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Jim

Notice handwriting on

these Q&A's on tax cut --

Should Jim Shuman have
benefit of these?

yes

Trudy

7/10/76

THE PRESIDENT HAS SEEN....

Alternative Ways of Handling
Questions of Timing on
Deep Tax Cut and Congressional
Expenditure Limit

5/10/76

The following alternatives all assume the speech stays as is. No changes are required.

Alternative #1.

- Q. The speech doesn't indicate when Congress is expected to put into effect the full tax cut or when or how Congress is to signal its agreement with the expenditure limit. What does the President expect?
- A. The President expects Congress to enact his tax proposal and adopt the limit now, before they recess again, so that the American people can have the benefit of the tax reductions effective January 1.
- Q. Isn't it totally unrealistic to expect Congress to agree to an expenditure ceiling on such short notice?
- A. Not at all. The Congressional Budget Office and the two Budget Committees have been at work for months on the second concurrent budget resolution covering FY 1976 and I'm sure they also have data on FY 1977.
- Q. They may have some FY 1977 data but surely they can't be expected to put together an FY 1977 budget on such short notice. After all, under their new statutory budget procedures, they aren't expected to have even a first resolution on FY 1977 until May of next year -- after you folks have come up with a 1977 Current Services budget in November and a 1977 Presidential budget in January.
- A. I recognize that it would speed up their timetable, but they can do it, and they should do it to give the American people the tax cut January 1 that such a pledge now to moderate federal spending growth would permit.
- Q. But do you in the Executive Branch even know what would have to be cut to hold to the \$395 billion?
- A. We have identified ways of doing it. Of course, the exact package will be presented only after extensive work by the Departments and Agencies and the President has finalized his budget. But we know it can be done and in our view it must be done. Its time that we slow down the growth of government and give our people the tax cut this would permit.

Q. What kinds of cuts have you identified?

A. They cover, as the President said, over _____ programs. For example -- let me repeat that there are many alternatives and substitutions that will be developed before the President's budget is completed --

/then we would mention some (probably with a handout). Examples would have to include the caps on the various indexed programs and these will undoubtedly be included in the stories/

But let me repeat both that the final package must be worked out with the departments and agencies ~~that~~ ^{and} although that process will probably produce changes in the mix of proposals we will still come within the \$395 billion.

Q. Are you willing to share with the budget committees the cuts you presently have in mind?

A. Of course. [needs hedging]

Q. How can you set an expenditure ceiling so early? After all, you are asking Congress to determine what kinds of expenditures and deficit are right for the economy almost a full year before FY 1977 even begins.

A. We set the \$395 billion target based on our current forecasts of the recovery path the economy can be expected to take in calendar 1976 and 1977. This of course includes all of without any extension of FY 1977.

Q. But what if your forecasts turn out to be wrong? What if the economy could use more stimulus than \$395 billion of expenditures and a mid-\$40 billions deficit would give you? Also, what if your receipts estimates or expenditure estimates are off.

A. In that case, of course one would make the adjustments necessary. But we think it vital that Congress signal now that based on what we know now and expect for the future now that expenditures can be held to \$395 billion. Without that signal, it would be irresponsible to give the American people the tax cut the President thinks they should have. At expenditures above \$395 billion the FY 1977 deficits expand into unacceptable numbers.

- Q. Let me move on to a different kind of problem presented by the President's proposal. What is your estimate of the FY 1976 deficit? First, without any extension of the temporary cuts? Second, with the extension, say, on a basis that keeps withholding constant? Third, with the President's deep tax cut effective January 1?
- A. As you know from our recent testimony before the budget committees estimating at this point is very difficult.

/Here would explain estimating problems/. However, bearing in mind these difficulties I would say that using the same basis as used in preparing the initial budget and the Mid-Session review figures the deficits look like the following ranges at the moment:

No extension -- somewhere in the low sixties.

Extension in a way to keep withholding even -- somewhere in middle sixties.

The proposal we have made -- middle to high sixties.

- Q. Come on now, aren't you assuming in those figures that Congress accepts all of the expenditure cuts the President proposed earlier in the year that are still available? And that Congress won't exceed the budget figures in the work they still have to do? What are your realistic estimates?
- A. The answers I gave you do make the assumptions you refer to. But its about time Congress wake up to the need to stick to the President's moderation proposals to the extent they still can. I long ago gave up trying to predict what Congress will or will not do. If you are saying its possible that by Congressional inaction and action the deficit figures I gave you could get much bigger, your absolutely right. But thats the crossroads the President is talking about. We hope that the American people will give the Congress the message. We want expenditures slowed down and we want the tax cut. I would hope and expect that Congressional acceptance of the President's package would also mean Congress will resolve to hold down its FY 1976 add-ons too.

- Q. But no matter how you slice it, even on the way the President keeps his books, he is blowing his own FY 1976 \$60 billion deficit figure by some \$4, 5 or 6 billion.
- A. It would increase the FY 1976 deficit some. But frankly, I think the signal of fundamental change in climate in Washington -- that we want to give the people a permanent break on their taxes, that we are willing to give a modest reduction of taxes to business and that we are willing to set, a year ahead, a spending ceiling for 1977 will energize the private sector in ways that will make the FY 1976 deficit increase from the tax cut more in the order of \$3 billion and that would be well worth it if we have finally set this country moving in the right direction.
- Q. Suppose Congress just throws up its hands on the basis that it doesn't have enough time and just makes the present 1975 cuts permanent on a basis that keeps withholding rates constant?
- A. The President would veto. The temporary cut makes no sense on a permanent basis. First, its irresponsible from the standpoint of deficits in FY 1977 unless Congress is willing to stand up and be counted now on expenditures for 1977. Second, any permanent tax package should include additional relief for our middle income workers, who get much too little the way Congress skewed the '75 cuts.
- Q. Suppose Congress is willing to work on a permanent package with you but wants more time to do it and simply extends for a short time, say a year.
- A. I would urge the President to veto it. They surely don't need a year and our taxpayers should have the cuts the President proposes now.
- Q. How about six months?
- A. I just don't know. I don't see why they can't act now. And neither will our taxpayers.
- Q. What will the President do if Congress presents him with his own tax package but refuses to establish the \$395 billion ceiling. Or comes in with a ceiling of, say, \$405 billion.

- A. If Congress doesn't come up with an expenditure target -- which to me would be totally irresponsible -- the President would have to veto it. On your \$405 billion, first let me say that I doubt greatly that Congress would want to signal the American people they are for deficits, in a year of expected good recovery, of over \$50 billion. To me that would tell the American people Congress just can't see how it can keep the federal government from growing at least another \$10 billion! I would recommend a veto.

Alternative #2. Under this alternative the answers to the questions would be the same as in Alternative #1 except that at some point in the Q and A on the subject of asking the Congress to blow its own budget resolution timetable, the following would be authorized:

- Q. Well, I can tell you right now Congress simply won't take action on the expenditure target now. So you can forget your deep tax cut.
- A. I sincerely hope your wrong. The President's proposal makes sense and the American taxpayers will know it.

Key additional phrase: Look, I suppose that if Congress feels they want to see our exact package in the budget, if they feel they must wait until next Spring, they could still show the taxpayers they agree with the President's concept of tax cut-expenditure cut. It wouldn't be as good -- because the President's package gives the additional cuts as of January 1, but I suppose Congress could adopt the President's tax package now with an effective date tied to Congress setting the \$395 billion ceiling in their regular Spring process.

- Q. But what would happen during the period of January 1 until they passed the resolution? Go back to 1974 rates or extend.
- A. Look, I don't even like the idea -- the President wants those cuts January 1 -- but if they insisted on the delay I suppose they would hold to the current withholding rates for the interim. In other words, I suppose they could extend until the Spring resolution setting the \$395 billion or, say, June 30, whichever occurred first.

- Q. Would the President sign a package like that?
- A. I don't know. It would be hard since it would mean uncertainty and depriving the taxpayers of the additional cuts from January through Spring budget resolution time.

Alternative #3.

- Q. The speech doesn't indicate when Congress is expected to put into effect the full tax cut or when or how Congress is to signal its agreement with the expenditure limit. What does the President expect.
- A. The President would like **Congress** to enact his tax proposal now as permanent tax reduction. He would also like Congress to adopt the limit now, so that the American people can have the benefit of the tax reductions effective January 1. However, although we think Congress could do it this way and can do it this way, if they feel they can't, there is no reason why they can't legislate the President's cuts now effective when they pass a resolution setting the \$395 billion limit. We would sincerely hope though that if they do it this way they would at least speed up the process so that the taxpayers don't have to wait until the May detailed budget resolution provided by the Congressional budget law. There's no reason they couldn't pass a simple limit resolution well before then even if they feel they can't do it this month. Of course, if Congress wants to do it this way -- passing the President's tax reduction package now with the effective date tied to a later resolution fixing the \$395 billion they should extend the present withholding rates on a temporary basis, say, until March 30.

/All other answers in Alternative #1 would reflect this change. The answers on the need for time and on the FY 1976 deficit would be easier/.