The original documents are located in Box 18, folder "Tax Cut Bill - H.R.2166 (2)" of the Robert T. Hartmann Files at the Gerald R. Ford Presidential Library.

[March 1975]

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

SUBJECT: TAX CUT BILL

A summary of the tax cut bill enacted yesterday is attached. It would reduce 1975 tax liabilities by approximately $23 billion, which is about $6 1/2 billion more than you requested.

Undesirable Items

The bill contains several items which are especially undesirable:

(1) Changes of a permanent nature in individual liabilities.

The bill increases the standard deduction and provides a new $30 per taxpayer credit in addition to the personal exemption. Together those items lose about $8 billion of revenues. Technically they have been written to apply only to 1975. While the necessity for reenactment may possibly provide an occasion to raise revenues or cut expenditures, past experience does not provide much hope in that connection. In the business area, there are an additional $4.8 billion of changes, also of a permanent nature, part of which are effective for one year and part for two years.

(2) Social security distribution.

A $50 distribution will be made to each person on the social security rolls, for a total revenue loss of $1.7 billion. This is a bad precedent in so far as general revenues are used to make payments to social security recipients. The relief provided will be duplicated later on when the cost of living increase goes into effect. While this does not seem likely to become a permanent program, we can expect strong pressures for such payments in the future whenever tax reductions are enacted.

(3) Earned income credit.

This is a new and undesirable welfare type program, which tends to undercut the insurance concept of social security. Since both the House and Senate bills contained an earned income provision (with differences of detail), we are unlikely to get rid of it unless something worse is put in its place. A redeeming aspect of the earned income credit is that it makes other, worse approaches somewhat less likely.

Payroll taxes are virtually certain to become a major political issue in the next two years. There has been much debate on whether they are too high and too regressive, and the debate is part of the larger issue of whether we can really afford the kind of social security system we have. Something along the lines of the earned income credit may be the best defense to a much more radical change, such as the other proposed funding of a part of social security from the general revenues. It reduces the impact of the payroll taxes, but confines the reduction to a relatively small amount and a relatively small group of persons. At the same time, it operates indirectly through the income tax system, and permits us to keep intact the principle that social security is an insurance scheme under which people get what they pay for.

(4) Housing credit.

This credit is self liquidating because it is confined to new housing built or in progress on March 26. It is a waste of money and will probably serve largely to permit builders to move existing houses without cutting prices. However, in its present form there is a good chance it will disappear completely, although Congress often becomes enamored of such provisions once adopted.

Permanence of the Tax Provisions

As noted, the changes in the standard deduction, the $30 credit, the earned income credit and the business changes are very likely to become permanent. They add up to about $15 billion.

The quasi-permanent nature of these changes has disturbing implications as we consider (1) how to turn off the stimulus later on and (2) how to prevent large inflation-inducing deficits in later years. The latter question is solved only if lesser revenues cause expenditures to be held down. Even if that should be the case, however, there would likely be a lag of several years before the reduction effect on the deficit is fully accomplished. Thus it seems inevitable that in the next couple of years we will have extraordinary large deficits and probably excessive stimulus a little later.

Your original proposals called for a one shot stimulus, and, to that extent, did not need to be "turned off." In order to turn off the stimulus from these "permanent provisions," however, Congress will have to refrain from re-enacting them for 1976. Since the economy will undoubtedly still be operating below par when that issue arises later this year, and since we will be even closer to November 1976, the prospects do not seem auspicious.

While this aspect is possibly the most compelling ground for vetoing the bill, it would be difficult to complain to the public about "permanent" changes when Congress expressly made the provisions applicable for only one year (except in the case of the investment credit, which is for two years).

Chances of a Better Bill

It is not clear that we could expect a substantially better bill even if a veto were sustained. It seems unlikely that Congress would give up the "permanent" changes for individuals. The social security provisions and the earned income credit are attractive to more voters than the business provisions, and there would be considerable pressure to do any cutting in the investment credit area. We might get rid of the housing credit. At best we are likely to get a bill \$2 or \$3 billion less than the current bill. In the face of projected deficits in the neighborhood of \$100 billion, it will be hard to convince Congress and the electorate that it is worth holding up a needed stimulus for that small difference.

Grounds for a Veto

(1) Total Revenue Loss. This is probably the only issue that the man in the street would understand. However, we are in the position of having proposed $16 1/2 billion of it ourselves.

(2) Undesirable Provisions. The reasons for our objections to specific undesirable items are more sophisticated than the ordinary voter will comprehend, but, in combination, would perhaps be saleable.

(3) Permanent Aspects. This is possibly the most important ground for a veto, but it is hard to make it convincing when the provisions are technically effective only for 1975.

(4) A Major Obstacle to Real Tax and Welfare Reform. Difficult to explain but a sound substantive reason for veto.

(5) Eliminates 6 million from the Tax Rolls. Our own proposals in the energy package would eliminate a substantial number of these taxpayers.

(6) Eliminates Oil Depletion Except for Independent Producers. It thus reduces capital available for energy program. Elimination with independent produces exemption substantially complicates law.

Grounds for Signing

(1) Fastest way to achieve fiscal stimulus.

(2) Provides opportunity to draw the line on any new spending programs.

(3) Some of the most objectionable provisions can be attacked when law is reconsidered at end of its one year term.

(4) Provides a tax cut as requested in State of the Union tho not of the type requested.

(5) New unemployment figures are expected to be adverse and may give impetus to a worse bill.

SUMMARY OF TAX CUT BILL

1. Rebate of 1974 taxes

--rebate generally equals 10% of 1974 tax liability
--minimum rebate equals lesser of actual tax liability or $100
--maximum rebate equals $200, phased down to $100 between AGI $20,000 and $30,000
--for married persons filing separately, $50 minimum, $100 maximum and phase down between $10,000 and $15,000
--rebates disregarded for purposes of other benefit programs

2. Standard deduction changes

--minimum standard deduction (low income allowance) increased from $1,300 per return ($650 for married persons filing separately) to $1,900 for a joint return or surviving spouse, $1,600 for single persons, and $950 for married persons filing separately

--maximum standard deduction increased from 15% of AGI (with a maximum of $2,000, or $1,000 for a married person filing separately) to 16% of AGI (with a maximum of $2,600 for a joint return or surviving spouse, $2,300 for a single person, and $1,300 for married persons filing separately
--effective for one year (generally 1975 calendar year)

3. Personal exemption tax credit

--new $30 per exemption tax credit (except blind and aged exemptions) in addition to present law personal exemptions
--effective for one year (generally 1975 calendar year)

4. Earned income credit

--refundable credit equal to 10% of earned income of an eligible individual, with maximum of $400
--to be eligible, must maintain a household within the United States that includes a dependent child
--maximum credit phased down to zero between AGI $4,000 and AGI $8,000
--under AFDC provisions, the earned income credit is taken into account in determining AFDC eligibility
--effective for one year (generally 1975 calendar year)

5. Child care deduction

--increases the income level at which the phase out of the maximum allowable deduction ($4,800) begins. The old phase out began at $18,000, phasing down to zero at $27,600. The new phase out begins at $35,000, phasing down to zero at $44,600.
--permanent change

6. Sale of principal residence

--increases from 12 to 18 months the period during which the seller of an old principal residence must purchase a new principal residence, if he wishes to apply section 1034 to avoid recognition of gain. When construction of the new principal residence is begun by the taxpayer himself, the period is increased from 18 to 24 months.
--permanent change

7. House purchase credit

--new tax credit for purchases of a principal residence equal to 5% of the taxpayer's tax basis, with maximum credit of $2,000. A taxpayer's tax basis in a new principal residence may be less than cost if, for example, he sold an old principal residence, avoided recognition of gain through the application of section 1034, and was required to reduce his basis in the new principal residence by the amount of gain not recognized.
--applies only to purchases of new houses (including mobile homes and residential units in condominiums or cooperative housing projects). That is, the taxpayer must be the first occupant.
--applies only to new houses, etc., the construction of which was commenced prior to March 26, 1975.
--purchaser must attach to his tax return a certification by the seller that the purchase price is the lowest price at which the residence was ever offered for sale. If the certification is false, the purchaser may recover, in a civil action, three times the difference between the purchase price and the lowest offered price (plus a reasonable attorney's fee) and the seller may be prosecuted.
--effective for acquisitions after March 12, 1975, and before January 1, 1977, but applies to 1976 acquisitions only if constructed by the taxpayer or acquired by the taxpayer under a binding contract entered into before January 1, 1976.

8. Withholding

--new withholding tables reflecting standard deduction changes, personal exemption tax credit, and earned income credit to take effect May 1, 1975. IRS advises that employers may be unable to meet that deadline even if new tables made available by IRS in record time.

9. Investment credit

--two year increase in investment credit from 7% (4% in the case of public utilities) to 10%. Upon lapse of the temporary increase, public utilities would again be eligible for a 4% credit only.
--additional 1% credit (for total 11% credit) during the two year temporary period for corporate taxpayers only and on condition that stock of the taxpayer (or a parent corporation) having a value equal to the tax savings generated by the additional 1% credit is transferred to an employee stock ownership plan (ESOP). No deduction is allowed to the employer for the transferred stock, and the employees are not taxed until they receive distributions from the plan. The plan may be a qualified or a nonqualified plan.
--for public utilities, increase in the portion of tax liability that may be offset by the investment credit from 50% to: 100% in 1975 and 1976, 90% in 1977, 80% in 1978, 70% in 1979, 60% in 1980, and back to 50% in subsequent years
--increase from $25,000 to $100,000 in amount of used property that may qualify for investment credit
--provision for credit to be allowed as progress payments are made , a permanent change

10. Corporate tax rate changes

--surtax exemption (which determines amount taxable at rates below 48%) increased from $25,000 to $50,000 of taxable income
--rate on first $25,000 of taxable income reduced from 22% to 20% (second $25,000 of taxable income will be taxable at 22% rate, balance of income at 48% rate)
--effective for taxable years ending in 1975

11. Accumulated earnings tax

--minimum accumulated earnings tax credit increased from $100,000 to $150,000
--permanent change

12. Work Incentive (WIN) Program Tax Credit

--win credit of 20% of wages paid to a new employee during first 12 months of employment extended to employment of welfare recipients if employment lasts at least one month. Under present law, the new employee must be a participant in the WIN program administered by the Departments of Labor and Health, Education and Welfare and must be employed for at least 24 months
--as under present law, the new employee may not displace another employee
--unlike present law, the expanded credit would apply to nonbusiness employees (e.g., domestics), but the maximum credit with respect to each such nonbusiness employee would be $200
--employment of migrant workers not covered
--effective with respect to wages paid to employees hired after the date of enactment for services rendered between the date of enactment and July 1, 1976

13. Certain Pension Plan Contributions

--for H.R. 10 plans, advanced by one year (to 1976 contributions for 1975 plan years) a provision permitting cash basis taxpayers to treat contributions made before April 15 as having been made in the preceding year

14. Unemployment compensation

--extends the maximum period of benefits from 52 to 65 weeks, for weeks of unemployment ending before July 1, 1975

15. Payment to Social Security Recipients

--provides $50 payment to each individual who for the month of March, 1975, was entitled (without regard to sections 202(j)(1) and 223(b) of title II of the Social Security Act and without the application of section 5(a)(ii) of the Railroad Retirement Act of 1974) to (1) a monthly insurance benefit under title II of the Social Security Act, (2) a monthly annuity or pension payment under one of the Railroad Retirement Acts, or (3) a benefit under SSI
--payments to be made no later than August 31, 1975
--any individual entitled to only one such payment
--only United States residents are eligible
--payments to be disregarded for purposes of other programs

Note respecting permanence of changes

As noted above, virtually all of the tax changes and increased benefits are drafted as temporary changes and benefits effective for only one year, or at most two years. The only permanent changes are: (1) the provision for the investment credit to be allowed on progress payments, (2) the raising of the phase-out level for the child care expense deduction, (3) the expansion of the tax-free rollover period for sales of a principal residence, and (4) the increase in the accumulated earnings tax credit.

16. Limitation on percentage depletion

--eliminated immediately for majors
--exception: 22% retained for all producers for regulated natural gas and natural gas sold under fixed contract
--royalty interest owners and independents (producers with no retail outlets who refine less than 50,000 bbl/day) have small production exemption
--small production exemption: 22% remains for 2,000 bbl/day and ~~phases down 200 bbl/day each year for 5 years, then~~ holds at 1,000 while rate phases down: 20% for 1981, 18% for 1982, 16% for 1983, so that for 1984 and thereafter the exemption is 1,000 bbl/day at 15% (applies alternatively at taxpayer's election to natural gas on 6,000 cu. ft.: 1 bbl. equivalence)
--for secondary and tertiary production the rate under the small production exemption stays at 22% until 1984 when it drops to 15%
--except for new fields acquired in section 351 transfer or transfer at death, small production exemption applies to production from new fields only if discovered by taxpayer
--aggregation rules prevent multiple exemptions for related entities. Family members treated as one taxpayer
--depletion allowance under small production exemption limited to 65% of taxpayer's taxable income (computed without regard to any depletion on small production amount, capital loss or NOL carrybacks).

17. Foreign Oil-Related Income

--new limitation on foreign tax credits of oil companies to 110 percent of the U.S. rate in 1975 (52.8 percent of income); 105 percent of the U.S. rate in 1976 (50.4 percent of U.S. income) and 50 percent of U.S. income in 1977
--carryforwards from years prior to 1974 to years after 1974 will be computed as though the foregoing rules were in effect during those years

17. Foreign Oil-Related Income (continued)

--excess credits resulting from the application of these rules can only be used to shelter other oil-related income, including income from shipping, refining, marketing, interest, and dividends
--requires for taxable years beginning after 1975, the use of the overall limitation in the computation of the foreign tax credits of oil companies
--new recapture rule for losses incurred in oil operations; foreign oil income earned after December 31, 1975, will be treated as U.S. source income to the extent of any oil related losses sustained after that date
--bars use of tax credits with respect to the purchase of oil where the taxpayer does not have an economic interest in such oil and where such oil is not purchased and sold at its fair market value. This provision is effective for years after December 31, 1974

18. Deferral - Changes in Subpart F

--terminates the minimum distributions exception to subpart F (Section 963)
--terminates the exception to subpart F which allows deferral where tax haven income is reinvested in a less developed country corporation
--revises the present rule permitting deferral of tax on foreign tax haven income where less than 30 percent of such income is tax haven income to terminate such deferral where the tax haven income exceeds 10 percent of income
--terminates the exception to subpart F for shipping income except where such income is reinvested in shipping operations
--allows deferral of income on sales by a foreign sales corporation of agricultural products which are not grown in commercially marketable quantities in the U.S.
--all of the foregoing changes are effective in taxable years beginning after December 31, 1975

19. DISC

--terminates DISC deferral privileges for sales of energy resources such as coal, oil, and uranium
--effective for sales made after March 18, 1975

20. Oil Rigs - Investment Tax Credit

--disallows investment tax credit for oil rigs used in international or territorial waters outside the northern portion of the western hemisphere effective for investments after March 18, 1975, unless made pursuant to contracts binding on April 1, 1974

Tentative

Comparison of House, Senate, and Conference Bills

($ billions)

Tax reductions	House	Senate	Conferenc
I. Individuals:			
Refund of 1974 liability	8.1	9.7	8.1
Standard deduction increase	5.2	--	2.5
Credit	--	6.3	5.3
Tax rate reductions	--	2.3	--
Earned income credit	2.9	1.5	1.5
House purchase credit	--	1.1	0.6
Child care	--	1.7	0.1
Home insulation	--	0.7	--
Total individuals	16.2	23.3	18.1
Business:			
Investment tax credit	2.4	4.3	3.3
Corporate surtax exemptions	1.2	1.2	1.2
Tax rate reduction	--	0.7	0.3
Loss carryback, carry forward	--	0.5	--
Repeal truck excise taxes	--	0.7	--
Total business	3.6	7.4	4.8
II. Increased expenditures:			
$100 payment to certain program beneficiaries	--	3.4	1.7
Emergency unemployment benefits	--	0.2	0.2
Total increased expenditures	--	3.6	1.9
III. Tax increases:			
Depletion	(2.2)	(1.7)	(1.6)
Foreign oil taxation	--	(1.5)	(0.1)
Deferral of foreign income	--	(0.5)	--
Total tax increases	(2.2)	(3.7)	(1.7)
Total net revenue loss	17.6	30.6	23.1

Office of the Secretary of the Treasury
Office of Tax Analysis

March 26, 1975

Tentative

Comparison of the Effects on Fiscal Year Receipts of the President's Stimulus Package, the House Bill, the Senate Bill, and the Conference Bill

	Fiscal Years 1975	Fiscal Years 1976
	(... $ billions	....)
President's stimulus program 1/	-7.3	-9.0
House bill	-10.0	-7.3
Senate Finance Committee bill 2/	-13.0	-16.5
Conference bill 3/	-10.8	-10.6

Office of the Secretary of the Treasury
Office of Tax Analysis

March 26, 1975

1/ Adjusted from original estimate for different timing on the first rebate payment.

2/ Excludes $3.4 billion of payments to social security benefits and $0.2 billion of unemployment payments.

3/ Excludes $1.7 billion of payments to social security benefits and $0.2 billion of unemployment payments.

March 26, 1975

COMPARISON OF SUBSTANTIVE HOUSE AND SENATE PROVISIONS IN CONFERENCE

Individual Reductions	House	Senate	Conference	Savings From Senate Bill
1. Rebate 1974 Tax	-8.1	-9.7	-8.1	+1.6
Adopted: House version. 10%, max. $200, min. $100 (or actual tax, if less).				
2. Individual Permanent Items	-5.2	-8.6	-7.8	+0.8
House proposed changes in standard deduction Senate did not change standard deduction, but provided an optional $200 per person credit in lieu of present $750 exemption, and lowered rates on first $4,000 of income.				
Adopted: increased min. standard deduction from $1,300 to $1,600 for singles, $1,900 for marrieds; provided an additional (not optional) credit against tax of $30 per person.				
3. Earned Income Credit	-2.9	-1.5	-1.5	---
Adopted: Senate version. 10% refundable credit on first $4,000 of income, phasing out between $4,000 and $8,000.				
4. House Purchase Credit	---	-1.1	-0.6	+0.5
Adopted: credit of 5% up to maximum of $2,000, covering only new houses purchased between March 26 and Dec. 31, 1975, construction of which began before March 26. Seller to give affidavit that house has not been offered at lower price. Includes mobile homes.				

5. Child Care	---	-1.7	-0.1	+1.6
Adopted: minor liberalization of existing law.				
6. Home Insulation	---	-0.7	-0-	+0.7
Adopted: deleted, saved for energy bill.				
Subtotal	-16.2	-23.3	-18.1	+5.2
Business Reductions				
1. Investment Tax Credit	-2.4	-4.3	-3.3	+1.0
Adopted: Increase to 10% for 2 years. Liberalizing limitation for utilities, provide for credit as payments are made. An additional 1% allowed if employer puts stock of equal amount in employee stock ownership plan.				
2. Corporate Surtax	-1.2	-1.2	-1.2	---
Adopted: Both bills provide for increase from $25,000 to $50,000 of amount subject to "normal" tax (presently 22%).				
3. Corporate Rate Reduction	---	-0.7	-0.3	+0.4
Adopted: Changed normal tax rate from 22% to 20% on first $25,000.				
4. Loss Carryback Liberalization	---	-0.5	-0-	+0.5
Deleted.				
5. Elimination of Excise Tax on Trucks	---	-0.7	-0-	+0.7
Deleted.				
Subtotal	-3.6	-7.4	-4.8	+2.6

ncreases in Nontax Expenditures				
1. Social Security	---	-3.4	-1.7	+1.7
Adopted: $50 to each social security recipient.				
2. Unemployment Compensation	---	-0.2	-0.2	---
Adopted: extends eligibility 13 weeks, but not beyond June 30, 1975.				
Subtotal	---	-3.6	-1.9	+1.7
Gross revenue loss	-19.8	-34.3	-24.8	+9.5
Tax Increases				
1. Depletion	+2.2	+1.7	+1.7	---
Eliminated for all but first 2,000 bbls. a day. 2,000 limit reduced 200 per year to 1,000 in 1980, then 2% to 15% in 1984.				
2. Foreign Oil Tax	---	+1.5	+0.3	-1.2
Limits excess credits for foreign oil production (more liberal than 1974 Treasury proposals).				
3. Deferral	---	+0.5	-0-	-0.5
Amends technical rules relating to tax-haven companies. Similar to 1974 agreed version. Effective in 1976.				
Subtotal	+2.2	+3.7	+2.0	-1.7
Total	-17.6	-30.6	-22.8	+7.8

INSIDE LABOR
By Victor Riesel

Release on Receipt
Dispatched 3/10/75

Not Ford's Fault:
All-Time Record-Smashing Billions
Already Allotted to Aid Jobless

WASHINGTON -- Everywhere there is restlessness. Special employment and "job-demanding" committees spring up like traffic jams at the 5 o'clock whistle. Marches on Washington are being planned for the end of April. Organizers of indoor and outdoor demonstrations are queuing up for police permits and meeting hall reservations.

As tempers rise, Jerry Ford falls in the public polls. But few have taken the trouble to learn just how much money he and his 8 a.m. daily brain trust and the Labor Department have spent and are planning to spend to aid the jobless.

Between the latter half of fiscal year 1975 and the end of fiscal 1976, the government will be spending the fantastic sum of $40 billion to aid the jobless.

This gargantuan sum exceeds that spent on the same objective in the past five fiscal years.

And President Ford is asking, just what is the maximum "dollar" which can be spent? Where does the federal government stop without spouting out endless printing press money?

This $40 billion doesn't include food stamps, welfare, Medicaid, Vista and a string of other assistance to the jobless and the impoverished programs. It doesn't include moneys for special projects. I'm told it doesn't include the $2 billion released for highway construction.

It is money for unemployment insurance, job training, special public service jobs -- but it doesn't include Social Security.

Few bother to total the huge funds. The public is jittery, frightened by the constant television reports on an economic holocaust, disturbed by long features on possible municipal and state bankruptcies, alarmed by reports of empty jobless insurance cash pools.

The people just can't follow the barrage of technical programs such as Emergency Jobs and Unemployment Assistance Act, the Supplemental Appropriations bill, the special "Titles" Six and Two of the Comprehensive Employment and Training Act (CETA), and the Emergency Public Service Jobs program.

These operations are pouring out billions of dollars -- sometimes within six weeks of the passage and decision to "go."

The public reads of special bills introduced by Sens. Jack Javits and Hubert Humphrey. These are demands for special bills to ease mortgage payments and provide health insurance for the jobless.

Point is -- from where will the billions come? Added to the $40 billion already scheduled to "go," the other bills would raise the total expenditure to $75 billion, or $100 billion.

So President Ford keeps asking, where's the maximum?

The congressional rhetoric drowns out the President. Few give credit to the efforts of this man who less than eight months ago was a traditional, non-Rockefellerian Vice President with whom his predecessor rarely spoke or consulted.

The $40 billion is the big wheel. There are little wheels turning, too, which get only the palest spotlight. Prof. Al Rees's Council on Wage and Price Stability has been applying the most subtle but persistent pressure on government agencies to ease futile regulations which jack up prices. Prof. Rees now is studying the U.S. Postal Service as it prepares to negotiate with some 600,000 unionized employes. Purpose is to see if anything can be done to keep postal rates from rising. And there is Rees's jousting with the National Highway Safety Administration because it appears to have applied too rigid a standard grading production to tires making them more costly.

He and his staff have been analyzing carefully the industrial chemical field, and the cost of containers, aluminum steel and construction.

And for two hours on the afternoon of March 5, Rees and Labor Secretary John Dunlop met with San Francisco Bay area presidents of plumbers and pipe fitters locals. With them was the plumbers general president Martin Ward. They talked about restructuring the West Coast collective bargaining system so there would be one general contract instead of seven. Sounds like a single one-inch fire hose spraying water on a seven-alarm fire. But it isn't. It's the beginning. It's practical. It is being monitored by the Oval Office itself.

There are scores of such wheels churning. There is even talk of giving tax cut credit to employers who retain a work force, by not firing, over a special base period. Everybody now is trying. Little wheels and big wheels -- like the $40 billion. So as old Jimmie Petrillo, the fabled, once-upon-a-time national musicians president, used to say: "Give the man at the piano a break. He's trying."

UP-010

(TAXES)

WASHINGTON (UPI) -- HOUSE AND SENATE NEGOTIATORS MEET TODAY IN HOPES OF AGREEING ON A COMPROMISE TAX CUT BILL THAT WILL BE ACCEPTABLE TO PRESIDENT FORD OR SATISFY ENOUGH MEMBERS OF CONGRESS TO PASS IT OVER HIS VETO.

UNLESS EVERYTHING BREAKS DOWN, AMERICANS CAN EXPECT A MAJOR TAX REDUCTION IN 1975 AND REBATES ON 1974 TAXES.

THE CONFERENCE COMMITTEE IS EXPECTED TO REACH AGREEMENT BY TUESDAY NIGHT. THE HOUSE PASSED A $19.9 BILLION MEASURE WITH REBATES BETWEEN $100 AND $200. THE SENATE PASSED A $33.1 BILLION ONE WITH REBATES FROM $120 TO $240.

FORD RECOMMENDED A $16 BILLION CUT AND IS WAITING FOR THE BILL THAT WILL COME OUT OF THE CONFERENCE. "THE PRESIDENT HAS NOT RULED OUT A VETO," SAID PRESS SECRETARY RON NESSEN.

FORD MET LAST NIGHT WITH CHAIRMAN AL ULLMAN OF THE HOUSE WAYS AND MEANS COMMITTEE AND CONSIDERED THE MOST INFLUENTIAL MEMBER OF CONGRESS ON TAX MATTERS. THEN HE DISCUSSED STRATEGY WITH A GROUP THAT INCLUDED TREASURY SECRETARY WILLIAM SIMON, HIS CHIEF LOBBYIST, MAX FRIEDERSDORF, AND TWO GOP MEMBERS OF WAYS AND MEANS, NEW YORKER BARBER CONABLE AND PENNSYLVANIAN HERMAN SCHNEEBLI.

A WHITE HOUSE SPOKESMAN SAID ONLY THAT THE SESSIONS WERE INTENDED TO OBTAIN A TAX CUT FORD WOULD CONSIDER ACCEPTABLE.

ULLMAN SAID SUNDAY A $25 MILLION COMPROMISE MIGHT BE "A LITTLE MUCH." THE SENATE MEASURE INCLUDED SPECIAL TAX BREAKS FOR HOME BUYERS, RETIRED PEOPLE, WORKING PARENTS, FINANCIALLY TROUBLED CORPORATIONS AND OTHERS. BOTH VERSIONS WOULD REPEAL THE CONTROVERSIAL OIL DEPLETION ALLOWANCE.

"WE THINK ... THAT MANY OF THE AMENDMENTS ADDED BY THE SENATE CANNOT BE JUSTIFIED," ULLMAN SAID.

NESSEN SAID "THE PRESIDENT IS BASICALLY OPPOSED TO ALL THE AMENDMENTS."

ASKED SPECIFICALLY ABOUT A FORD VETO, NESSEN SAID:

"SINCE WE DON'T KNOW WHAT IS GOING TO BE IN THAT BILL, IT'S DIFFICULT TO SAY WHETHER HE WOULD VETO IT OR NOT. THE PRESIDENT HAS NOT RULED OUT A VETO.

"THE TAX BILL THAT HE SENT UP OVER 60 DAYS AGO CALLED FOR A CLEAN, QUICK, SIMPLE TAX CUT OF $16 BILLION FOR AMERICANS. HE WANTED THOSE CHECKS TO GO OUT QUICKLY SO THAT PEOPLE WOULD HAVE PURCHASING POWER TO BUY THINGS, THAT COMPANIES WOULD HAVE TAX BENEFITS SO THEY COULD EXPAND AND HIRE BACK WORKERS.

"IT'S BEEN OVER TWO MONTHS NOW SINCE HE PROPOSED THAT AND CONGRESS STILL HASN'T COME UP WITH A TAX CUT."

ULLMAN APPEARED ON ABC'S ISSUES AND ANSWERS AND NESSEN WAS ON CBS' FACE THE NATION.

UPI 03-24 08:42 AED

(ECONOMIC)

WASHINGTON (UPI) -- PRESIDENT FORD'S ECONOMIC POLICIES COULD COST THE UNITED STATES $1.45 TRILLION IN OUTPUT BETWEEN 1975 AND 1980, ALMOST EQUAL TO THE GROSS NATIONAL PRODUCT, A REPORT BY CONGRESS' ECONOMIC COMMITTEE CLAIMS.

THIS YEAR ALONE, THE REPORT SAID, THE GAP BETWEEN ACTUAL AND POTENTIAL OUTPUT WILL BE 14 PER CENT.

"THIS TRAGIC AND ENORMOUS LOSS IS THE MOST PERSUASIVE ARGUMENT IN FAVOR OF ADOPTING POLICIES THAT BRING ABOUT MORE RAPID RECOVERY FROM THE PRESENT RECESSION AND THAT BUILD TOWARD A CONDITION OF FULL EMPLOYMENT WITH REASONABLE PRICE STABILITY," THE PANEL SAID.

TO ACHIEVE THAT GOAL, THE COMMITTEE'S DEMOCRATIC MAJORITY CALLED FOR SPENDING THAT WOULD ADD BETWEEN $15 BILLION AND $20 BILLION TO THE FISCAL 1976 DEFICIT. SOME OF THIS DEFICIT SPENDING WOULD GET BACK TO THE TREASURY IN TAX RECEIPTS FROM A HIGHER LEVEL OF ECONOMIC ACTIVITY.

THE COMMITTEE DID NOT ESTIMATE THE TOTAL 1976 DEFICIT. TREASURY SECRETARY WILLIAM SIMON SAID IT IS LIKELY TO REACH $80 BILLION.

THE DEMOCRATS CALLED FOR MORE GENEROUS MORTGAGE INTEREST RATE SUBSIDIES, UNEMPLOYMENT COMPENSATION, A PUBLIC SERVICE JOBS PROGRAM AND A MASSIVE INFUSION OF FEDERAL DOLLARS TO HELP CITIES AND STATES STAGGERING FROM THE RECESSION'S SIDE EFFECTS.

THE REPORT PREDICTED UNEMPLOYMENT WOULD RISE BEYOND 9 PER CENT THIS YEAR. BUT THE COMMITTEE AGREED WITH THE ADMINISTRATION THAT THE RECESSION IS LIKELY TO HIT BOTTOM THIS SUMMER.

UPI 03-24 08:47 AED

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

March 24, 1975

TO DONALD RUMSFELD

ROBERT T. HARTMANN

From L. William Seidman LWS

Attached is Alan Greenspan's first draft of the statement with respect to the signing of the tax bill.

The Economic Policy Board Executive Committee will be reviewing this subject at its March 25 meeting.

Encl.

On January 16, I requested that the Congress enact a $16 billion reduction in taxes and that it give this matter the quick and urgent attention that it required. The reason for quick action was to provide support for the economy, through restoring some of the purchasing power which was taken from the American people by the inflation of 1973 and 1974. In my judgment, the tax reduction was, and is, a key ingredient both in supporting the economy during the first half of the year when it is declining and in helping initiate a recovery during the second half of the year.

I have been very concerned that the Congress has not moved much more quickly to speed the enactment of my simple tax reduction proposal. It has been held up and delayed. By introducing several extraneous issues into the legislation the Congress has encumbered passage of this vital legislation. This is legislative behavior of the worst sort which holds hostage the fortunes of the nation's economy in order to gain consideration for one's own views. Even after the action of the Conference Committee a number of items of quite dubious merit (such as ________) are still incorporated in the tax bill which arrived here on my desk on March _____. Altogether the bill calls for a total of $_____ billion in tax reductions compared with the $16 billion that I proposed. By itself this would not be alarming.

In recent weeks, however, it has become apparent to me that the Congress is not going to enact the $17 billion expenditure deferrals and recissions that I proposed in my February budget. It has also become apparent to me that the Congress is starting to embark upon a whole series of new spending initiatives despite my request for a moratorium on such new programs. These Congressional initiatives would go far beyond the measures which I proposed in the Budget. They threaten to bust the budget in a dangerously irretrievable way and to create a huge deficit for fiscal 1976 that could approach $100 billion or double my budget proposals.

I have reviewed this situation very carefully and I believe that we are on the verge of having a runaway inflationary budget imposed upon the country by the Congress. While we may struggle through this year without significant adverse inflationary consequences, the deficits which loom ahead could be fatal to our economy as we emerge from the severest recession since the 1930's. The momentum of the Congressional approach will be almost impossible to turn off in the future so that after the recovery begins we will once again find ourselves in with an excessive and inflationary budget deficit which will be impossible to reduce in 1976 or 1977. By adding programs today which will continue in the future we will again apply too much stimulus to the economy at precisely the wrong time. We will make a solid, sustainable and noninflationary recovery in our economy impossible.

Individually the programs which the Congress enacts are often good in themselves. While we may disagree on the need for a particular program or action or upon the size of the outla these programs usually provide benefits to some deserving group. A number of the people who are advocating massive expansions in federal assistance to the poor consider any program to restra federal spending lacking in compassion. Nothing can be further from the truth. Fiscal irresponsibility undermines the producti ness of our economy. It is the poor who suffer most during periods of severe economic conditions. To be poor means to lack the resources to overcome economic adversity. The rich and the middle income people can manage to cope with economic hardship but the poor cannot. Thus, the most compassionate policy one can embrace in the name of the poor is one that fosters and assists our productive economy. So it is not that the individual programs are undesirable. It is simply that the sum total is unacceptable because of the consequences it woulc hve for the budget and for the future health of the economy.

If we allow a runaway budget we will quickly find ourselves right back in any inflationary spiral. Instead of further progres in reducing inflation we will recreate inflation. Instead of a further movement away from government controls and regulations affecting our everyday life we will be forced backwards into adopting more of them. Instead of less unemployment we will cause more because as we have seen again and again inflation is the enemy of a stable and fully employed economy. It destroys jobs instead of creating them. Instead of lessening social distress and hardship we will create more.

I recognize that the American people are currently suffering a great deal of distress. We are experiencing a severe recessio The most severe in fact since World War II. If I could turn a dial or wave my hand and somehow quickly restore prosperity and stable prices to us, I would already have done so. It was to help start us in that direction that I proposed the tax cuts in January. These tax reductions are essential and even though the Congress has gone further than I thought wise and has included several items which are of dubious merit to say the least, I am going to sign the legislation. We require a tax reduction. It is just that simple. In the weeks and months ahead we are going to have to examine unemployment compensation benefits. Obviously, as extensions and additional funding are required we must provide them. But in doing so I must point out several facts -- hard and difficult facts which must be faced now while there is still time to avoid the danger.

The failure of the Congress to act to defer the $17 billion expenditures, as I proposed, taken together with the larger tax reduction has already lifted the budget deficit to $70 billion. Although my advisers tell me that a $70 billion deficit may be capable of being financed in 1975 there is obviously a good chan that the heavy pressure of large Federal borrowings will begin to push interest rates up faster and farther than any of us woul like to see. My advisers also tell me that a larger deficit will create serious problems. A larger deficit will drive interest rates upward even more sharply and probably cause inflationary increases in the money supply during 1976. It seems to me that even if a $70 billion deficit is barely tolerable this year that it will not be tolerable next year when the economy will be recovering. Moreover, the present direction which the Congress is now taking will not lead to a smaller deficit next year. It will lead to an even larger deficit and we must not forget that the normal political pressures and jockeying of an election year are bound to add further to whatever projections we are able to draw up at this point.

I believe that we must draw a line here. The Congress must come to grips with what it is doing. It must examine and consider the implications for the future of the wild runaway spending binge which will be the result of the well-intentioned effort to pump up the economy now. The end of that road is inflation and even more unemployment. I am therefore calling upon the Congress to wait - to wait and see how the economy will react to the tax cuts before rushing forward to fashion an even larger and growing deficit and the dangers which it entails upon the American people. To this end, I am going to veto all excessive expenditure proposals sent me by the Congress - - and I must have the support of you, the American people, in this effort. Only you can convince your representatives in the Congress to act responsibly. And I ask you to try.

[ca. 3/24/75]

On January 16, I requested that the Congress enact a $16 billion reduction in taxes and that it give this matter the quick and urgent attention that it required. The reason for quick action was to provide support for the economy, through restoring some of the purchasing power which was taken from the American people by the inflation of 1973 and 1974. In my judgment, the tax reduction was, and is, a key ingredient both in supporting the economy during the first half of the year when it is declining and in helping initiate a recovery during the second half of the year.

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This Copy For ______________

N E W S   C O N F E R E N C E   #172

AT THE WHITE HOUSE

WITH RON NESSEN

AT 5:22 P.M. EDT

MARCH 26, 1975

WEDNESDAY

MR. NESSEN: You know about the Congressional leaders' meeting and you talked to some of them.

Q How long was it?

MR. NESSEN: It lasted from four o'clock until about 20 of five. The House Members had to leave because they were called back into session at 4:45.

Q What was the format of the meeting? Was it a give and take?

MR. NESSEN: Everybody just expressed his views on the bill and the veto, how they stood and what the outlook was for overriding it, if it came to that, or sustaining, and that kind of thing. Everybody just expressed an opinion.

Q What was the President's opinion?

MR. NESSEN: The President said that he had serious concerns about what he has heard about the bill. I want to back up and say that nobody had a copy of the bill, and nobody had a very clear idea of what was in the bill.

They told the President that they had been told on the Hill that they might have three copies printed in time for the House vote, but at that point nobody had a printed copy of the bill or knew exactly what was in it.

The President said that he still believes that a tax cut is the best way to stimulate the economy. He was concerned about what he called the "astronomical" spending proposals that are moving through Congress. So, he has to weigh the tax cut bill against those oncoming spending proposals.

MORE #172

Dr. Greenspan was called upon to give an economic report as best he could, but so little was known about the bill that he wasn't really able to give very much.

Q Did he make a recommendation?

MR. NESSEN: No, he did not.

Q Ron, would it be fair -- if I can go back to astronomical, what was the word after astronomical?

MR. NESSEN: Spending proposals moving through Congress.

Q Would it be fair to attach that description to the $22.8 billion reported out by the Conference Committee?

MR. NESSEN: You see, it is so difficult to talk about this, Ralph, because nobody has gotten the bill and added up the numbers yet.

As you know, the House bill, at one time, was called a $21.3 billion, and then it turned out to be $19.8 billion, so this is called a $23 point something billion, but nobody down here has sat down and added it up to see what it really does come to.

MORE

Q If it was $22.8 billion, would that be astronomical spending?

MR. NESSEN: Let me go on to something else that has happened, and perhaps that will put all this into perspective.

After that, the President adjourned to his office and invited some of his advisers into his office. They were Mr. Hartmann, Mr. Marsh, Secretary Simon, Director Lynn, Bill Seidman, Al Greenspan, Max Friedersdorf and myself. That conversation went on from 4:45 until just now.

Q Where was Rumsfeld?

MR. NESSEN: Rumsfeld is out of town making a speech, I am told.

Q Dick Cheney was not there either.

MR. NESSEN: Dick Cheney is in Saudi Arabia.

Q Was Zarb there?

MR. NESSEN: Zarb was not there.

Q For a deadline, could you go ahead?

MR. NESSEN: I have very little more to tell you except this follow-up meeting continued a discussion of the bill. As I say, so very little is known about what is in the bill.

Bill Simon, for instance, pointed out -- and he has been up, I guess, in touch with the people on the Hill as they wrote their conference report -- the section on housing, for instance, is worded, according to Bill Simon, in such a vague way that it is not clear to him what houses would be affected by this $2000 tax credit. He can't get a firm idea of whether it is houses started before January 1 or completed before January 1.

Q Ron, it is houses started as of yesterday.

MR. NESSEN: You see, Simon says from what he has read of the language that he is not clear. Anyhow, what I am saying is there was some discussion of some of the amendments and, since there is no written copy of the bill up here, nobody could be very positive about what these amendments meant and analyze whether they were acceptable or unacceptable.

What I am saying is, in sum, for your leads, that the President has got to wait until he gets a copy of the bill and he and his advisers can go over it before he makes his decision whether to sign or veto.

Q Will that be tonight?

MR. NESSEN: No, I certainly don't expect it tonight, and probably not tomorrow. Probably it will be several days before he makes up his mind.

Q Will he stay in town until he makes his decision?

MR. NESSEN: Certainly so.

Q It will probably be several days?

MR. NESSEN: I said certainly not to day and probably not tomorrow, and very likely it would take several days.

Q California is out, then?

MR. NESSEN: The President, at the end of the meeting, said, "This is Wednesday, and we are not supposed to go until Saturday, so we have some time." He has not decided about California yet either, whether to go or not to go.

Q Has he assessed the prospects of upholding or overriding?

MR. NESSEN: As I say, that was one of the matters discussed in the prior meeting with Congressional leaders.

Q What did they tell him?

MR. NESSEN: There is no clear view of what the outcome will be.

Q Did the leaders tell him what Congress will do in the meantime while waiting for his decision? Will they leave, go home or stay here?

MR. NESSEN: Some will leave and some will not. Seriously, that was the report. Some will leave and some will stay and some will do neither.

Q Ron, there has been a great deal of confusion over this concern being expressed about the spending programs as opposed to the amendments in the final bill.

MR. NESSEN: Yes.

Q Some people have been saying, or describing the amendments, as part of this spending program. You made it sound as if the amendments are outside. There are other things going through Congress.

MR. NESSEN: I hope I didn't give that impression because at the follow-up meeting in the President's office Bill Simon and others pointed out that some of the amendments in the bill, in all fairness, could be described as spending programs.

Q What amendments?

MR. NESSEN: Earned income is a new welfare program -- by Bill Simon's definition -- and he said, right across the desk to the President, "That is a new spending program."

Q Is that in the bill now?

MR. NESSEN: From the varying reports we have gotten --

Q Was it cut in half, Ron?

MR. NESSEN: As I said, you can see how much we know about the bill. It is all written on a page and a quarter.

Q Who supplied you with that?

MR. NESSEN: This came from the Congressional liaison people.

Q If that is a new spending program, then he will have to veto, wouldn't he, according to his previous statements?

MR. NESSEN: Phil, you know, seriously, he is simply not going to decide for at least several days.

Q What do you mean by several days? Do you mean a weekend or beyond?

MR. NESSEN: Helen, if I could pin it down more firmly, I would, but I can't because the President himself doesn't know.

Q Would you say several days is the rest of the week or will lapse over to next week?

MR. NESSEN: I just don't at this moment have a clear idea.

Q Ron, does he consider that housing clause --

MR. NESSEN: Gaylord, you have come back. I have something in my office, if you will come in afterwards, that I want to give you.

Q Does he consider that housing amendment up to $2000 a spending program?

MR. NESSEN: I don't know that that expression was used to apply to that. The main complaint about that was that nobody knew what it said and what it applied to.

Q But you said earlier that that could be regarded as a spending program.

MR. NESSEN: No, I said the earned income provision was described explicitly by Bill Simon as a new spending program.

MORE

Q What does the astronomical spending apply to?

MR. NESSEN: You know, some of the bills moving through Congress were mentioned in there -- the 5.9 public jobs bill was mentioned, and the farm bill was mentioned. I don't know that any others were mentioned by name except those two, but the figure, as I am sure some of you are aware, has been put together by the Administration in which you add all the spending bills that are moving through and get a budget deficit of around $100 billion.

Q Ron, does this mean the President is considering vetoing a tax cut bill on the basis of spending that may or may not be enacted?

MR. NESSEN: He is weighing all the factors in it; that is, the dollar total of the tax cut, itself; the amendments unrelated to the original purpose of the bill, which was an anti-recession tax cut; and the other spending proposals not part of this bill that are moving through Congress pushed by the Democrats.

Q But he doesn't know what is going to happen to these other spending proposals?

MR. NESSEN: He doesn't know what is going to happen to them, but you can see they are moving through.

Q I am told by some pretty good sources on the committee that the President told Chairman Ullman and Chairman Long he would accept a package that came in under $25 billion. Is that inaccurate? Is that an incomplete statement, perhaps with reference to --

MR. NESSEN: I just don't know about the episode at all.

Q Further, I was told that after the committee finished with the bill that Secretary Simon got up and shook hands all around and told people it was a good bill. The Secretary didn't come back and report that at all?

MR. NESSEN: He certainly didn't tell that to the President in his office.

Q Does the President want Congress to remain here?

MR. NESSEN: At the moment, the strategy is not clear, Helen.

Q Ron, is the President aware that Chairman Ullman said that the House, at least, has the votes to override a veto? Did he know that?

MR. NESSEN: He was given various estimates in the Congressional leaders' meeting but not that specifically. There was no consensus on whether there were the votes to sustain or not sustain. There were various views expressed. There was no consensus.

Q Some thought that you could and some thought you couldn't?

MR. NESSEN: Yes.

Q What was the majority sentiment for a veto, for or against a veto?

MR. NESSEN: There was no vote taken.

Q I mean, among the Congressional leaders, those who spoke up, did most seem to advise veto?

MR. NESSEN: There were various opinions. I don't know that you could say there was a majority one way or the other.

Q It was really quite mixed?

MR. NESSEN: It was totally mixed.

Q Do you expect the President to give some indication to the Congressional leaders within the next few hours, or tomorrow, whether they should stick around?

MR. NESSEN: I just don't think he has made up his mind yet on whether to even ask for that.

Q What was his mood? Was he angry?

MR. NESSEN: No.

Q Did he show any emotion at all?

MR. NESSEN: No.

Q Ron, quite apart from no decision tonight or tomorrow,do you anticipate that after the votes are taken tonight you will have further comment?

MR. NESSEN: No.

Q Ron, did the President urge Republican Members to stay for the tax vote?

MR. NESSEN: For the vote tonight on the bill?

Q Yes.

MR. NESSEN: No, he did not urge them, but there was never any question raised --

Q I thought you said earlier that some were leaving.

MR. NESSEN: I hope it was clear that after the vote tonight, some would be leaving and some staying for a variety of reasons.

Q Was the President made aware of a statement by Senator Long to the effect that if the President vetoes this, he may be surprised by what is in the next tax bill that reaches his desk?

MR. NESSEN: He was told that, yes.

Q Did he have any response?

MR. NESSEN: He was told that by one of the Republican Members, but he did not have any reaction to it.

Q Did he talk to Long or Ullman today?

MR. NESSEN: Not that I am aware of, no.

THE PRESS: Thank you.

END (AT 5:36 P.M. EDT)

March 26, 1975

Dear __________:

The conference report on H.R. 2166, completed this afternoon is a very complicated bill. It involves not a simple tax rebate as I proposed, but instead provides for some numerous major changes in our tax law. These complicated changes affect welfare, housing, energy, and other major economic areas.

This major tax bill calls for careful study which none of us have had the time to perform. Hearings have not been held on most provisions and no detailed report is available for explanation.

As urgent as the need for a tax rebate is, I do not believe it is wise to attempt to form an opinion on this bill in the next _____ hours.

The bill contains precedent-setting provisions that in all likelihood will become permanent because of their nature. This accentuates the need for a deliberate review. My initial view is that a great many sections of the bill are unsound and will make true tax and welfare reform difficult, if not impossible, to accomplish in the near future.

Further, the substantial loss of revenue must be carefully considered in the light of the huge deficits which you are contemplating now and in the future -- perhaps approaching $100 billion. The bill may well retard rather than stimulate economic recovery and employment. For these reasons I ask you to defer your action on the conference report until you return after Easter. I will also give it serious study and will give you my considered views as soon as I can fairly evaluate the overall effect of the added elements.

From my own experience I know that responsible Members will find it impossible to familiarize themselves with all the ramifications of the Conference Committee's recommendations on a major tax bill involving over $22 billion in a few hours. I hope the Congress will act in an orderly and responsible way.

Sincerely,

3/26/75

1

~~Gentleman:~~

The Conference report on ~~You have before you for vote~~ H.R. 2166, This ~~bill was reported by the conference at 2 p.m.~~ completed this afternoon and ~~you are scheduled to begin debate at ______.~~ ~~This~~ It is a very complicated bill, involv~~ing~~es not a simple tax rebate as I proposed, but instead ~~it~~ provides for some ~~80~~ numerous major changes in our tax law. These complicated changes affect welfare, housing, energy, and other major economic areas.

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For these reasons I ask you to ~~delay~~ defer your action on the conference ~~bill~~ report until you return after Easter. I will also ~~be~~ give it ~~my~~ serious study ~~at work~~ and will give you my considered views ~~on the bill~~ as soon ~~as it~~ I can ~~be~~ fairly evaluate ~~it~~ the overall effect of the ~~many~~ added elements.

~~I request that you withhold action on the bill so that it can be reviewed and, changes made, if required. Hasty action now I believe would be unwise (irresponsible).~~

Sincerely,

From my own experience I know that ~~these~~ responsible members will find it impossible to ~~$~~ familiarize themselves with all the ramifications of the Conference Committees' ~~actions~~ recommendations on a major tax bill involving over $22 billion in a few hours. I hope the Congress will act in an orderly & responsible way.

March 25, 1975

Dear Mr. Speaker:

I am writing you while the Conference Committee is considering the House and Senate versions of H.R. 2166, the tax cut which I urged last January to stimulate the economy. Although I am most anxious to sign a bill along the lines I have proposed, I am now concerned that Congress is trying to do too much in the legislation the Conferees are considering, thereby providing an economic stimulus far beyond that which is needed.

The Conferees and the Members should understand that I will be unable to accept a bill so encumbered with extraneous amendments and of such deficit-increasing magnitude as to nullify the intended effect of a one-time stimulant.

The purpose in asking the Congress to enact a simple tax cut as quickly as possible was to stimulate the economy. I proposed temporary one-time tax cuts totalling $16 billion. My proposal was designed to provide maximum stimulus without setting the stage for a new inflationary spiral when the economy starts to recover. Reasonable men can differ on the exact size of the tax cut, but everyone agrees on the need for prompt action. I indicated my willingness to compromise within reasonable limits.

I regret that the Senate version of H.R. 2166 goes far beyond the purpose of providing a quick stimulus and mortgages our economic future in a way that is unacceptable to me. It is unacceptable because:

(1) The Senate version would increase the size of the tax reduction from $16 billion to more than $30 billion — roughly doubling the impact on combined fiscal years 1975 and 1976 budget deficits already far too high. That increase must be considered in the context of other Congressional actions and inaction. If Congress continues its present pattern of rejecting the spending cuts I proposed, the deficit would grow by an <u>additional</u> $16 billion. And the minimum cost of the additional spending programs being considered in the Congress would add still another $29 billion. In combination, these Congressional actions would increase these deficits by $59 billion.

such an enormous increase in an already substantial deficit jeopardizes the prospect of economic recovery and makes us hostage to future inflation.

(2) Although both bills incorporate billions of dollars of tax reductions which are temporary as written, they are of such a nature that they will undoubtedly continue next year and beyond. That is a sure formula for larger deficits and spiralling inflation for years to come, unless offset by other revenues or spending cuts. My proposal was for a one-year stimulant limited to $16 billion. An amount unreasonably larger than the House bill could do more harm than good.

(3) The Senate version would raise major obstacles to badly needed reforms in the tax and welfare systems. I regard both reforms as matters of high priority. Both require the most careful deliberation but not in this emergency anti-recession legislation.

(4) The Senate version distributes the federal income tax burden unfairly by eliminating too many citizens from paying any tax. My January proposal would have distributed tax cuts evenly to those who now carry the tax load. I recommend that the conferees and the members review the bills before you to be sure that they do not discriminate against middle-income Americans, who already carry the major share of the tax burden.

(5) The Senate version, in particular, has several provisions which will not contribute to economic recovery and may cost additional jobs. I have consistently urged an uncomplicated tax refund to put extra purchasing power in the hands of American taxpayers.

I urge the conferees basically to accept the House bill with minor revisions. I am prepared to work with the Committees and the Congress as long as necessary to assure the American people of a reasonable tax cut which will stimulate the economy without jeopardizing its future.

Sincerely,

GERALD R. FORD

The Honorable
The Speaker
U.S. House of Representatives
Washington, D.C. 20515

cc: The Honorable John J. Rhodes
The Honorable Thomas P. O'Neill, Jr.
The Honorable Herman T. Schneebeli
The Honorable Al Ullman

Dear Mr. Speaker:

I am writing you while the Conference Committee is considering the House and Senate versions of H.R. 2166, the tax cut which I urged last January to stimulate the economy. After taking ~~far~~ too long ~~to do anything at all to reverse the recession,~~ a time to move on a quick & effective tax reduction bill I am deeply concerned that the Congress is now trying to do too much.

I want the conferees and the Members to understand beyond any shadow of doubt that I will not accept a tax cut bill so loaded with extraneous amendments and of such deficit-increasing magnitude as to nullify the intended effect of a one-shot stimulant.

Ten weeks ~~Two months~~ ago, I asked the Congress to enact a simple tax cut as quickly as possible. The purpose was to stimulate the economy. I proposed temporary one-time tax cuts totalling $16.5 billion. My proposal was designed to provide maximum stimulus without setting the stage for a new inflationary spiral when the economy starts to recover. Reasonable men can differ on the exact size of the tax cut, but everyone agrees on the need for prompt action. I indicated my willingness to compromise within reasonable limits.

I regret that the Senate version of H.R. 2166 goes far beyond the purpose of providing a quick stimulus and mortgages our economic future in a way that is unacceptable to me. It is unacceptable because:

(1) The Senate version ~~bill~~ would increase the size of the tax reduction from $16.5 billion to more than $30 billion -- roughly doubling the impact on ~~a~~ budget deficits already far too high. That increase must be considered in the context of other Congressional actions and inaction. If Congress continues its present pattern of rejecting the spending cuts I proposed, the deficit would grow by an additional $16 billion. And the minimum cost of the additional spending programs being considered in the Congress would add still another $20 billion. In combination, these Congressional actions would increase ~~the~~ these deficits by $50 billion ~~over and above the tax cut I proposed.~~

Combined FY 1975 and 1976.

Such an enormous increase in an already enormous deficit jeopardizes the prospect of economic recovery and makes us hostage ~~s~~ to future inflation.

(2) Both bills incorporate billions of dollars of tax reductions which are ~~formally~~ nominally temporary but which are of such a nature that they will undoubtedly continue next year and beyond. That is a sure forumula for larger deficits and spiralling inflation for years to come, unless offset by other revenues or spending cuts. My proposal was for a one-year stimulant limited to $16.5 billion. An amount larger than the House bill could do more harm than good.

(3) The Senate version would raise major obstacles to sensible changes in the tax and welfare systems. I regard both tax reform and welfare reform as matters of high priority. Both require the most careful deliberation but not in this emergency anti-recession legislation.

Bill Seidman has seen and approved
Pres

OMA

distributes the federal income tax burden unfairly by eliminating

(4) The Senate version ~~is not equitable and eliminates a substantial additional number of~~ citizens from paying any tax. My January proposal would have distributed tax cuts evenly to those who now carry the tax load. I ask you to review the bills before you to be sure that they do not discriminate against middle-income Americans, who already carry the major share of the tax burden.

The Senate version, in particular,

(5) ~~It~~ has several ill-considered and costly provisions which will not contribute to economic recovery and may cost additional jobs. I have consistently urged an uncomplicated tax refund to put extra purchasing power in the hands of American taxpayers.

I urge the conferees basically to accept the House bill with minor revisions. I am prepared to work with the Committees and the Congress as long as necessary to assure the American people of a reasonable tax cut which will stimulate the economy without jeopardizing its future.

too many

3/25/75

Dear Mr. Speaker:

I am writing you while the Conference Committee is considering the House and Senate versions of H.R. 2166, the tax cut which I urged last January to stimulate the economy. Although I am most anxious to sign a bill along the lines I have proposed, I am now concerned that Congress is trying to do too much in the legislation the Conferees are considering, thereby providing an economic stimulus far beyond that which is needed.

The Conferees and the Members should understand that I will be unable to accept a bill so encumbered with extraneous amendments and of such deficit-increasing magnitude as to nullify the intended effect of a one-time stimulant.

The purpose in asking the Congress to enact a simple tax cut as quickly as possible was to stimulate the economy. I proposed temporary one-time tax cuts totalling $16.[illegible] billion. My proposal was designed to provide maximum stimulus without setting the stage for a new inflationary spiral when the economy starts to recover. Reasonable men can differ on the exact size of the tax cut, but everyone agrees on the need for prompt action. I indicated my willingness to compromise within reasonable limits.

I regret that the Senate version of H.R. 2166 goes far beyond the purpose of providing a quick stimulus and mortgages our economic future in a way that is unacceptable to me. It is unacceptable because:

(1) The Senate version would increase the size of the tax reduction from $16. billion to more than $30 billion -- roughly doubling the impact on combined fiscal years 1975 and 1976 budget deficits already far too high. That increase must be considered in the context of other Congressional actions and inaction. If Congress continues its present pattern of rejecting the spending cuts I proposed, the deficit would grow by an

? additional $16 billion. And the minimum cost of the additional spending programs being considered in the Congress would add still another $20 billion. In combination, these Congressional actions would increase these deficits by $50 billion.

Figures don't add up

(MORE)

Such an enormous increase in an already substantial deficit jeopardizes the prospect of economic recovery and makes us hostage to future inflation.

(2) Although both bills incorporate billions of dollars of tax reductions which are temporary as written, they are of such a nature that they will undoubtedly continue next year and beyond. That is a sure formula for larger deficits and spiralling inflation for years to come, unless offset by other revenues or spending cuts. My proposal was for a one-year stimulant limited to $16.5 billion. An amount larger than the House bill could do more harm than good.

(3) The Senate version would raise major obstacles to badly needed reforms in the tax and welfare systems. I regard both reforms as matters of high priority. Both require the most careful deliberation but not in this emergency anti-recession legislation.

(4) The Senate version distributes the federal income tax burden unfairly by eliminating too many citizens from paying any tax. My January proposal would have distributed tax cuts evenly to those who now carry the tax load. I recommend that the conferees and the members review the bills before you to be sure that they do not discriminate against middle-income Americans, who already carry the major share of the tax burden.

(5) The Senate version, in particular, has several provisions which will not contribute to economic recovery and may cost additional jobs. I have consistently urged an uncomplicated tax refund to put extra purchasing power in the hands of American taxpayers.

I urge the conferees basically to accept the House bill with minor revisions. I am prepared to work with the Committees and the Congress as long as necessary to assure the American people of a reasonable tax cut which will stimulate the economy without jeopardizing its future.

# # #

March 26, 1975

Dear __________:

The conference ~~report~~ action on H.R. 2166, completed this afternoon is a very complicated bill. It involves not a simple tax rebate as I proposed, but instead provides for ~~some~~ numerous major changes in our tax law. These complicated changes affect welfare, housing, energy, and other major economic areas.

This major tax bill calls for careful study which none of us have had the time to perform. Hearings have not been held on most provisions and no detailed report is available for explanation.

As urgent ~~as~~ the need for a tax rebate is, I do not believe it is wise for either the Congress or the President to attempt to form an opinion on this bill in the next _____ hours.

The bill contains precedent-setting provisions that in all likelihood will become permanent because of their nature. This accentuates the need for a deliberate review. My initial view is that a great many sections of the bill are unsound and will make true tax and welfare reform difficult, if not impossible, to accomplish in the near future.

Further, the substantial loss of revenue must be carefully considered in the light of the huge deficits which you are contemplating now and in the future -- perhaps approaching $100 billion. The bill may well retard rather than stimulate economic recovery and employment. For these reasons I ask you to defer your action on the conference report until you return after Easter. I will also give it serious study and will give you my considered views as soon as I can fairly evaluate the overall effect of the added elements.

From my own experience I know that responsible Members will find it impossible to familiarize themselves with all the ramifications of the Conference Committee's recommendations on a major tax bill involving over $22 billion in a few hours. I hope the Congress will act in an orderly and responsible way.

Sincerely,

3/26/75

Gentleman:

You have before you for vote H.R. ________. This bill was reported by the conference at 2 p.m. and you are scheduled to begin debate at ________. This is a very complicated bill involving not a simple tax rebate as I proposed, but, instead, ~~it provides for~~ some 60 major changes in our tax law. These complicated changes affect welfare, housing, energy, and ~~other major economic areas~~ more fundamental changes in who ~~is tax~~ is or isn't taxed, who is [illegible] and how much.

~~This major tax bill calls for careful study which none of us have had the time to perform.~~ Hearings have not been held on most provisions and no materials are available for evaluation.

As urgent as the need for a tax rebate is, I do not believe it is wise for either the Congress or the President to attempt to form an opinion on this bill in the next ____ hours.

The bill contains provisions that will in all likelihood become permanent because of their nature. This accentuates ~~rates~~ the need for deliberate review. My initial view is that a great many sections of the bill are unsound and will make true tax and welfare reform difficult, if not impossible, of accomplishment in the near future.

Further, the substantial and likely permanent loss of revenue must be carefully considered against the huge deficits which we are now incurring and will likely incur in the ~~future~~ years immediately ahead. The bill may well be detrimental rather than of aid to our economy and our ~~searces~~ search for jobs.

For these reasons I ask you to delay action on the bill until you return after Easter. I will also be at work and will give you my view on the bill as soon as it can be fairly evaluated.

I request that you withhold action on the bill so that it can be reviewed and, changes made, if required. Hasty action now I believe would be unwise (irresponsible).

Sincerely,

CONFERENCE ACTIONS - 3/26/75

Conference was completed at approximately 3:00 p.m. The following agreements were reached:

(1) Foreign source income - agreed to compromise on deferral of foreign source income affecting "tax haven" countries (Treasury indorses). Revenue gain - $225 M.

Agreed to compromise tax credit provision relating to oil income. (Treasury indorses). Revenue gain - $300 M.

(2) Percentage depletion of oil and gas - agreed to compromise with following elements:

(a) 2000 bbl. exemption phased down by 200 bbls. per day each year to a 1000 bbl. permanent exemption:

1975 - 2000
1976 - 1800
1977 - 1600
1978 - 1400
1979 - 1200
1980 - 1000

(b) Percentage holds at 22% to 1980 then phases down over 4 years to 15%:

1981 - 20%
1982 - 18%
1983 - 16%
1984 - 15%

(c) The 50% limitation on amount of depletion that can be taken against taxable income is increased to 65%.

(d) Secondary and tertiary wells keep the 22% depletion until 1984. After 1984 the percentage drops to 15%.

Revenue gain - $1.7B.

(3) Housing tax credit - adopted modified Senate provision. Credit of 5% of purchase price to maximum of $2000 for new houses in being as of 3/25/74. Price must be certified by builder/seller as the lowest price offered. False certification subjects seller to money damages and criminal penalties. Revenue loss - $.6B.

(4) Social Security payment - adopted modified Senate provision cutting payment from \$100 to \$50. Revenue loss - \$1.7B.

(5) Individual tax cuts - adopted compromise:

(a) Minimum standard deduction increased from \$1300 to \$1600 for single taxpayers and from \$1300 to \$1900 for joint return taxpayers.

(b) Increased the percentage standard deduction from 15% to 16% and the maximum allowed for singles from \$2000 to \$2500 and for joint returns from \$2000 to \$3000.

(c) Provided for a tax credit of \$30 per person (dependents). Revenue Loss - \$7.8B.

TOTAL REVENUE LOSS - $\underline{\underline{\text{\$22, 8B}}}$

MARCH 26, 1975

Office of the White House Press Secretary

NOTICE TO THE PRESS

The President met with his economic and energy advisers for one hour and 15 minutes this morning in the Roosevelt Room. The advisers gave him their analysis of provisions of the tax bill being considered by the Senate and House Conference. As a result of the analysis, the President said he was "very concerned by ~~the~~ many of the provisions ~~contents~~ of the proposed bill."

Attending the meeting were Alan Greenspan, Arthur Burns, William Seidman, John Dunlop, Frank Zarb, James Lynn, Brent Scowcroft and Fred Dent.

The Presidetn has invited Republican Congressional leaders to the White House at 4:00 p.m. today to discuss the contents of the tax bill as the Conference nears completion of its work.

Those invited are Senators Hugh Scott, Robert Griffin, Clifford Hansen, Robert Dole, Paul Fannin, and John Tower, and Representatives John Rhodes, Robert Michel, John Anderson, Herman Schneebeli, and Barber Conable.

# # #

UP-122

ADD 3 TAXES, WASHINGTON

THE MEASURE, APPROVED BY HOUSE-SENATE CONFEREES LATE WEDNESDAY NIGHT, WENT TO THE WHITE HOUSE AFTER ASSISTANT HOUSE DEMOCRATIC LEADER JOHN MCFALL OF CALIFORNIA SIGNED IT ON BEHALF OF SPEAKER CARL ALBERT.

"OUR PROBLEMS DO NOT PERMIT DELAY OR STUDY," MCFALL SAID AT THE SIGNING. "THE BILL NEEDS TO BE SIGNED INTO LAW PROMPTLY."

"THIS IS NOT TIME TO LISTEN TO BIG BUSINESS OPPOSITION OR TO THE ADVICE OF ECONOMIC ADVISERS WHO HAVE BEEN PROVEN WRONG TIME AND AGAIN," MCFALL SAID. "IT IS TIME TO LISTEN TO THE PEOPLE."

FORD HAS UNTIL APRIL 8 TO EITHER ACCEPT OR REJECT THE LEGISLATION.

PRESIDENTIAL AIDES SAID THE INCH-THICK COPY OF THE BILL RECEIVED BY THE WHITE HOUSE WEDNESDAY EVENING CONTAINED PENCILED-IN INSERTIONS, SECTIONS THAT HAVE BEEN CROSSED OUT AND MARGINAL NOTATIONS.

REPUBLICAN LEADERS MET WITH THE PRESIDENT THURSDAY MORNING, AND HOUSE GOP LEADER JOHN RHODES OF ARIZONA TOLD REPORTERS AFTERWARD: "HE IS CERTAINLY CONSIDERING VERY SERIOUSLY ABOUT VETOING THIS BILL ... IT'S MY OPINION THAT THERE WILL BE A VETO AND I THINK THERE SHOULD BE A VETO."

REP. JOHN ANDERSON OF ILLINOIS, THIRD-RANKING IN THE HOUSE REPUBLICAN LEADERSHIP, SAID HE ADVISED FORD TO SIGN THE MEASURE "BUT MY ADVICE WAS IN THE MINORITY OF THE REPUBLICAN LEADERSHIP WHO MET WITH THE PRESIDENT."

UPI 03-27 03:42 PED

UP-092

(FORD)

WASHINGTON (UPI) -- PRESIDENT FORD FEELS THE HOUSE WOULD SUSTAIN A VETO OF THE CONGRESSIONALLY APPROVED TAX BILL IF HE DECIDES ON THAT ACTION, THE WHITE HOUSE SAID TODAY.

PRESIDENTIAL PRESS SECRETARY RON NESSEN TOLD REPORTERS FORD WAS AWAITING AN ANALYSIS OF THE $22.8 BILLION BILL BY HIS ADVISORS. IT MIGHT BE "SEVERAL DAYS" BEFORE HE MAKES HIS DECISION ON THE MEASURE THAT WON FINAL HOUSE AND SENATE APPROVAL LATE WEDNESDAY, NESSEN SAID.

"HE HAS NOT MADE A DECISION WHETHER TO SIGN OR VETO," NESSEN SAID. BUT HE ADDED: "THE PRESIDENT BELIEVES HE COULD SUSTAIN A VETO IN THE HOUSE IF HE DECIDED TO VETO."

THE BILL CLEARED THE HOUSE 287 TO 125 AND THE SENATE 45 TO 16 BEFORE ADJOURING FOR ITS EASTER RECESS.

IN AN EARLIER VOTE, THE HOUSE FAILED BY ONLY 17 VOTES -- 214 TO 197 -- TO SEND THE BILL BACK TO THE NEGOTIATORS FOR MORE WORK. THE SLIM MARGIN APPARENTLY ENCOURAGED FORD THAT HE MAY HAVE THE STRENGTH TO HAVE HIS VOTO UPHELD.

NESSEN SAID MEMBERS OF THE PRESIDENT'S ECONOMIC POLICY BOARD, INCLUDING HIS TOP ADVISERS, MET THIS MORNING TO START REVIEWING THE PROVISIONS BUT THAT FORD WAS NOT PRESENT AT THE SESSION.

FORD HAS BEEN PLANNING TO LEAVE SATURDAY FOR A VACATION IN PALM SPRINGS, CALIF. BUT NESSEN SAID, "THE WHOLE PALM SPRINGS TRIP IS SIMPLY UP IN THE AIR" UNTIL THE TAX BILL QUESTION IS RESOLVED.

EARLIER, FORD MET AT THE WHITE HOUSE WITH FORMER WEST GERMAN CHANCELLOR WILLY BRANDT AND IS SCHEDULED TO TALK WITH GEN. ALEXANDER HAIG, SUPREME ALLIED COMMANDER IN EUROPE LATER TODAY.

UPI 03-27 01:28 PED

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PMS PRESIDENT GERALD R FORD

WHITE HOUSE

WASHINGTON DC 20500

THANK YOU FOR YOUR VERY KIND AND WARM LETTER OF MARCH 17TH I THINK YOU SHOULD SIGN THE CONGRESSIONAL TAX LEGISLATION FOR PSYCOLOGICAL REASONS IF NO OTHER. IT WOULD BE GREAT SHOCK TO THE COUNTRY IF YOU VETOED IT. AND YOU SOULD MAKE A STRONG STATEMENT THAT YOU WILL RESIST TO THE UTMOST ANY FURTHER SIZEABLE DEFICIT FINANCING IN 1975

ALF M LANDON PO BOX 1280 TOPEKA KS 66601

NNNN