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THE WHITE HOUSE  
WASHINGTON

June 21, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN  
FROM: JAMES E. CONNOR *JEF*  
SUBJECT: Economic and Policy Assumptions  
for the July 15 Budget Update

Confirming a phone call to your office, the President reviewed your memorandum of June 18th on the above subject and approved both of the EPB Executive Committee recommendations:

- approve the economic forecast and mechanical projections outlined in the table attachment, and,
- enactment of his deeper tax cut be assumed for January 1, 1977, for the purpose of the July 15 Budget update.

Please follow-up with the appropriate action.

Also, the following notation was made:

"Bill S -- Can I have a copy of charts at end? "

This is for your information only as we have given the President a copy of the charts.

cc: Dick Cheney

THE WHITE HOUSE  
WASHINGTON

Bill S

Can I have a  
copy of charts at  
end.

THE WHITE HOUSE  
WASHINGTON

June 18, 1976



MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Economic and Policy Assumptions for the  
July 15 Budget Update

The Congressional Budget Act requires the Administration to publish a five-year Budget update by July 15. In order to estimate Budget outlays and receipts, it is necessary to develop a set of economic assumptions which must be published along with the Budget update. This memo requests your approval of a set of economic assumptions and requests your decision on one policy issue regarding a change in the timing of your deeper tax cut.

Economic Assumptions

The economic assumptions, outlined in the tables attached at Tab A, fall into two categories. For 1976 and 1977 we have prepared an economic forecast - our best estimate - of the probable course of the economy. For the period 1978 through 1981, our economic assumptions are called "mechanical projections," because it is impossible to make true forecasts that far ahead.

Forecast for 1976 and 1977

The line labelled "T" in the tables presents our latest forecast for 1976 and 1977 and the mechanical projections for 1978-81. For comparative purposes, the line labelled "B" provides the forecast published in the January Budget. This was the last comprehensive forecast made public by the Administration.

The new forecast anticipates a more robust recovery with higher output, lower unemployment and less inflation in 1976 than we expected last January. The 1977 inflation rate in the

new forecast is approximately the same as in the January forecast with the GNP deflator rising at a slightly faster rate from the fourth quarter of 1976 to the fourth quarter of 1977 and the CPI rising at a slightly slower rate.

The 1976 unemployment rate is expected to average 7.2 percent compared to the earlier estimate of 7.7 percent. For 1977, the new forecast anticipates a further decline to 6.4 percent compared to the 6.9 percent in the January forecast.

A word of warning is in order with regard to the new forecast. In the last month of each quarter, the Department of Commerce provides us with a confidential and highly preliminary estimate of the quarter's GNP. They have just furnished us with a projection for the second quarter of real GNP growth at an annual rate of 2.9 percent. We expect this figure to be revised upward as additional information becomes available, because this preliminary estimate is based on only partial reports and suggests an overall pace of current economic activity which is inconsistent with the data that we have so far on second quarter employment, income, and industrial production.

Nevertheless, it is likely that the preliminary second quarter GNP figures to be announced in the middle of July, about the same time as our Budget update forecast is made public, will show a drastic slowdown from the 8.5 percent annual growth rate previously announced for the first quarter. It is not unusual for quarterly growth rates to be highly volatile during a recovery and the preliminary statistics for one quarter will not fundamentally alter our view of the strength of the recovery. However, the lower growth rate will attract press attention. It should be emphasized that our forecast of real GNP gains of 6.8 percent for 1976 is a significant upward revision above the 6.2 percent figure forecast in the January Budget. Similarly, the GNP price deflator for 1976 has been lowered from a rate of 5.9 to 5.3 percent.

#### Mechanical Projections for 1978-81

Several points deserve your attention regarding the mechanical projections for 1978-81. First, the unemployment rates are significantly lower than those projected in the January Budget. As a result, our projection implies an unemployment rate of less than 5 percent at the end of 1979. At that point, we assume that the rate of growth of the economy will slow significantly and that unemployment will decline more slowly.

Although we shall not say so explicitly, our procedure assumes implicitly that we shall be approaching "full employment" once

the unemployment rate nears 5.0 percent. In our view, this is a realistic and justifiable assumption, but it suggests that our goals for reducing unemployment are more modest than those embodied in the Humphrey-Hawkins Bill. Assuming that the Humphrey-Hawkins Bill will eventually set a goal for adult unemployment of 3.0 percent, its sponsors are suggesting that "full employment" for the entire labor force lies somewhere in the range of 3.5 to 4.0 percent.

If attacked for being too modest in our employment goals, we believe that we are on strong political and intellectual ground in arguing that we have a much more realistic view of the unemployment problem than is embodied in Humphrey-Hawkins.

Recommendation: The EPB Executive Committee recommends that you approve the economic forecast and mechanical projections outlined in the table attached at Tab A.

Approve

MR 4

Disapprove \_\_\_\_\_

#### Policy Assumptions

The January Budget assumed that your deeper tax cut would go into effect July 1, 1976. Since Congress has not shown any interest in a deeper tax cut, the EPB Executive Committee recommends that enactment of your deeper tax cut be assumed for January 1, 1977, for the purpose of our July 15 Budget update. Our public position would be that you urge the Congress to consider again the expenditure reductions that you have recommended and that you will judiciously use your veto power to hold spending down sufficiently to allow a deeper tax cut January 1.

Recommendation: The EPB Executive Committee recommends that enactment of your deeper tax cut be assumed for January 1, 1977, for the purpose of the July 15 Budget update.

Approve

MR 7

Disapprove \_\_\_\_\_

#### Implied Budget Deficits

The economic assumptions described above will be used to make a careful estimate of outlays and receipts consistent with your

policies for fiscal years 1977-81. Therefore, we cannot at this time give you precise deficit estimates. However, the projection for 1979 will show a budget surplus (perhaps small) whereas the deficit for fiscal 1977 will be in the neighborhood of the \$45 billion that we published in the March update of the Budget. Outlays will, of course, be higher because of our own supplementals and Congressional inaction on your economy proposals, but receipts will also rise because of a stronger economy and the assumed delay in the implementation of the deeper tax cuts.



ECONOMIC ASSUMPTIONS  
(dollar amounts in billions)

		<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<b>Gross National Product:</b>							
<b>Current dollars:</b>							
Amount - Budget	(B)	1,684	1,890	2,124	2,376	2,636	2,877
Troika	(T)	1,687	1,890	2,121	2,370	2,575	2,747
% change -	(B)	12.4	12.2	12.4	11.9	10.9	9.1
	(T)	12.5	12.0	12.2	11.7	8.6	6.7
<b>Constant (1972) dollars:</b>							
Amount -	(B)	1,260	1,332	1,411	1,503	1,600	1,679
	(T)	1,267	1,339	1,418	1,508	1,575	1,634
% change -	(B)	6.2	5.7	5.9	6.5	6.5	4.9
	(T)	6.8	5.7	5.9	6.3	4.4	3.7
<b>Incomes (current dollars):</b>							
Personal income	(B)	1,386	1,538	1,727	1,930	2,138	2,331
	(T)	1,381	1,531	1,720	1,920	2,083	2,220
Wages & salaries	(B)	892	1,001	1,126	1,259	1,397	1,525
	(T)	889	992	1,121	1,252	1,361	1,452
Corporate profits	(B)	156	181	201	223	247	271
	(T)	152	178	201	223	242	258

		<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Price level (% change):							
GNP deflator:							
year-over-year	(B)	5.9	6.2	6.1	5.0	4.2	4.0
	(T)	5.3	6.0	6.0	5.1	4.0	2.9
4th qtr over							
4th qtr	(B)	6.3	6.0	5.7	4.7	4.0	4.0
	(T)	5.1	6.2	5.7	4.7	3.6	2.5
CPI:							
year-over-year	(B)	6.3	6.0	5.9	5.0	4.2	4.0
	(T)	5.7	5.6	5.6	5.1	4.1	2.9
Dec. over Dec.	(B)	5.9	5.9	5.6	4.6	4.0	4.0
	(T)	5.0	5.7	5.4	4.7	3.5	2.4
Unemployment rate:							
Total	(B)	7.7	6.9	6.4	5.8	5.2	4.9
	(T)	7.2	6.4	5.7	5.1	4.8	4.7
Federal pay raise,							
Oct. (%)	(B)	4.7	8.6	7.0	6.5	5.75	5.5
	(T)	4.7	7.5	7.0	6.5	5.75	5.0
Interest rate, 91-day <sup>1/</sup>							
Treasury bill (%)	(B)	5.5	5.5	5.5	5.5	5.0	5.0
	(T)	5.3	5.5	5.5	5.5	5.5	5.5

<sup>1/</sup> The interest rate forecast may change slightly if actual interest rates change between now and the publication date. Because interest rates are difficult to forecast, Budget documents generally assume that rates remain constant at the level prevailing on the day that the interest outlays are computed. The 1976 interest rate forecast will be slightly lower than the forecast for the rest of the period, because the 1976 estimate must take account of the lower rates prevailing so far this year.