily weighted toward the lower spectrum.

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As you well remember, we went for a \$1,000 cap, and the Congress loaded it all down below. The earned income credit, as opposed to tax policy, Joe, is an expenditure item, it is a transfer payment, and does not appear in our tax proposals, nor does it appear in the Ways and Means agenda of issues.

That came up last year in the Senate Finance Committee during the last days of debate on that.

QUESTION: I don't think the question goes to the issue of how you account. The question goes to this: Don't people with earned incomes under \$8,000 deserve special protection?

SECRETARY SIMON: They have it.

QUESTION: Doesn't this bill not --

SECRETARY SIMON: Under our proposal, an income under \$5,00 is basically tax free, Joe.

MR. LYNN: Let me add to that, Joe, one of the basic problems we in the Executive Branch, and people on the Hill, see is we really do not have very good statistics and we should get better statistics on what aggregate income is at that level.

You have all seen Martha Griffith's studies on one, two, three, four, five or 11 different kinds of programs and what effect that is. I guess the first answer to your question is there are a number of programs directed at people at the poverty level or thereabouts and below.

What was done in the last tax bill was to add one more of those. Very frankly, I have to say to you, from what I can see as to how it was devised and with the quickness it was devised, it was really not with a very careful look at the totality of the various programs we have for those people.

Our approach in this regard is that the problems of people at those income levels must be addressed, absolutely. The hearings that the President referred to that the Vice President is holding around the country is addressed at that problem; in other words, that is part of the purpose of those hearings.

It seems to us the way to approach that question is as a matter of what should be done for the poor and near poor in this country, to help them with their lives. It shouldn't be done piecemeal in this manner.

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I would suppose that in the Congress, on the Senate side at least, they are going to come back up with a proposal of some kind. I would urge if they are going to do that, that, (a) I would prefer for that to be part of an overall look at welfare reform and (b) if they were to do something in that area, I would at least hope what they are going to propose, without in any way signaling how I would stand on a reaction to it, is something that wouldn't pre-empt the overall look at the welfare, which it seems to me this country has to take.

QUESTION: Mr. Secretary, you started by saying the program had been attacked as being unrealistic, and you think it is realistic. Yet, when a question is raised as to the budget cuts and how they relate to last year's spending, you fall back on the historical context of years past when the budget growth has been high and the growth of the economy has been negative.

But, isn't the perception that you are looking for, what the President was talking about, is that the people are going to think about this program this year and aren't they going to see this year, at best, a holding even or perhaps reductions? Isn't that what you have to worry about?

SECRETARY SIMON: There again, you are going back and making a judgment, and I happen to agree with the President because the Congress did get the message when they went home for the Easter recess, and they got the message after the debate that was held in the first three months of this calendar year in the Congress on budget deficits that at that time numbers were being thrown around anywhere from \$80 billion to George Mahon's \$150 billion.

The American people said "enough," and this was illustrated by the way the Congressmen came back and all of a sudden began to change their tune as far as their rhetoric, anyway, on controlling Federal spending.

Admittedly, everybody says yes, we should cut the Federal budget and then the minute they see where the cuts are, you are goring somebody's ox and there is no doubt about the fact that when we are slowing down the growth in spending, which we are trying to do, you are going to gore somebody's ox.

They are going to say to themselves, well, is that the net benefit for me, and that depends on how we are able to sell this about the long-range battle we have got and the fight against inflation and everything else you have heard me talk about.

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QUESTION: Isn't that the problem, though, Mr. Secretary, that you deal in the abstraction of large Federal spending and the Congress has to deal with specific programs which gore a lot of people's ox, and in the aggregate that is a lot more powerful pressure than any argument you might make about what --

SECRETARY SIMON: It is, Peter. It has been in the past. In a **political sense**, I would say that you are correct. The question is whether the level of economic literacy is indeed rising in this country as a result of the debate of the past year. I would certainly hope so.

Our educational efforts are going to be critically important, but we don't deal with the abstract completely. We do submit a budget. We have tried just about everything. We went the impoundment route and lost in the courts. We went the deferral and recession route and met that effort so far with a ho-hum on the Hill.

The vetoes are working, to a large degree, but that is an unsatisfactory method to attempt to gain control. And while all this is going on, everything just continues to grow in a near out of control way. But we are going to submit specifics of \$395 billion to the Congress, yes.

Whether they accept those specifics or decide to accept others instead, Peter, that is the debate that will ensue, and always does.

QUESTION: Mr. Secretary, you are speaking of the economic literacy rising in this country. Yet, in effect, you and Mr. Greenspan are asking the country to accept a program that you claim will have entirely contrary results from what you and Mr. Greenspan would have indicated it would have had, or have indicated, for most of this year.

In other words, it will not be stimulative where you have been telling the country a program of this sort would be too stimulative, too inflationary and crowd people out of the market, and the deficit would be dangerous and so forth.

What changed your mind?

SECRETARY SIMON: No, this isn't a contradiction. Back when we were talking of the economic stimulus that would provide a tax reduction, I mentioned on many occasions -- and I never read it anywhere really, but I said it in Congress every time I testified -- that fine, a tax reduction net will have a supportive effect to the economic recovery that is already underway.

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Everybody pooh-poohed that. They said that is not true. If you look at what happened, the tax rebates were given out in May and in June, and the statistics are going to show as we look back on it that the economic recovery was indeed underway.

As I said, Joe, what we are looking at is the longer term aspect of this entire proposal and the long run benefits of it as it relates to everything that I explained the other day.

We can debate all day -- and I want Alan to talk to that, too -- about how much deficit is required to stimulate before it begins to become counterproductive, and that is a matter of great judgment.

Alan?

MR. GREENSPAN: Actually, I think you have to distinguish between the issues of short-term deficits and longer term deficits. We, at this stage, don't really know -- and I don't think anybody knows, as Bill pointed out -- whether moving toward higher so-called fiscal stimulus is actually productive or counterproductive, in the sense that we are now in an area where it is very difficult to make a judgment as to whether expansionary policies are, in fact, counterproductive.

I wouldn't make a judgment, frankly, either way because I don't think we have the evidence. But, I think there is one important issue here which differentiates a budget deficit expansion in general and one which is created in this particular program.

Remember, there are two aspects to this. One, it is true that as proposed there is a modest increase in deficit for fiscal 1976. But, concurrently, there is a significant decrease in the prospective deficit for fiscal 1977.

Now, the major problem we have with deficits at this point is their impact upon the money markets; specifically, interest rates and eventually on inflation, which tends to be negative toward economic growth.

To the extent that the markets sense that while there is a temporary bulge in financing requirements, but a significant prospective long-term reduction, I think what we would tend to find is that the effect on interest rates will tend to be less because there is an anticipatory element in the way our money markets behave.

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So, the prospective sharp curtailments in the levy of Federal borrowing as we move to the end of 1976 and 1977 will tend to keep interest rates lower now than they would be if a prospective were \$70 billion this year, \$70 billion next year, \$70 billion the year after. You would get a tremendous anticipatory effect.

SECRETARY SIMON: What Alan is saying is that markets always anticipate future events and to a degree discounts those events. If people can look forward to progressively lower budget deficits, with the balance toward the end of this decade, that is a hell of a different expectation and inflationary expectation than looking forward to just a continuation of business as usual and spending as usual.

QUESTION: Has that analysis ever been articulated by this Administration before?

SECRETARY SIMON: Yes, I would say so. I have talked about inflationary expectations, Bart, on many occasions as being a factor as far as the interest rates that prevail, especially in the long-term and the premium that investors demand during periods where they expect inflation to stay at high levels or go even higher.

QUESTION: No, I mean the business of taking a higher deficit in the short run to achieve a lower deficit in the next fiscal year.

SECRETARY SIMON: I am sorry, I misunderstood you. No, that is --

QUESTION: I don't recall you have ever said that before.

SECRETARY SIMON: No, I was talking about the expectation that you had --

QUESTION: Sir, I assume you would rather get results than go down think being right, and it bothers me that you admit in one occasion that this is political as well as economic.

SECRETARY SIMON: No, let's clarify that. I didn't say that.

QUESTION: Well, there is a political problem involved. When you deal with Congress, you are involved with a political problem.

SECRETARY SIMON: I will agree with that. (Laughter)

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QUESTION: Well, let's not get worried about semantics. The point is, if Congress has specific problems, as it does have problems in individual cases, and you have the overall problem, are you not making a serious mistake in not getting closer to Congress and having more dealings with Congress and understanding that there is a way to deal with both sides of the question?

It seems to me in general this Administration, and a number, have stood off from Congress and Congress, in a sense, stood off from this Administration. The problem is not having each guy think he is right, but to get together.

Why can't you get more together?

SECRETARY SIMON: I will tell you, I don't know if you spend much time in Washington, but if I got any closer to Congress, I would have to move up there. I am up there constantly testifying and visits --

QUESTION: I am not talking about that.

SECRETARY SIMON: -- and we work with the budget committees and we intend to work with the budget committees on the specifics of these issues as well. Why, there has never been doubt that we thought that we could impose our will upon the Congress of the United States. That is impossible, obviously.

QUESTION: After your years in Washington -- I repeat my question -- you are not talking about the same thing I am talking about. It is all very well to go up to Congress and testify on the theory you are right, but we are talking about getting in a room and saying to this Congressman or this Senator what is your problem -- and you know what his problem is -- and this is my problem.

How do we mesh the two together in an informal way?

SECRETARY SIMON: That is exactly what we do.

QUESTION: Apparently, it has not happened. You are not getting the results you are talking about, if you are as right as you believe you are.

SECRETARY SIMON: Our President made this proposal to the Congress three days before they went home.

QUESTION: No, I am talking about --

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QUESTION: Could we end the debate and get back to the questions?

QUESTION: Jim, in this connection, there was talk at the time of the Congressional budget committees' reform of having a sort of consultation process as you drew up the budget. Have you worked out any mechanisms which might draw the committee chairman or somebody in Congress into the process of reaching this figure?

MR. LYNN: Say the last part again. Have we what?

QUESTION: It was my understanding the way it was to work was that the Congress would participate, at least as observers, in the final deliberations on the budget, so going into the final stages they would be sort of part of the process and would have a voice in how it all came out.

MR. LYNN: I think it still has to be seen, Charlie, as to how close we get in that regard. We had some initial steps taken that I think are very healthy. For example, there is constant communication between the staff of the Congressional Budget Office and the budget committees, and my own staff, with regard to definitions, techniques of estimating and so on, which was a first step, and are we both dealing with the same numbers as we put them together under existing programs.

I am being called to testify on October 21 before the Senate Budget Committee to testify again on how are we arriving at the estimates that we have been talking about here and also why have estimates floated around so much over the past years, and I think all of that is healthy.

Now, it seems to me, as we developed our own budget proposals, that there will be some give and take with the Hill as to getting their ideas, but as to how formal that will be, how detailed that will be, I think that answer will come in the next month or month and a half.

One of the things we have done this year, which I think is extremely important, is we have been meeting on a staff basis regularly -- I think it is about every week -- between our staff and the new coalition staff, getting their ideas as to how they see changes in programs, what they see as to priorities of fundings and so forth, and I think that has been very helpful.

Whether we will agree, I don't know, but I think the communication is useful. My own personal predilections are that I would love to be able to sit down with that staff on the Hill, or those staffs, and work with them on various kinds of alternatives.

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One of the problems, to put it frankly, is the minute you start doing that, some news of it goes out generally, fairly often, not the complete story, not false by any means, but only that it is one of the alternatives you are talking about, and you get a debate coming on fractionated evidence, on only parts of the evidence, rather than all of it.

I would hope there would be some way of surmounting that kind of problem. Now, a good part of this will be debated in the forums that Nelson Rockefeller is going to be holding around the country. Those are going to be public.

QUESTION: Those are going to be welfare?

MR. LYNN: Not just on that. They are on environment, they are on the economy and so on, but certainly an important ingredient of them is what to do with the social programs we have, the relative priorities, and what to do with these programs that we have for our poor people in this country.

QUESTION: Mr. Secretary, you are really working under a deadline of about 60 days, don't you think--work days between now and Christmas -- to get some kind of a tax bill through both Houses of Congress?

SECRETARY SIMON: You know, one could say we are working on an even stricter timetable than that because it takes the Treasury Department about 45 days to adjust withholding tables to reflect any tax changes that are made.

QUESTION: Don't you think there has to be some kind of -- as a practical matter, realistic matter -- some kind of compromise on perhaps two bills, maybe on the immediate bill to take care of renewing these tax cuts in your bill next year?

SECRETARY SIMON: We recognize the shortages of the time frame, and the mechanical problems involved in this. That is why we said, "Look, let's not get to the specifics. We will debate that together and try to handle that together in the normal process, and let's just go ahead and set a \$395 billion spending ceiling now and then proceed at the same time with" --

QUESTION: But you are insisting on the ceiling before you even take up what might be a quickie bill?

SECRETARY SIMON: The specifics, that is correct.

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MR. LYNN: Let me, on that, if I might, make a couple of points, one of which I have made to the Congress when I testified, and that is that I have had a great concern that Congress has been taking various kinds of action and, indeed, has been taking various kinds of inaction on the President's proposals for an expenditure moderation this year without, in my judgment, any kind of an adequate look as to where this is taking their fiscal year 1977 figures.

I think this was true on the education bill. I think it was true on other actions they have taken -- child nutrition. I could bring up a whole lot of these deferrals and rescissions and, in many cases, the 1977 impact is far greater than the 1976 impact.

In education, the 1977 effect is \$800 million in outlays, whereas the 1976 impact is \$350 million in outlays. What I would ask is how can Congress even consider whether to have any new proposal in place of a temporary 1975 cut, whether to let it drop, whether to do a simple extension or whether to do something more, which is what we propose without looking at where the 1977 numbers are going and coming to at least some tentative conclusions, whether they like that result.

So, whether or not they agree with us on \$395 billion -- and I would sincerely hope they would, because I think it is a good ceiling -- it seems to me in a rational process of decision-making somebody up there has to tote up rough numbers as to where they think they are coming out in 1977.

That is true whether you adopt our economic views of this situation or whether you are somebody who is totally in love with a computer and an econometric model and think the more the stimulus, the better for fiscal year 1977.

At least the American people, it seems to me, deserve to know what kind of assumptions they are making as to what they think is good for this country, both in 1977 and thereafter.

The second thing I wanted to say, Peter, was I hear a lot of how you can get to totals without specifics. That is precisely what Congress this year did in coming to their budget resolutions.

In their budget resolutions, the House came up with certain cuts on priorities among the functional categories. The Senate came up with a different set of priorities. They were fairly close, but they were different.

When they got to the conference report, they didn't go into the specifics, and I don't blame them. I can understand why they didn't, but all they did was come up with total numbers.

Now, that is all we are asking that they do this time. All we are asking them to come up with is that expenditure total.

QUESTION: Would it have been more politically believable if you had come up with a \$401 billion ceiling instead of a \$395 billion one so you wouldn't have been accused of trying arbitrarily, according to the accusers, of keeping this under \$400 billion?

MR. LYNN: I have made two points to that, Peter, and one is that if you look at our midsession review and you look at the forecast -- not forecast the extrapolations out into fiscal 1977 and thereafter, based on the President's proposals, I mean all of the moderation proposals that he still had alive as of May 30 of this year -- when you look at his other proposals in the area of energy and so on, we showed for fiscal year 1977 an extrapolation base is \$497 billion.

What we are trying to do is not only affect where we are going to be in fiscal year 1977, but for once in many, many years set a path that gets us to a balanced budget within three years. You know, I read Joe Peakman's teachings, out of Brookings, when he says that on capital formation one of the most important things you could do is get to a balanced budget is in the outyears get to having less involvement of the Federal Government in these markets.

I agree with Joe in this regard, and what we are trying to do is set a ceiling this year that sets a path for us to get to that balanced budget in three years. But, if you look at our midsession review, that figure was \$397 billion. My own judgment, in this connection, was it ought to be a little bit lower than that.

THE PRESS: Thank you, gentlemen.

END (AT 11:32 A.M. EDT)