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THE PRESIDENT HAS SEEN....



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JAN 16 1976

MR

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES *L* T. LYNN

SUBJECT: Stout Article on Reagan's \$90 Billion Program

The Washington Post found a totally unbiased reporter to write on Reagan's program. He is Mr. Richard Stout who, as noted at the end of the article, is about to join Mr. Udall's campaign staff.

Stout's criticism's of the program fall into three categories:

1. The totals do not add up. Reagan used last February's budget as a source for most of his data. At that time, we proposed to spend \$81.9 billion on the programs that he would transfer to lower levels of Government. We also estimated a 1976 deficit of \$51.9 billion. Therefore by eliminating \$81.9 billion of Federal programs, Reagan was able to promise a \$25 billion tax cut leaving a Federal surplus of \$5 billion.

Reagan then looked at the first Congressional budget resolution and saw that they proposed to spend \$90 billion on the affected programs. He used this as his estimate of the reduction in Federal spending, but continued to promise a \$5 billion surplus and a \$25 billion tax cut. However, by the time Reagan magnified his cuts to \$90 billion, various other receipts and outlay estimates had changed and the Congress proposed to spend more on programs not affected by the Reagan proposals.

If the current Congressional Budget is cut \$90 billion and taxes are reduced by \$25 billion, a deficit of \$9.0 billion would result. In other words, if Reagan wants to compare his plan to the latest Congressional Budget, he either has to lower his promised tax cut or drop his promise of a Federal surplus. (Stout derived an implied deficit of \$9.7 billion, but we believe that he made the same sort of error that he chastizes Reagan for.)

2. Some programs were eliminated by accident. For example, Reagan's first handout did away with the Coast Guard and Gallaudet College for the deaf. These programs were restored in a later handout and highway expenditures were deferred to make up the resulting discrepancy.
3. Inconsistencies and other errors. Reagan's speech said that programs for the aged and veterans would remain intact, but the specified cuts included programs such as "meals on wheels" for the elderly and a \$50 million program that helps veterans find jobs. Reagan's cut also included funds spent from the unemployment trust funds some of which had originally been contributed by states. In cutting \$3.1 billion Corps of Engineers, Reclamation and other water resources and power programs, all of TVA spending was removed, even though Reagan's Chicago speech stated that TVA would be exempt. There are a large number of similar minor errors and inconsistencies which are understandable when a limited staff must deal with a document as complex as the budget.

Oddly enough, the article only makes a passing reference to probably the worst flaw in the Reagan approach, i.e., even if spending on the transferred programs were reduced significantly, a large increase in State and local taxes would be required.

If Reagan is serious about using the transfer of programs to balance the Federal budget quickly, states and localities would have to cut the programs drastically or else the total Federal, state and local tax burden would have to rise significantly. (States and localities cannot run major deficits.) Either outcome would give the economy a severe negative shock that could not be easily offset by monetary policy. Higher unemployment would result in the short run - a point ignored by Stout.

THE WHITE HOUSE
WASHINGTON

Jim Lynn

Can someone simplify

This.

Set out items - 1, 2, 3 etc

Are They accurate?



Reagan's \$90 Billion Misunderstanding

By Richard T. Stout

FEW AMERICANS noticed when Ronald Reagan, in a Chicago speech last September, proposed to cut the "Gordian knot" of monster government in Washington by reducing federal spending by \$90 billion in this fiscal year. Only recently has the proposal begun to attract attention, as Reagan's critics have attacked it and his aides and supporters have started to wonder whether it could become as big an albatross for his presidential candidacy as George McGovern's \$1,000-per-person income redistribution plan in 1972.

To date there has been no detailed public examination of the specifics in Reagan's plan. Aides at the Citizens for Reagan Committee simply put together a two-page background sheet of figures to show just where he would pare the budget. But a close look at these figures found enough errors, miscalculations and curious assumptions to cause Reagan aides, when confronted with them, to issue a revised set of figures.

For example, aides inadvertently cut \$1 billion for the U.S. Coast Guard and later had to restore it. They bobbled another billion by misreading budget figures on revenue sharing. Moreover, it appears that the \$25-billion tax cut and \$7-billion debt reduction Reagan says would be possible with a \$90 billion budget cut are impossible the way the '76 budget finally turned out. In fact, budget and tax cuts of the Reagan plan would result in a deficit far lower than Americans are now accustomed to, but still a deficit.

"We just got these figures to back up the speech and then went on to other things," a Citizens for Reagan staff aide told me after I asked about some of the errors. "Maybe we should look at them again."

The aide, who asked that he not be identified, went over the figures with me at Reagan's Washington headquarters. The anonymity enabled him to speak relatively freely: to acknowledge, for instance, that one reason the Reagan budget cuts virtually ignore agricultural programs is that North Carolina, where such programs have impact, is a key, early primary test for Reagan against President Ford.

The Reagan figures are based on those in the Fiscal '76 budget proposed by President Ford last February. The background sheet breaks down the Reagan cuts into program categories, as used in the budget. Here, by category, is what Reagan's proposal would do.

EDUCATION, MANPOWER AND SOCIAL SERVICES

Reagan's \$13.7 billion in cuts in this category would wipe out all or most funds for elementary, secondary and vocational education programs, including Head Start, the full range of federal job training programs. The full range of social services, including some special rehabilitation efforts for the severely retarded and those with cerebral palsy, would be eliminated. So would special grants to enable disadvantaged young people to finance a college education and to help special institutions, such as Howard University. Certain educational research programs would also be axed.

In his speech Reagan said none of the cuts would affect veterans. However, in eliminating the federal-state employment service, he would be cutting off \$50 million in special funds to help veterans find jobs. The aide said this hadn't been noticed in compiling the first background sheet, but added that the revised background sheet (which I will call Background Two from now on) moves these funds to the Veterans Administration or somewhere.

Reagan's speech also said the cuts won't affect the elderly, yet one of the social services to go provides one meal daily to some 200,000 old persons. The aide said that, since this is a community-based program, it would not qualify for maintenance under Reagan's new rules for federal help.

The aide also said Background One did not intend to cut special funds for Gallaudet College, the national college for the deaf. Nor was it intended that funds to enforce such worker-employer matters as minimum wages, overtime and

pension practices be cut, as Background One announced.

COMMUNITY AND REGIONAL DEVELOPMENT

This \$5.5 billion slice would wipe out the remnants of such War on Poverty institutions as community action, VISTA, and legal services. A number of community-facilities water and sewer projects would go. The Economic Development Administration, the Community Services Administration, the Regional Action Planning Commission all would die. A half billion in programs aiding Indians would end. As one Reagan campaign aide noted, "It would be best if they're at the state or local level." Urban renewal and Appalachian regional development efforts would be eliminated. (Reagan noted in his speech that it was truly remarkable how America's first settlers were able to build the new land "without urban renewal or an area redevelopment plan.")

COMMERCE AND TRANSPORTATION

The \$10 billion cut in this category

involved in these is not deducted from the \$3.1 billion.

Reagan's Chicago speech clearly indicated that the Tennessee Valley Authority would be exempt, but a \$731 million outlay for TVA is included in the \$3.1 billion budget cut.

Just what does the Reagan program leave intact? The speech said: "... Those functions of government which are national rather than local in nature, and others which are handled through trust arrangements outside the general revenue structure. In addition to national defense and space, some of these areas are Social Security, Medicare and other old-age programs; enforcement of Federal law; veterans affairs; some aspects of agriculture, energy, transportation and environment; TVA and other multi-state public works projects, and certain types of research.

"Few would want to end the Federal Government's role as a setter of national goals and standards. And no one would want to rule out a role for Washington in those areas where its influence has been important and benign: crash efforts like the Manhattan and Apollo projects, and



Associated Press

would end the mass transit program, subsidies to the Postal Service, airlines, ship operators and builders, airport and non-interstate highway construction.

It was in this category that the \$1 billion for the Coast Guard was cut initially. To balance this mistake, the Reagan staff aides decided in Background Two to "defer" \$1 billion in interstate highway construction funds which Background One had said would not be disturbed.

One footnote in both background sheets said the Postal Service should have high enough rates to break even and should yield its monopoly on first class mail.

In addition to the \$10 billion under this category the background sheets list a \$3.1 billion cut in water resources and power programs. In the federal budget, this item is included under another category—Natural Resources, Environment and Energy. This added cut would suspend most domestic projects of the Army Corps of Engineers, the Bureau of Reclamation and the Soil Conservation Service—the major pork-barrel agencies so revered by Congress. In effect, more than \$50 billion in uncompleted projects would be abandoned, unless individual states decided to complete the projects on their own. Federal financing would continue for multi-state projects, though the total in-

massive self-liquidating programs like the Homestead Act and the land grant colleges."

INCOME SECURITY

The \$22 billion cut proposed in this area would do away with the federal role in the food stamp program, aid to families with dependent children (welfare), the school lunch program—which includes other child nutrition elements—certain housing assistance for the needy and certain funds for unemployment benefits.

Background One left some \$7 billion of this cut un-itemized; Reagan aides could not immediately provide details. Background Two rearranged various figures and added the cut in unemployment aid which, it was claimed, would save \$9.4 billion. A footnote says this "represents federal share of state-run unemployment programs, including depletion of trust funds."

Some \$6 billion of the \$9.4 billion, however, is clearly state tax funds—not the "federal share"—that filter through the complex federal unemployment trust fund before being returned to the states as jobless benefits. One Reagan aide said, "If we had our way, this state money would stay with the states in the first place."

See REAGAN, Page E2

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A PHARMACY
OF LEARNING
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ACCELERATION
IN RISK
PREMIUM
CALIBRATION

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By Tom Wilson for The Washington Post

r Dialogue
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an

ell blanch at the prospect of engaging in one
an Greenspan, chairman of the Council of
ie Advisers. How would anyone hold up his
r hearing Greenspan say this:

once the inflation genie has been let out of
e, it is a very tricky policy problem to find the
ar calibration and timing that would be ap-
e to stem the acceleration in risk premiums
by falling income without prematurely
the decline in the inflation-generated risk
as. This is clearly not an easy policy path to
but it is the path that we must follow."

is the path that we must follow, I hope we are
ind it before it (another Greenspanism) ob-

pan was speaking in Washington, a city
scarcity of money is routinely referred to as a
ource environment and where, after an ex-
with fish in which all the fish died, the
Energy Commission said that "The biota
100 per cent mortality response." There is a
or this verbiage. In a tight resource en-
st, money is more likely to be forthcoming if
the money is wanted for can be made to
struse and important. This is why money
rarely called money nowadays. It is called

DER sent me a report by the Youth Services
of the New York City Board of Education on
l's summer program in 1974. The report
with the YSA's opinion that the program
ve more workers and more money, i.e., that
be considered for expanded allotments of
personnel and more supportive measures
own direct funding source."

me report spoke of employees who had been
after drawing their paychecks, listed
ns that had been taken, and concluded:
cautions appeared to be quite successful in
g potential individuals with larcenous in-

a thrust:

major thrust of YSA's recommendations to
the quality and efficiency of services
revolve around the necessity for more phone
Two additional phone channels would
te greatly for both communicative and
culties and such implementation is strongly
in immediate necessity."

See LANGUAGE, Page E5

REAGAN, From Page E1

However, the Reagan cut has the effect of denying the \$6 billion to the states; and if this is true, this item should not be included as a cut. A Reagan aide said this isn't true. He said the \$6 billion in question represents part of the year's expected completion of the trust fund; therefore, it legitimately may be included in the Reagan federal budget cuts. There seem to be elements here of Catch 22 and having cake and eating it, too.

LAW ENFORCEMENT ASSISTANCE AND JUSTICE

This \$1 billion cut would do away with the Law Enforcement Assistance Administration, which has had limited success in its program of grants to state and local police

agencies. It would also erase plans to create a new Legal Services Corporation to provide indigent defendants with funds for legal help.

REVENUE SHARING

Reagan would cut this program altogether, in keeping with the philosophy that it is senseless and wasteful to shuttle local money to Washington only to shuttle it back again.

Background: One claimed a \$7.2 billion saving—but this was a nearly \$1 billion overstatement, the result of

carelessness. Reagan aides said they had not noticed that the budget combines revenue sharing—actually a \$6.3 billion item—with several other outlays referred to as "general purpose fiscal assistance." These outlays include the annual contribution to the District of Columbia as partial recompense for the real estate taxes the city loses through inability to tax federal property. They also include a return to Puerto Rico and the Virgin Islands of certain federal revenues and duties collected on their products; a return of certain national forest receipts to states to

help absorb school and road costs in counties where the revenues are generated, and a similar return of some grazing, mineral leasing and timber sale receipts to states and counties. Reagan, the aide said, does not propose to end these outlays.

NATIONAL DEFENSE

Reagan would cut nothing from the defense budget, but would require that military personnel contribute to their pensions, as do workers in other government retirement programs. This would mean an initial saving of \$2 billion—a figure a Reagan aide says is derived from an internal Senate Budget Committee memo. Leaving Defense Department appropriations virtually untouched while making the many other cuts would make national defense the single largest item in the budget.

HEALTH

Reagan's \$10.3 billion cut for this category would end the federal role in Medicaid and hospital construction. It would dry up federal funds for health service scholarships, as well as grants and contracts which make up nearly 50 per cent of special training and education funds of the nation's medical schools. It would eliminate grants that help state-administered centers which provide maternal and child health care, family planning services, alcohol and drug abuse treatment, migrant and mental health care.

Many Democrats agree that the Hill-Burton hospital assistance construction program has, after 25 years, about run its course and that private capital is now building the great majority of new facilities. But how medical schools would cushion a sudden loss of much-needed funds is another question.

The unforeseen expansion of Medicaid in recent years is already straining state and local budgets, and few would get by without the 50 per cent federal contribution. The Medicaid cut would take benefits from some 26 million low-income Americans. Of them, 4.3 million are 65 or older, contrary to Reagan's assertion that old-age programs would not be affected.

ALLOWANCES

Reagan would eliminate this catch-all \$8 billion outlay in the President's budget altogether. This would mean the axing of \$550 million for civilian agency pay raises, \$500 million for unspecified contingencies and \$7 billion in energy tax equalization payments to compensate state and local governments for increased costs resulting from President Ford's energy proposals. Congress did not pass the President's energy plan. Congress transferred part—but not all—of the allowance for pay raises to federal agencies.

THE REAGAN cuts add up to \$81.9 billion. The \$90 billion Reagan repeatedly speaks of is derived by

assuming that outlays for the items cut or eliminated would increase as Congress inevitably raised the spending ceilings for the Fiscal '76 budget. In fact, the proportionate increases would raise the total Reagan cuts to \$90.1 billion.

However, the Reagan people also assume proportionately higher revenues, a state of affairs which apparently is not going to happen. The result is that the \$25 billion tax cut Reagan holds out would cause a deficit of about \$9 billion—not the \$5 billion debt-reducing surplus Reagan says is possible.

The Reagan people also say they did not take into account extension of the temporary Ford tax cut. Even if this were included there would still be a Reagan deficit of about \$3 billion. And the figure would be bigger if the several billion dollars in questionable Reagan deductions were deleted.

Moreover, the Reagan people have made no attempt to estimate how much state taxes might have to rise to absorb some of the federal cutbacks. Reagan acknowledges that state taxes probably would have to rise (much as California's doubled during Reagan's tenure as governor) where states decide to continue programs at current or near-current levels.

In his speech, Reagan derided Hubert Humphrey for casually suggesting, in discussing federal spending, that "a billion here and a billion there" does not matter much.

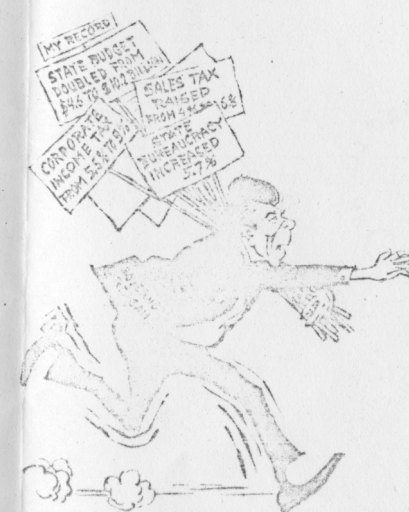
At least for now, Reagan and his helpers do not seem to be approaching the billions here and there any less casually.

Sioui is a Washington freelancer and former Newsweek political correspondent. He is joining the Morris Udall presidential campaign staff next month.

Reagan's Budget Blueprint

How the Figures Add Up

Program Categories	Reagan Cuts in Ford Budget (in Billions)	Pct. of Category Outlay Cut (n-a: not applicable)	Reagan Cuts in Proportion to Congressional Ceilings (in Billions)
Education, Manpower, Social Services	13.7	94	19.8
Community and Regional Development	5.5	93	6.6
Commerce and Transportation	10.0	73	13.4
Natural Resources, Environment and Energy	3.1	31	3.6
Income Security	22.0	19	24.3
Law Enforcement and Justice	1.0	30	1.0
Revenue Sharing	6.3	100	6.3
National Defense	2.0	n-a	2.0
Health	10.3	37	12.2
Allowances	8.0	100	0.9
Totals	81.9	n-a	90.1
Outlay Estimates Minus Reagan Cuts	267.5	n-a	285.5
Revenue Estimates	297.5	n-a	300.8
Reagan Surplus	30.0	n-a	15.3
Minus \$25 Billion Tax Cut	-25.0	n-a	-25.0
Surplus or Deficit	+5.0		-9.7



ROTHCO

and Vollmann

THE WHITE HOUSE
WASHINGTON

January 6, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES LYNN

FROM:

JAMES E. CONNOR *JEC*

SUBJECT:

Washington Post Article entitled -
Reagan's \$90 Billion Misunderstanding

The attached article was returned in the President's outbox with the following notation:

"Can someone simplify this? Set out items - 1,
2, 3, etc. Are they accurate?"

Please follow-up with appropriate action.

cc: Dick Cheney