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THE WHITE HOUSE

WASHINGTON

March 28, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

LWS

SUBJECT: TAX CUT BILL

I recommend you sign the tax bill with a statement making the following points:

1. A tax cut is economic action of the right type-- stimulus through taxes rather than expenditures-- at the right time--now.
2. It is a measure which will help to restore confidence.
3. It is the first step in your economic program as set forth in your State of the Union Message. Passage of the tax bill indicates that Government is not stalemated but can act. We should take credit for the tax cut initiative.
4. It provides a foundation for the second step in your economic program--NO NEW SPENDING PROGRAMS. Signing the tax cut should be accompanied by a call for a least three month observation period to permit us to see the effects of the stimulus. Your veto power should be used in the real battle--holding down Federal spending.
5. The defects of the bill are not fatal because:
 - (a) It is a one year bill. Renewal of provisions in the bill should be meshed with overall tax reform. You can call for such an approach on the basis of the need for more deliberate decision making than was evidenced by Congress in their passage of the tax bill.
 - (b) The earned income credit, while undesirable, does have several good points:

- (1) It requires work in order for individuals to qualify for payments. In this sense it does not represent a straight welfare program.
- (2) It does not entail the creation of a new agency or additional bureaucracy. It is simply a tax provision.

I find these difficulties in writing a convincing veto speech;

1. Size - A veto based on the size of the tax cut would be effective only if we really want to argue that there should be not tax cut. The amount is close to that recommended by your Labor-Management Committee.
2. Bad provisions - A veto based on bad provisions in the bill would be difficult to explain to the public.
3. Permanence - A veto on the basis that the bill contains permanent provisions would be hard to make since technically virtually all the provisions (except for the investment credit which we support) are for one year.
4. No longer necessary - There is no compelling existing evidence that a tax cut is no longer necessary.
5. Prevents reform of tax and welfare systems - This is the most serious defect but it can be met by a challenge to the Congress to act responsibly in dealing with these issues when the provisions in the tax bill are up for renewal.

Bill