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THE WHITE HOUSE
WASHINGTON

DEC 2 1974

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH /S/

SUBJECT: Recomputation of Military Retired Pay

This memorandum requests your guidance on how to treat the issue of recomputation of military retired pay in the 1976 budget and legislative program.

Prior to 1958, recomputation was the normal method of adjusting military retired pay. Each time active duty pay was increased, retired pay was recomputed based on the new, higher pay scales.

First in 1958 then finally in 1963, the practice of recomputation was terminated and replaced by the current system of automatically adjusting retired pay based on increases in the Consumer Price Index (CPI). A more detailed summary of the background of recomputation is attached.

Military groups have consistently urged a return to recomputation, and President Nixon endorsed such a move in the 1968 campaign. Torn between the tremendous costs of full recomputation and the commitments that had been made, the Nixon Administration, on April 15, 1972, proposed a one-time adjustment of retired pay to the January 1, 1971 pay scales. On the assumption the legislation would pass, the FY 1973 budget included \$300 million and the FY 1974 budget included \$400 million for recomputation. The attached table shows the future costs of a partial recomputation. The FY 1976 budget would increase by \$500 million, and the total lifetime cost of a partial recomputation would be in excess of \$14 billion.

There has been no action to date on the Administration's proposal, but a similar proposal (the Hartke Amendment to the Procurement Authorization Bill) has passed the Senate in each of the last three years only to die in conference.

The FY 1975 budget stated that an allowance for recomputation had been included in the past two budget requests but had not been approved by the Congress, and that "consequently, although the Administration continues to support recomputation, it cannot realistically include it in the budget request."

It is now necessary for the Administration to arrive at a position on this issue. We need your guidance on whether or not to resubmit legislation and include funds for recomputation in the budget.

The principal options are as follows:

1. Resubmit the legislation to the next Congress:
 - a. And include \$500 million in the legislative contingency section of the 1976 budget.
 - b. But do not include \$500 million in the legislative contingency.
2. Do not resubmit the legislation to the next Congress, and:
 - a. Take a reluctant but firm position against recomputation.
 - b. Refer the issue to some advisory body for yet another recommendation.

While the leadership of the Senate and House Armed Services Committees are opposed to any form of recomputation, there is far more than majority support in both Houses if the issue comes to a record vote.

Based on both the merits of the case and the budgetary situation, I recommend that you take a firm but reluctant position against recomputation. However, this is a highly emotional issue with the 700,000 military retirees, and any negative position on recomputation will raise a storm of well organized protest. The alternative of referring the issue to some existing body such as the Defense Manpower Commission or to a group created especially for the purpose would also be criticized, but with less vehemence.

If you decide on either of the Option 2 approaches, we should discuss the specific tactics with Jim Schlesinger. I understand that he does not support any form of re-computation.

DECISION

- Option 1a - Include in budget. _____
- Option 1b - Do not include in budget. _____
- Option 2a - Do not resubmit legisla-
tion. _____
- Option 2b - Refer for a recommendation. _____

Attachment

cc:
 DO Records - official file
 Director
 Director's chron
 Mr. O'Neill
 Mr. Ogilvie ✓
 Mr. McOmber
 Mr. Rommel
 Mr. Sitrin
 Mr. Stanners
 Division Office - Rm. 10001
 Div. chron

AD/NSIA:DGOGilvie:fp 11/25/74



Proposed Annual Cost of Defense Department Proposal
for Partial Recomputation of Military Retired Pay

(Amounts in \$ Millions)

<u>Fiscal Year</u>	<u>No Price Index Increases</u>	<u>1-1/2% Annual Increase</u>
1976	\$500	\$510
1977	515	535
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1979	546	591
1980	560	619
1985	575	700
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2005	155	277
2010	80	155
2015	35	73
2020	12	27
2025	3	8
2030	1	2
2035	-	-
2040	-	-

Lifetime, no future CPI increases	\$13.8 billion
Lifetime, with annual 1-1/2% increases	\$18.7 billion

November 15, 1974

Recomputation of Military Retired Pay

The Background



Recomputation was the normal method of adjusting military retired pay prior to 1958. Each time active duty military basic pay was increased, military retirees had their retired pay recomputed based on those new, higher pay scales. Thus, all military retirees with the same grade and years of service generally received the same retired pay even though they retired years apart.

In 1958, the practice of recomputation was terminated. At that time, instead of recomputing retired pay based on the 1958 pay scales, all military members then retired were given a 6% increase in retired pay. In 1963, members who were on the retired rolls before June 1958 were allowed to recompute to the 1958 pay scales or to receive a 5% increase in retired pay, whichever was greater.

Concurrently, a system for automatically adjusting retired pay based on increases in the cost of living as measured by the Consumer Price Index (CPI) was adopted. Although the method was changed slightly over the past few years, that system is still used today.

Under present law, whenever the Consumer Price Index attains a level 3% higher than the index used as the basis for the last increase in retired pay and remains at or above that level for 3 consecutive months, military retired pay is increased by the highest percentage of increase attained during that 3-month period, plus one additional percent. The 1% add-on was authorized by Congress in 1969 to compensate for any lag in the adjustment mechanism. This system is virtually identical to the system for adjusting civil service retirement annuities.

Since 1958, as a result of retired pay adjustment, military retired pay has increased 89%. During that same period of time, active duty pay, which previously had lagged behind pay in industry, has increased 173.8%. This difference between active duty basic pay increases and retired pay increases is the heart of the issue surrounding recomputation.

While President Nixon had endorsed a return to recomputation in the 1968 campaign, strong reservations about the wisdom of such a move as well as the high costs involved precluded a legislative proposal in the early years of the Nixon Administration.

In the face of growing public and Congressional pressure, the President on March 10, 1971 appointed an Interagency Committee to review the whole question of military retirement benefits including the issue of recomputation.

The Interagency Committee -- composed of a member from the Department of Defense, the Civil Service Commission, the Veterans Administration, and the Office of Management and Budget -- spent considerable time investigating the issues inherent in the consideration of recomputation of retired pay. It investigated the methods used to adjust retired pay in private sector and in other public sector plans and determined that the CPI method of adjusting military and civil service retired pay was liberal, compared with other plans. As such, the CPI method was considered a fair and adequate method of adjusting military retired pay.

Further, the Interagency Committee found that recomputation and the CPI method of adjusting retired pay do not serve the same objective. The CPI adjustment is for the purpose of maintaining the purchasing power of retired pay, and the Interagency Committee believed that this was appropriate and should be continued.

However, recomputation -- as used prior to 1958 -- transferred active duty pay raises directly into retired pay. Such liberal adjustments of retired pay are not made under retirement plans in either public or private employment and the Committee concluded that as a general and continuing policy, recomputation of military pay was not appropriate.

At the same time, the Committee recognized that the sudden discontinuance of recomputation in 1958 worked a hardship upon many senior military members whose career and long-range financial planning included the expectation of retired pay being recomputed in accordance with active duty pay adjustments.

The Committee further recognized that in recent years there have been relatively large increases in military pay that were not reflected in the retired pay of persons retired before such increases. Only recently has active duty pay attained levels that are reasonably competitive with pay in the civilian sector, and accordingly, members who retired many years in the past are receiving retired pay based on levels that were below comparability at the time they retired.



As a result of these considerations, the Nixon Administration on April 15, 1972, proposed partial recomputation by means of a one-time adjustment of retired pay to the January 1, 1971 pay scales as subsequently adjusted by the CPI.

The one-time adjustment would occur for nondisability retirees at age 60 if they retired with less than 25 years of service, and at age 55 if they retired with 25 or more years of service. Those members already meeting the age and years-of-service thresholds would be adjusted immediately. All others would be adjusted to the CPI-adjusted 1971 pay scales at the time they attain the stated threshold.

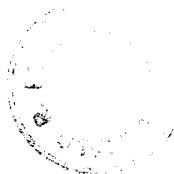
The FY 1973 budget included an estimate of \$288 million on the assumption the legislation would pass. The FY 1974 budget included \$360 million on the same assumption.

While there has been no action to date on the Administration's proposal, a similar proposal, the Hartke Amendment to the Procurement Authorization Bill, has passed the Senate in each of the last three years only to die in conference. After the first Hartke Amendment was deleted, hearings on the issue were held by a special subcommittee of the House Armed Services Committee.

The subcommittee concluded that recomputation legislation should not be further considered by the Armed Services Committee on the basis that "Recomputation cannot be justified on the grounds of economic need of retirees and it has been proven in the courts that there is no legal obligation. Our study shows that recomputation will not aid retention and could even have a negative impact. The foregoing discussion has shown that the argument that the Government has a moral obligation to provide recomputation cannot be logically sustained. On the other hand, the evidence shows that the Government has met its moral obligation to the retiree by providing an outstanding system, by providing a cost-of-living formula that maintains the purchasing power of the retiree's income, and by providing other benefits which have substantially increased the value of the military retiree's estate. The present system with the CPI formula is superior to systems in the private sector and does have flexibility to make adjustments automatically and expeditiously without requiring statutory action. The hearings have demonstrated that a so-called compromise such



as the Administration bill or the Hartke Amendment would be unacceptable to recomputation proponents as a permanent solution and would only increase pressure for later increases. Finally, the cost of recomputation would mean putting an unacceptable squeeze on the rest of the DOD budget, or reducing other programs, or both. The Congress has met its obligation to our military retirees and that fact must now be recognized."



MEMORANDUM


THE WHITE HOUSE

WASHINGTON

December 26, 1974

TO: ROY ASH

THROUGH: DONALD RUMSFELD

FROM: JACK MARSH 

Referring again to our discussion about recomputation, I mentioned to the President, and I think it would be helpful if you would bring up with him how you expect to handle this insofar as the Congress is concerned.

I was of the impression that he had some thoughts that a notation in the Budget as to why it was not included was planned. I mentioned this may cause some problems, and it may be best to make no reference to recomputation at all. My concern is that by stating why we omitted, because of past Congressional inaction, may cause us to be challenged inasmuch as you are aware that previously the Administration had quietly sought to dissuade such action by the Congress.



[1975]

Emergency Employment Appropriations Act

The inflationary impact statement on page 8 of the Committee Report confronts the fundamental issue raised by the Emergency Employment Appropriations Act squarely in the face--and then backs down and meekly moves on to the next subject. The report says:

"However, if the economy recovers faster than projected, then continued spending at the higher levels proposed in this bill could generate inflationary pressures."

Various parts of the Congress are competing now to add stimulus to the economy. The resulting stimulus is almost certain to be excessive. If this happens, faster recovery during the next 18 months than was projected by the President in early February is virtually assured--but at a considerable price in the longer run.

With the exception of the two recommendations endorsed by the President--for temporary employment assistance and the summer jobs program, we know from long experience that the proposed spending increases would become permanent additions to program bases. They would lead to an irreversible increase in the size of government and in government spending and would generate the excessive future inflationary pressures that the Committee warns us of.

Time is very important now if we are to help get the economy started on a proper pace of recovery. We owe it to the Nation to act promptly on the tax reductions and the employment assistance programs submitted by the President and to consider more deliberately the proposed spending increases that might have adverse longer run effects.



Emergency Employment Assistance Act

This proposed legislation illustrates very clearly why efforts to control the size of government fail so often. Unquestionably, additional fiscal stimulus is needed. The President has proposed achieving the needed stimulus through tax reductions and temporary employment assistance, both of which effectively restrain the size of government over time.

By contrast, the Committee Report on the Emergency Employment Assistance Act states:

"Any ceilings which have been established in the Executive Branch by administrative action for employment and outlays should be increased to the extent necessary to fulfill the provisions of the bill."

In its frantic haste to "do something," the Congress is making the President's job of exercising prudent management of Government funds and personnel well nigh impossible.



Emergency Employment Appropriations Act

When the Congressional Budget and Impoundment Control Act was passed last July, the Congressional Record was full of rhetoric about how the Congress had finally bitten the bullet and would now consider parts of the budget only in relation to their effect on the total. Now, less than a year later, that rhetoric is beginning to sound very hollow.

The President presented to the Congress comprehensive and coordinated plans on energy and the economy. While he has modified them in some respects and has agreed to negotiate on some points, the plans are still comprehensive and coordinated. On the other hand, the Congress continues its bad habits of the past. It is interesting that the Committee's report on the Emergency Employment Appropriations Act makes no reference to the economic stimulus that would be provided by the tax reductions that the Congress is considering or to the growing number of other Congressional plans to provide increased stimulus through increased spending. We have an obligation to ourselves and to the Nation to carry out last year's budget reform resolutions.

The task before us is clear. Our first priority is to act on the President's proposed tax reductions and on his emergency employment assistance proposals. Then we can consider--in the manner contemplated by the recent budget reform legislation--the amount and nature of additional stimulus that might be needed.



Emergency Employment Appropriations Act

This bill purports to be an emergency employment act. But the only two items in the bill that are directly targeted on urgent needs for employment are the ones for public service jobs and for summer youth employment. The other items in the bill are simply a conglomeration of the "wish lists" of various agencies for funds without normal budget restraints. There is even one program, the so-called job opportunities program in the Economic Development Administration, that would permit public works "wish lists" to be funded without direct appropriations and without review by either the Congress or the central review agencies of the Executive Branch.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Treasury
U.S. Customs Service (\$56 million)

These funds are provided for low priority needs and in many cases are superfluous in comparison with the benefits they will provide.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Agriculture
Soil Conservation Service
Watershed and Flood Prevention Operations (\$106 million)

Construction in small watersheds can absorb a considerable amount of additional funding without additional Federal employment. The effect of this increase would be the creation of only 1400 man-years of indirect Federal employment at a cost of almost \$76,000 per man-year of employment. Surely this is not the way to spend Federal dollars.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

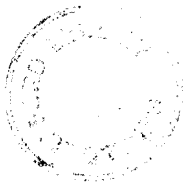
Commerce Economic Development
Administration Job Opportunities
Program (\$375 Million)

It is not yet known whether the \$125 million already provided can be effectively used, let alone another \$375 million. Most of these jobs would be in the area of public works which are extremely costly and a slow means of meeting employment needs. Experience tells us that public works programs are not the way to meet urgent employment needs quickly. We were not able to use funds effectively in 1962 and we cannot do so now.

EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Automobile purchases (\$443 million)

This proposal disregards standards for optimum automobile life and will mean uneconomical operation of cars. In GSA, for example, automobiles are normally replaced after 6 years or 60,000 miles. As of July 1, 1974 only 19,000 automobiles were eligible for replacement. This proposal would require replacement of the entire 73,000 vehicle motor pool fleet and the sale of 54,000 serviceable vehicles, which would take sales away from both new and used vehicle dealers.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

General Services Administration
Operation, Repair and Improvement
of Federal Buildings (\$465 Million)

The repair and allocation work proposed in this appropriation would be scattered in bits and pieces throughout the country, with no guarantee that areas of high unemployment would be helped.

The stimulation of construction repair and improvement would cover some projects that could not even be initiated for 18-24 months, providing no immediate employment assistance.

An anticipated 25% increase in resources for operating existing public buildings will be difficult to contract once economic recovery has been achieved, thereby building in extravagant costs for maintaining public buildings.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Corps of Engineers and
Bureau of Reclamation (\$118 million)

These appropriations will finance some new construction starts which have little short-term employment pay-off. The 1976 budget already puts emphasis on ongoing projects with a greater potential for a quick employment and project benefit pay-off. Experience tells us that public works programs are not the way to meet urgent employment needs quickly. We were not able to use funds effectively in 1962 and we cannot do so now.

EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Payment to the Postal
Service Fund (\$900 million)

Providing Federal funding as recommended in the bill would undermine the Postal Service's responsibility for managing their own capital investment decisions as established by the Postal Reorganization Act of 1970. It would also shift a substantial postal cost from users of the postal service to the general taxpayer.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Agriculture:

Construction of roads, buildings, water, sewer and
waste disposal facilities (\$642 million)

These projects often require long lead times to get
underway and will therefore not provide immediate
employment assistance. Once started such projects are
hard to stop and constraining future budgets is more
difficult.

Emergency Employment Appropriations Act

SBA-Business and disaster loan funds (\$385 million)

The additional Federal borrowing that would be necessary to provide these loans will reduce the capital available in private markets. To the extent that this happens, the effectiveness of these funds in stimulating jobs is also reduced. In addition, the small businesses assisted under this program are likely to be less effective in providing permanent employment than would the firms that would otherwise have received financing through private markets.



EMERGENCY EMPLOYMENT APPROPRIATIONS ACT, 1975

Health, Education, and Welfare:

Community service employment for older Americans (\$24 million)

This increase will allow more funding under a narrow categorical grant program designed to be replaced by the Comprehensive Employment and Training Act (CETA). Under the guise of an emergency action, the appropriation will perpetuate direct Federal funding of activities that the Congress agreed in CETA were best left to States and localities.





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 6 1975

January 6, 1975

Memorandum for: Jack Marsh
Max Friedersdorf

From: Bob Bonitati

I thought you might like to know that the Office of Management and Budget will be conducting a brief orientation session for newly elected Members of the House and Senate on Wednesday, January 15th from 3:00 p.m. to 4:30 p.m. in Room 345 of the Cannon House Office Building. The session is intended to provide new Members with a general overview of the budget process and budget issues for Fiscal Year 1976.

The session entitled, "An Introduction to the Budget" will be conducted by OMB Director Roy Ash, OMB Deputy Director, Paul O'Neill and other key OMB officials.

Please let me know if I can provide you with any additional information about this session.

cc: Vern Loen
Bill Kendall
Doug Bennett
Pat O'Donnell
Bob Wolthuis
Charles Leppert

put on
my calendar
M



JAN 9 1975

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: January 8, 1975

Time:

FOR ACTION: Bill Baroody
Ken Cole
Max Friedersdorf
Robert T. Hartmann
Jack Marsh
Bill Seidman

cc (for information):

FROM THE STAFF SECRETARY

DUE: Date: Thursday, January 9, 1975

Time: 5:00 p. m.

SUBJECT:

Ash memo (1/8/75) re: Recomputation of Military Retired Pay

ACTION REQUESTED:

For Necessary Action

For Your Recommendations

Prepare Agenda and Brief

Draft Reply

For Your Comments

Draft Remarks

REMARKS:

*Option # 3
but strike words
"is suitable, and"
see pg 2*



PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jerry E. Jones
Staff Secretary

THE WHITE HOUSE

WASHINGTON

JAN 8 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: R.D.Y. WASH
SUBJECT: Recomputation of Military Retired Pay

In December, you decided not to submit legislation or include funds in the 1976 Budget to recompute military retired pay. This memorandum requests your guidance on whether or not to explain this decision in the text of the 1976 Budget.

The FY 1975 Budget stated that an allowance for recomputation had been included in the past two budget requests but had not been approved by the Congress, and that "consequently, although the Administration continues to support recomputation, it cannot realistically include it in the budget request."

Based on my December 2 memorandum (Tab A), you decided not to resubmit the legislation to the next Congress and to take a reluctant but firm position against recomputation. There are three principal ways to treat this decision in the text of the 1976 Budget:

Alternative #1 - make no reference at all to recomputation.

Alternative #2 - say we are not proposing recomputation this year because it is politically unrealistic. For example;

"The budget this year does not propose funding or legislation to recompute military retired pay. The recent history of recomputation indicates that it is unrealistic to propose further legislation at this time."



Alternative #3 - say we oppose recomputation because of the need for fiscal restraint and because our current system is equitable and appropriate. For example;

"The budget this year does not propose funding or legislation to recompute military retired pay. Current economic conditions make it necessary to restrain the growth of Federal expenditures. The present military retirement system is ~~equitable~~, and, with its provisions for CPI adjustments, already has the effect of recomputing retired military pay. Further recomputation would not be appropriate at this time."

X Strike

Recommendation

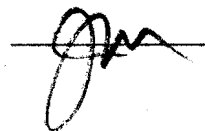
The Secretary of Defense and Jack Marsh recommend Alternative #3. They believe a firm but reluctant stand against recomputation is necessary to minimize Congressional and other pressures for such legislation (Tab B).

Ted Marrs recommends Alternative #2. He feels this general language does not commit us to support recomputation, and that it will smooth the transition from previous Administration support to a position of reluctant opposition. He believes the stronger language in Alternative #3 would stimulate Congressional pressures to reconsider legislation.

The NSC staff agree with the substance of Alternative #3, but feel it may cause strong Congressional reactions. They have no objection to either Alternative #1 or #2.

I recommend Alternative #1. By making no reference to recomputation, we should reduce the likelihood of Congressional and public reaction. Even the general language in Alternative #3 implies criticism of past Congressional inaction which may be challenged because of previous Administration efforts to quietly dissuade such action by Congress. I agree with Ted Marrs that the language in Alternative #3 is unnecessarily strong.

DECISION

- _____ Approve Alternative #1 (no reference).
 _____ Approve Alternative #2 (general statement).
 X  Approve Alternative #3 (reluctant opposition).



TAB A



THE WHITE HOUSE
WASHINGTON

12/2/74

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: ROY L. ASH /S/
SUBJECT: Recomputation of Military Retired Pay

This memorandum requests your guidance on how to treat the issue of recomputation of military retired pay in the 1976 budget and legislative program.

Prior to 1958, recomputation was the normal method of adjusting military retired pay. Each time active duty pay was increased, retired pay was recomputed based on the new, higher pay scales.

First in 1958 then finally in 1963, the practice of recomputation was terminated and replaced by the current system of automatically adjusting retired pay based on increases in the Consumer Price Index (CPI). A more detailed summary of the background of recomputation is attached.

Military groups have consistently urged a return to recomputation, and President Nixon endorsed such a move in the 1968 campaign. Torn between the tremendous costs of full recomputation and the commitments that had been made, the Nixon Administration, on April 15, 1972, proposed a one-time adjustment of retired pay to the January 1, 1971 pay scales. On the assumption the legislation would pass, the FY 1973 budget included \$300 million and the FY 1974 budget included \$400 million for recomputation. The attached table shows the future costs of a partial recomputation. The FY 1976 budget would increase by \$500 million, and the total lifetime cost of a partial recomputation would be in excess of \$14 billion.

There has been no action to date on the Administration's proposal, but a similar proposal (the Hartke Amendment to the Procurement Authorization Bill) has passed the Senate in each of the last three years only to die in conference.



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It is now necessary for the Administration to arrive at a position on this issue. We need your guidance on whether or not to resubmit legislation and include funds for recomputation in the budget.

The principal options are as follows:

1. Resubmit the legislation to the next Congress:
 - a. And include \$500 million in the legislative contingency section of the 1976 budget.
 - b. But do not include \$500 million in the legislative contingency.
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Based on both the merits of the case and the budgetary situation, I recommend that you take a firm but reluctant position against recomputation. However, this is a highly emotional issue with the 700,000 military retirees, and any negative position on recomputation will raise a storm of well organized protest. The alternative of referring the issue to some existing body such as the Defense Manpower Commission or to a group created especially for the purpose would also be criticized, but with less vehemence.



If you decide on either of the Option 2 approaches, we should discuss the specific tactics with Jim Schlesinger. I understand that he does not support any form of re-computation.

DECISION

- Option 1a - Include in budget. _____
- Option 1b - Do not include in budget. _____
- Option 2a - Do not resubmit legisla-
tion. _____
- Option 2b - Refer for a recommendation. _____

Attachment



Proposed Annual Cost of Defense Department Proposal
for Partial Recomputation of Military Retired Pay

(Amounts in \$ Millions)

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November 15, 1974



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Under present law, whenever the Consumer Price Index attains a level 3% higher than the index used as the basis for the last increase in retired pay and remains at or above that level for 3 consecutive months, military retired pay is increased by the highest percentage of increase attained during that 3-month period, plus one additional percent. The 1% add-on was authorized by Congress in 1969 to compensate for any lag in the adjustment mechanism. This system is virtually identical to the system for adjusting civil service retirement annuities.

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However, recomputation -- as used prior to 1958 -- transferred active duty pay raises directly into retired pay. Such liberal adjustments of retired pay are not made under retirement plans in either public or private employment and the Committee concluded that as a general and continuing policy, recomputation of military pay was not appropriate.

At the same time, the Committee recognized that the sudden discontinuance of recomputation in 1958 worked a hardship upon many senior military members whose career and long-range financial planning included the expectation of retired pay being recomputed in accordance with active duty pay adjustments.

The Committee further recognized that in recent years there have been relatively large increases in military pay that were not reflected in the retired pay of persons retired before such increases. Only recently has active duty pay attained levels that are reasonably competitive with pay in the civilian sector, and accordingly, members who retired many years in the past are receiving retired pay based on levels that were below comparability at the time they retired.



As a result of these considerations, the Nixon Administration on April 15, 1972, proposed partial recomputation by means of a one-time adjustment of retired pay to the January 1, 1971 pay scales as subsequently adjusted by the CPI.

The one-time adjustment would occur for nondisability retirees at age 60 if they retired with less than 25 years of service, and at age 55 if they retired with 25 or more years of service. Those members already meeting the age and years-of-service thresholds would be adjusted immediately. All others would be adjusted to the CPI-adjusted 1971 pay scales at the time they attain the stated threshold.

The FY 1973 budget included an estimate of \$288 million on the assumption the legislation would pass. The FY 1974 budget included \$360 million on the same assumption.

While there has been no action to date on the Administration's proposal, a similar proposal, the Hartke Amendment to the Procurement Authorization Bill, has passed the Senate in each of the last three years only to die in conference. After the first Hartke Amendment was deleted, hearings on the issue were held by a special subcommittee of the House Armed Services Committee.

The subcommittee concluded that recomputation legislation should not be further considered by the Armed Services Committee on the basis that "Recomputation cannot be justified on the grounds of economic need of retirees and it has been proven in the courts that there is no legal obligation." Our study shows that recomputation will not aid retention and could even have a negative impact. The foregoing discussion has shown that the argument that the Government has a moral obligation to provide recomputation cannot be logically sustained. On the other hand, the evidence shows that the Government has met its moral obligation to the retiree by providing an outstanding system, by providing a cost-of-living formula that maintains the purchasing power of the retiree's income, and by providing other benefits which have substantially increased the value of the military retiree's estate. The present system with the CPI formula is superior to systems in the private sector and does have flexibility to make adjustments automatically and expeditiously without requiring statutory action. The hearings have demonstrated that a so-called compromise such



as the Administration bill or the Hartke Amendment would be unacceptable to recomputation proponents as a permanent solution and would only increase pressure for later increases. Finally, the cost of recomputation would mean putting an unacceptable squeeze on the rest of the DOD budget, or reducing other programs, or both. The Congress has met its obligation to our military retirees and that fact must now be recognized."



TAB B



THE SECRETARY OF DEFENSE
WASHINGTON, D. C. 20301

28 DEC 1974

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Reevaluation of Administration Position on Recomputation of
Military Retired Pay

Before 1958, military retired pay was recomputed as necessary to preserve its mathematical relationship to active duty pay. Studies showed that this practice was virtually unique, inside or outside of government. Thus in 1958 when active duty pay was extensively restructured, a one-time cost-of-living adjustment was made to retired pay in lieu of straight recomputation. In time, pressure built up for a return to recomputation.

In 1963 the Congress established a system which geared retired pay to the Consumer Price Index, and recomputation as a concept was officially deleted from the statutes. At the same time, a "one-shot" recomputation was made available to pre-1958 retirees, based on 1958 pay scales. Organizations testifying on behalf of recomputation at that time agreed that these two steps would settle the recomputation issue once and for all.

In recent years, however, the issue has been raised again. The Nixon Administration proposed a one-time recomputation to 1971 pay scales in FY 73. Other proposals were sponsored by various members of the House and Senate. Then, two years ago, a Special Subcommittee of the House Armed Services Committee was formed to investigate the matter. After taking extensive testimony, the Committee concluded that:

"Court tests have proved conclusively that there is no legal obligation to provide recomputation.

"The subcommittee found no evidence of large numbers of retirees in conditions of economic deprivation; and if personnel were in economic difficulty, recomputation would not in any case be the best way to deal with the problem.



"The Government does have a moral obligation toward military retirees, but that obligation does not require the restoration of recomputation.

"The present retirement system is superior to any system in the private sector. The CPI formula protects the purchasing power of retired pay and is most certainly a system which should be retained."

Thus the Special Committee dealt head-on with the "moral" issue of whether those retirees whose annuity-adjustment system was changed from straight recomputation to the CPI-related approach were treated unfairly. As noted above, the Committee concluded that fair treatment had been received. On balance, I find that I must agree, though it is a difficult issue to resolve to one's complete satisfaction.

Beyond this, however, other factors arise as one considers the issue of recomputation in today's economic environment. The most significant of these is the effect that inflation is having upon the relationship between active duty pay and the retirement annuity. Active duty pay changes are geared to changes in Federal civilian salaries which in turn are adjusted by changes in private sector pay rates as measured by Bureau of Labor surveys. The annual rate of CPI increase has recently been more than double the annual rate of adjustment to salary/wages. As a result, under current projections, if retired pay were recomputed to January 1971 pay scales for all pre-1971 retirees as had been proposed by the previous Administration, any member retiring next October would receive less retired pay than a similar member who retired before January 1, 1971. For example, a lieutenant colonel (O-5) with 26 years' service retiring next October would actually receive \$70 per month less than a similar member who retired 20 years ago.

In effect, retired pay is already being "recomputed". For example, a lieutenant colonel with 26 years of service who retired prior to 1958 now receives an annuity equal to 67% of the annuity received by a similar member who retired last summer. Assuming that current inflationary trends continue into 1976, that percentage will increase to 78% of the amount received by a similar member retiring in October of that year.

In view of these trends, I recommend at this time that the Administration not submit recomputation legislation to the new Congress.



James L. Buckley

January 20, 1975

MEMORANDUM FOR: ROY ASH

FROM: JACK MARSH

The following are my comments concerning the Budget Message.

- 1. Page 6, third paragraph, spelling of inflation.**
- 2. Same page, last line, third paragraph. Meaning is unclear. What are the two factors?**
- 3. Page 6, paragraph four, last line, type error.**
- 4. Page 10, paragraph three: change second sentence to read: "design to seek international economic stability".**
- 5. Page 12, paragraph two: If not deleted, this paragraph should be completely rewritten so as not to encourage legislation in that particular field.**



JAN 20 1975



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JAN 20 1975

MEMORANDUM FOR:

PHILIP W. BUCHEN
KENNETH R. COLE
ALAN GREENSPAN
ROBERT T. HARTMAN
JERRY H. JONES
JOHN O. MARSH ✓
DONALD H. RUMSFELD
BRENT SCOWCRAFT
L. WILLIAM SEIDMAN
PAUL A. THEIS

FROM:

ROY L. ASH

SUBJECT:

The Budget Message

Attached is a galley proof of the Budget Message in close to final form. It will be sent to the Government Printing Office tomorrow night for paging. Once in page proof, we will be able to make relatively few changes, with emphasis on necessary typographical clean-up and numerical accuracy.

Attachment





January 19, 1975—REVISED

**1 Part 1—MESSAGE
NEW GALLEY**

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OMB Use**

BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The year 1976 will mark the bicentennial of this country. With this budget, therefore, we will begin our third century as a Nation.

In our first 2 centuries we developed from 13 struggling colonies to a powerful leader among nations. Our population increased from 3 million to 213 million. From a simple agricultural society we have grown into a complex industrialized one.

Our Government—and its budget—have grown with the Nation, as the increasing complexity of modern society has placed greater responsibilities upon it. Yet our society has remained free and democratic, true to the principles of our Founding Fathers.

Change and complexity bring problems. As we approach our third century as a Nation, we face serious economic difficulties of recession and inflation. I have a deep faith, however, in the fundamental strength of our Nation, our people, our economy, and our institutions of government. I am confident of our ability to overcome today's challenges as we have overcome others in the past—and gone on to greater achievements.

My budget recommendations are designed to meet longer-term national needs as well as immediate, short-run objectives. It is vital that they do so. Because of the size and momentum of the budget, today's decisions will have far-reaching and long-lasting effects.

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January 19, 1975—REVISED

2 Part 1—MESSAGE

The recommendations set forth in this budget are an integral part of the broader series of proposals outlined in my State of the Union address. These proposals provide for:

- fiscal policy actions to increase purchasing power and stimulate economic revival including tax reduction and greatly increased aid to the unemployed;
- a major new energy program that will hold down energy use, accelerate development of domestic energy resources, and promote energy research and development;
- an increase in outlays for defense in order to maintain preparedness and preserve force levels in the face of rising costs;
- a 1 year moratorium on new Federal spending programs other than energy programs; and,
- a temporary 5% ceiling on increases in pay for Federal employees, and on those benefit payments to individuals that are tied to the Consumer Price Index.

These policies call for decisive action to restore economic growth and energy self-reliance. My proposals include \$16 billion in tax relief—\$12 billion for individuals and \$4 billion for corporations—to stimulate economic recovery. Outlays are estimated to increase 30% between 1974 and 1976. It is essential that we keep a tight reign on spending, to prevent it from rising still further and making tax reduction imprudent. I believe that tax reduction, not more Government spending, is the key to turning the economy around to renewed growth.

I regret that my budget and tax proposals will mean bigger deficits temporarily, for I have always fought deficits. We must recognize, however, that unless action is taken soon to aid economic recovery, the Treasury will lose receipts and incur even larger deficits in the future.

My energy program calls for a tariff on imported oil, taxes on domestically produced petroleum and natural gas and on their producers, and deregulation of prices. These measures will curb excessive energy use and reduce our dependence on imported oil. The \$30 billion in receipts these measures will produce will be refunded to the American people—refunded in a way that helps correct the distortions in our tax system created by inflation. Special provisions will ensure that low-income Americans are compensated equitably. All these refunds and compensatory measures will be in addition to the \$16 billion in tax relief I have proposed.

My budget recommendations provide for total outlays of \$348.7 billion in 1976, an increase of \$35.5 billion over 1975, and anticipate receipts of \$302.7 billion, an increase of \$23.2 billion over 1975.

THE BUDGET AT A GLANCE

[In billions of dollars]

Item	1974 actual	1975 estimate	1976 estimate	Transition quarter
Receipts.....	264.9	280.5	302.7	86*
Outlays.....	268.4	313.7	348.7	93
Deficit (-).....	-3.5	-33.2	-46.0	-8



January 19, 1975—REVISED

3 Part 1—MESSAGE

The Congressional Budget and Impoundment Control Act of 1974 provides for major reforms in the budget process. As part of these reforms, it changes the fiscal year for the Federal budget from the present July-through-June basis to an October-through-September basis, beginning with the 1977 fiscal year. This requires that there be a separate transition quarter, extending from July through September of 1976, after fiscal year 1976 ends and before fiscal year 1977 begins. Estimates for the transition quarter are included in this budget. In general, they anticipate continuing the 1976 program levels unchanged for the additional 3 months. Because outlays and receipts vary seasonally—that is, they do not occur at uniform rates during the year—the estimates for this quarter (and particularly the deficit) are not representative of a full year's experience.

THE BUDGET AND THE ECONOMY

If the Congress acts decisively to place in effect the new policies I have announced, and if we exercise reasonable patience and restraint, we can go far toward solving the broad range of economic problems our Nation now faces.

It must be clearly understood that these problems are serious and that strong remedies are fully justified. We are now in a recession. Unemployment is far too high and productivity has declined. At the same time, inflation, a serious and growing problem for nearly a decade, continues to distort our economy in major ways. Underlying these problems is the fact that we are far from self-sufficient in energy production, and even with the measures I have proposed developing the capacity for self-sufficiency will take years. Imported fuel supplies have been interrupted once and remain vulnerable, and oil prices have been increased fourfold.

The increased unemployment and continued price increases from which we now suffer are problems we share with much of the rest of the world. The roots of these problems are complex. The steep rise in the price of imported oil, for example, while directly increasing prices, has also acted like a tax increase by reducing the real income of American consumers and transferring that income to oil exporting countries. Lower real incomes, combined with consumer resistance to place. Such factors, superimposed on the inevitable slowdown recession we are now in..

The weakening of consumer demand and investment, in turn, is beginning to exert a dampening effect on price and wage increases. Thus, inflationary pressures are already beginning to recede and are likely to continue to do so.

4 Part 1—MESSAGE

Aiding economic recovery.—In view of this situation, I have proposed a \$16 billion rebate in personal and corporation income taxes that will help reduce unemployment without rekindling inflation. This tax cut will contribute to deficits, adding \$6 billion in 1975 and \$10 billion in 1976. I have always opposed budget deficits. The current economic situation, however, leaves me no choice.

Aside from the effects of the proposed tax reduction, the deficits anticipated for 1975 and 1976 are in large part the inevitable result of those aspects of the budget and the tax system that respond automatically to changes in the economy. When an economic slowdown occurs, incomes and profits decline or grow more slowly, but Federal tax collections slow down more than proportionately. Unemployment benefit payments rise sharply. These factors tend to cushion the economic downturn and help sustain individual and corporate incomes.

These stabilizing influences are quite substantial. If the economy were to be as fully employed in 1976 as it was in 1974, we would have \$35 billion in additional tax receipts, assuming no change in tax rates. Aid to the unemployed, including the special measures I proposed and the Congress enacted last December, will be \$11.8 billion larger in 1976 than it was in 1974, providing income support for 13.8 beneficiaries and their families. These two factors alone almost exactly equal the deficit expected for 1976.

THE BUDGET TOTALS

[Fiscal years. In billions]

Description	1974 actual	1975 estimate	1976 estimate	Transition period estimate
Budget receipts.....	264.9	280.5	302.7	
Budget outlays.....	268.4	313.7	348.7	
Deficit (—).....	—3.5	—33.2	—46.0	
Budget authority.....				

1973
actual

Outstanding debt, end of fiscal period:
 Gross Federal debt.....
 Debt held by the public.....
**Outstanding Federal and federally assisted
 credit, end of fiscal period.....**
 Direct loans.....
 Guaranteed and insured loans¹.....
 Government-sponsored agency loans²...

¹ Excludes loans held by Government accounts and special credit agencies.

² See table E-7 in Special Analysis E, Federal Credit Programs, published in a separate volume.

January 19, 1975—REVISED

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Sum's

5 Part 1—MESSAGE

The Government must act decisively to help restore economic health, and act compassionately to aid those most seriously affected by unemployment. It does not make economic sense to insist on cutting a dollar out of the budget for each dollar of tax receipts lost just because of decreases in incomes and profits resulting from the economic downturn. Nor does it make sense arbitrarily to offset each dollar of increased aid to the unemployed by a reduction elsewhere in the budget.

Last October I proposed a National Employment Assistance Act, which provided for liberalized unemployment benefits and coverage and for more public employment. Congress has since enacted, and I have signed into law, two employment assistance acts derived from my proposals. One of these measures, the Emergency Jobs and Unemployment Assistance Act, provides unemployment benefits to workers not covered by the regular unemployment insurance system and provides increased job opportunities in the public sector. The other measure, the Emergency Unemployment Act, extends the length of time that workers covered by the regular unemployment insurance system are eligible for benefits. My budget recommendations provide for outlays of \$15.3 billion in 1976 for income support for the unemployed, both under these two acts and under the regular unemployment compensation programs. Another \$1.3 billion will be spent for increased public sector jobs.

Budget reductions.—While recommending temporary measures to help the economy and to provide greater assistance to the unemployed, I have sought, on an item-by-item basis, to eliminate non-essential spending and avoid commitment to excessive growth of Federal spending in the long run. For this reason I have proposed no new spending initiatives in this budget other than those for energy. I have also proposed that the allowable increase in Federal pay and in benefit payments to individuals that currently are linked to the Consumer Price Index be limited to 5% through June 30 of next year. To be equitable, this ceiling should apply to all these programs. This limit will save \$6.1 billion in 1976 and permit us to concentrate maximum resources on direct efforts to speed economic recovery, including tax reduction.

In addition, I have previously asked the Congress to agree to a series of measures that would reduce outlays. In some cases the Congress has done so; in others it has overturned my proposals. Those economy measures to which Congress has not objected are reflected in my budget recommendations. These measures will provide \$7.8 billion in savings in 1976. Further program reductions recommended in this budget will result in \$3.6 in additional savings. Unless the Congress concurs with the proposals now before it, including those advanced in this budget, outlays—and thus the deficit—will be \$17.5 billion greater in 1976 than the figure recommended in this budget. [In that event, the tax cut I am proposing should be seriously reconsidered.]

My proposal to place a temporary limit on civil service and military pay increases recognizes that the Federal Government must set an example for the rest of the economy, and that Federal employees generally enjoy considerably greater job security than the average worker under current economic conditions. I believe that most Federal employees will understand that some restraint on their pay increases is appropriate now to help provide benefits and increased job opportunities for those who are unemployed.

I urge the Congress to accept this recommendation. I especially urge the private sector—labor and management alike—to follow this example and hold down price and wage increases.



6 Part 1—MESSAGE

My proposal to place a similar temporary limit on the automatic increases in benefit programs linked to the Consumer Price Index is made in the context of the very large increases that have occurred in these programs in recent years—increases well in excess of the rate of inflation. Outlays for these programs, including social security, supplemental security income, food stamps, railroad retirement, Federal employees retirement, and military retired pay have increased from \$40 billion in 1970 to an estimated \$92 billion in 1975. This is an increase of 130% in just 5 years. Over the same period, consumer price increases total about 38%. Some of the increase in outlays is due to the fact that more people are now covered by benefit programs. But average benefits per beneficiary, in constant prices—that is, adjusting for inflation—have gone up substantially.

With thousands of workers being laid off while considerable inflationary momentum persists, I believe that modest—and temporary—restraint on Federal pay raises and on the growth of Federal benefit programs is an equitable way to keep the budget from perpetuating inflation.

BUDGET TRENDS AND PRIORITIES

The Federal budget both reflects our national priorities and helps to move the Nation toward their realization. Recent years have seen a significant shift in the composition of the Federal budget. The proportion of the budget devoted to defense has declined substantially since 1964, with a corresponding increase in the nondefense proportion of the budget. This shift has been particularly rapid since 1969, due in part to the end of American combat involvement in Vietnam.

Defense outlays remained virtually level in current dollar terms from 1969 to 1974, absorbing substantial cost increases—including the pay raises necessary to establish equitable wage levels for our servicemen and women and to make possible the transition to an all-volunteer armed force. Defense programs have undergone large reductions in real terms—reductions of over 40% since 1969 in manpower and materiel. In consequence, defense outlays have been a decreasing share of our gross national product, falling from 8.9% in 1969 to 5.6% in 1976.

At the same time, Federal nondefense spending has increased substantially in both current and constant dollar terms, growing from 11.6% of gross national product in 1969 to an estimated 15.8% in this budget. In the process, the form that Federal spending takes has shifted dramatically away from support for direct Federal operations and toward direct benefits to individuals and grants to State and local governments. About a third of these grants also help to finance payments to individuals. Both legislated increases and built-in program growth have contributed to the doubling of outlays for domestic assistance in the past 5 years. The sharp drop in defense programs and manpower has helped make this possible.

It is no longer realistically possible to offset increases in the costs of defense programs by further reducing military programs and strength. Therefore, this budget proposes an increase in defense outlays in current dollars that will maintain defense preparedness and preserve manpower levels in the face of rising costs. These proposals are the minimum prudent levels of defense spending consistent with providing armed forces which, in conjunction with those of our allies, will be adequate to maintain the military balance. Keeping that balance is essential to our national security and to the maintenance of peace.

In 1969, defense outlays were nearly one-fifth more than combined outlays for aid to individuals under human resource programs and for aid to State and local governments. Despite the increase in defense outlays, this budget—only 7 years later—proposes spending nearly

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7 Part 1—MESSAGE

twice as much money for aid to individuals and State and local governments as for defense.

Outlays for assistance to individuals and to State and local governments will rise from \$— billion in 1974 to \$— billion in 1975, and \$— billion in 1976. These increases include the costs of the emergency unemployment assistance measures enacted last December, together with increased outlays under the regular unemployment insurance system. Outlays for other benefit programs, including social security, supplemental security income, food stamps, medicare and medicaid, and veterans programs, will also increase substantially.

The budget carries forward a philosophy that stresses an appropriate separation of public- and private-sector responsibilities. Within the sphere of public-sector responsibilities, it calls for Federal emphasis on meeting national problems and encourages State and local responsibility and initiative in meeting local and statewide needs. Broader Federal aid to States and localities and a reduction in the Federal restrictions imposed in connection with this aid are key elements of this philosophy. In 1974, Federal aid supplied 21% of total State and local government receipts, compared to 10.7% a decade earlier. My budget recommends Federal grants-in-aid of \$— billion in 1976.

ENERGY

The fourfold increase in oil prices dictated by oil-exporting countries has been a major factor in the sharp inflationary surge of the past year and a half. It endangers the health of world trade and is creating significant financial and economic disruption throughout the world. Among other things, the resulting high fertilizer prices are hampering efforts to increase world agricultural production, thereby aggravating the world food problem.

Fuel conservation.—I continue to believe that fuel conservation and a reduction of world oil prices is in the long-term interest of both consumer and producer countries. Accordingly, I have proposed a series of stringent fuel conservation measures, including taxes on petroleum and natural gas offset by reductions in income taxes, payments to low-income taxpayers, and increased aid to States. On balance, this program will preserve consumer and business purchasing power while strongly discouraging unnecessary petroleum consumption. Other measures I have proposed will upgrade housing insulation and permit substantial improvement in automobile gas mileage, thus further reducing our need for imported oil.

At the same time, my Administration is pursuing diplomatic efforts to alleviate financial and supply problems in the industrialized world, and to persuade major oil-exporting countries to use part of their enormous oil revenue surpluses to aid less-developed nations hard-pressed by the price increases.



8 Part 1—MESSAGE

Development of domestic energy sources.—But fuel conservation measures and stronger diplomatic efforts are only part of the solution to the energy problem. Vigorous efforts to speed development of our vast domestic energy resources—particularly oil, gas, coal, and nuclear—are also essential. As part of these efforts, my Administration has worked out a comprehensive plan for leasing the offshore oil and gas resources of our Outer Continental Shelf for development in an environmentally acceptable manner. We also seek responsible use of our extensive Naval Petroleum Reserves in California and Alaska and are taking steps to increase our use of our vast domestic coal reserves. These measures, including workable and precise legislation regulating strip mining, seek a proper balance between energy needs and environmental considerations. Increased domestic supplies, coupled with fuel conservation measures, will help reduce our dependence upon, and vulnerability to, petroleum imports.

In addition, the Federal Government has further expanded its research and development program to provide the new and improved technologies necessary for increasing the use of our domestic energy resources. Outlays for energy research and development will be \$1.7 billion in 1976, an increase of 36% over 1975 and 102% over 1974. My budget recommendations continue our vigorous nuclear research and development program and further accelerate nonnuclear energy research and development—particularly in coal and solar energy. To provide a better organizational framework for this effort, last October I signed into law an act creating the Energy Research and Development Administration, which brings together within a single agency the Government's various research and development programs relating to fossil fuels, nuclear energy, and other energy technologies such as geothermal and solar. An independent Nuclear Regulatory Commission has also been established to improve the regulatory process associated with nuclear plant licensing, safety, and nuclear materials safeguards, and to separate it from nuclear power development activities.

Agriculture.—Besides fuel costs, the cost of food has been the other special problem in the inflationary surge of the past 2 years. A worldwide decline in agricultural production due in part to adverse weather conditions has created shortages that have been critical in some areas and have sent world food prices soaring.

In response to these shortages, we have stimulated U.S. production by eliminating Government-imposed crop restrictions originally designed to prevent surpluses. Our increased production will help to curb inflation and will aid in relieving severe food shortages abroad. To the extent that we can produce beyond our domestic needs, we will be able to increase our agricultural exports and share our increased supplies with hungry peoples overseas.

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9 Part 1—MESSAGE

NATIONAL SECURITY AND FOREIGN RELATIONS

The ultimate goal of American foreign policy is to ensure the freedom, security, and well-being of the United States as part of a peaceful and prosperous international community. Our diplomacy, backed by a strong national defense, strives to strengthen this international community through the peaceful resolution of international disputes, through arms control, and by fostering cooperation and mutual restraint. We seek a healthy world economy through expanded trade, cooperative solutions to energy problems, and increased world agricultural production to meet mankind's needs for food. In today's interdependent world, each of these objectives serves our own national interest even as it helps others.

National security.—The Vladivostok understanding, which I reached with Secretary General Brezhnev of the Soviet Union, represents a major step on the long and arduous road to the control and eventual reduction of nuclear arms. For the first time, we have reached an understanding on specific and equal limitations on strategic nuclear weapons. Once we have concluded an agreement based on these understandings, we will be prepared to take the next step—to seek further agreement to lower the ceilings, as we have already done in the case of antiballistic missile launchers.

The progress we have already made along the road to eventual strategic arms reductions has been possible only because we have remained strong. If we are to make further progress, we must act to preserve our strategic strength. My defense proposals provide for necessary force improvements and for the development of strategic alternatives necessary to maintain, within the limits of the Vladivostok agreement, a credible strategic deterrent.

More attention must now be given to maintaining an adequate balance in general purpose forces. In this area we share the burden of defense with our allies. The United States has entered into negotiations between members of NATO and of the Warsaw Pact on mutual and balanced force reductions. If those negotiations are successful, some U.S. forces stationed in Europe could safely be withdrawn. For the time being, however, the United States and its allies must maintain present manpower levels and continue to strengthen conventional combat capabilities.

In an effort to increase efficiency and achieve greater combat capability with existing manpower levels, the Army has undertaken to provide 16 active combat divisions by June of 1976 with approximately the same total number of Army personnel as was authorized for 13 divisions in June of 1974. This 16-division combat force will require additional equipment, which is provided for in my budget recommendations.



10 Part 1—MESSAGE

Foreign relations.—Because the welfare and survival of the United States and its allies depend upon the flow of ocean-going trade and supplies, strong naval forces are required. In recent years the number of Navy ships has decreased, primarily as a result of the retirement of many aging ships built during World War II. The savings from this action have been used to strengthen the combat capabilities of the remaining force. This budget provides for a vigorous program of new ship construction and modernization necessary to maintain the naval balance in the future.

In addition to maintaining a strong defense capability, the United States strives, through its diplomacy, to develop and maintain peaceful relationships among nations. Foreign assistance is both an expression of our humanitarian concern and a flexible instrument of diplomacy. Our assistance in Indochina is making an essential contribution to the security and reconstruction of the countries in that region. Additional military assistance is now necessary to enable the South Vietnamese and Cambodian Governments to defend themselves against increasing military pressure. Our assistance in the Middle East is an integral part of our diplomatic effort to continue progress toward a peaceful solution to the area's problems. An increasing portion of our economic aid program is devoted to helping developing countries improve their agricultural productivity.

Higher oil prices, widespread food shortages, inflation, and spreading recession have severely strained the fabric of international cooperation. The United States has undertaken several major diplomatic initiatives designed to ~~avert international economic chaos~~. Our diplomatic efforts were instrumental in the establishment of the International Energy Agency and its program, which provides for emergency oil sharing, conservation efforts, and development of alternative energy sources. More recently, the United States proposed a \$25 billion special financing facility to assist industrialized countries in dealing with balance of payments difficulties. This new facility will supplement expanded operations of the International Monetary Fund. At the World Food Conference, in Rome, the United States proposed a number of measures to deal with the world food problem, including creation of an international system of grain reserves.

In addition, the Trade Act passed by the Congress last December will make possible a strengthening of international trade relations by enabling the United States to work with other nations toward reducing tariff and nontariff barriers to trade and improving access to supplies.

The strengthening of international trade and financial cooperation is essential if we and other nations are to cope successfully with current economic stresses. It is a prerequisite for renewed economic progress at home and abroad.

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to seek
international
economic
stability

Duplicate

10 Part 1—MESSAGE

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January 19, 1975—REVISED



11 Part 1—MESSAGE

DOMESTIC ASSISTANCE

The enormous growth in recent decades of Federal programs for assistance to individuals and families, and to State and local governments, has placed heavy demands on the budget. This growth expressed the desire of a compassionate society to provide well for its retired workers, veterans, and less fortunate members without sacrificing our proud and productive tradition of individual initiative and self-reliance. In the process, we have built a stronger partnership between the various levels of government: Federal, State, and local.

AID TO INDIVIDUALS AND TO STATE AND LOCAL GOVERNMENTS

[Dollar amounts in billions]

Item	1968	1970	1972	1975	1976	Percent increase 1968 to 1976
Payments to individuals ¹	40	51	70	94	134	239
Grants-in-aid ¹	19	24	36	46	55	191
For payments to individuals	(6)	(8)	(14)	(16)	(18)	(202)
Other	(13)	(16)	(21)	(30)	(36)	(186)
Total	58	75	106	140	188	223
Memorandum:						
All other outlays	(121)	(122)	(126)	(128)	(161)	(33)

¹ Excludes military retired pay and grants classified in the national defense function.

Human resources programs.—The rapid growth of human resource programs in recent years has brought about many improvements in the well-being of the American people. Benefits under social security, medicare, medicaid, supplemental security income, food stamps and veterans programs have increased substantially. In just 7 years, cash benefits under social security programs will have nearly tripled, rising from \$26.2 billion in 1969 to \$70 billion in 1976. They now reach 27.9 million beneficiaries. By 1976, six social security benefit increases will have occurred since 1969. Automatic cost-of-living adjustments to benefits are now provided by law. Allowing for the temporary 5% ceiling I have proposed on benefit increases between now and July 1976; the increases from 1970 through 1976 in each recipient's social security benefits, taken together, will total 77%, far exceeding the increases in the cost of living (52%), and in average wages (57%), estimated for this period.

The supplemental security income program began operation a year ago, replacing the various State public assistance programs for the aged, the blind, and the disabled with a more uniform and equitable national system. This broad reform has provided higher benefits for these disadvantaged groups. In addition, Federal assumption of responsibility for these programs has provided significant fiscal relief to State and local governments. This budget provides for substantial to beneficiaries both of this program, and of social security.

Outlays for the food stamp program have increased from \$248 million in 1969 to an estimated \$3 billion in 1976. I have undertaken reforms to simplify the administration of this program and reduce costs, while providing for more equitable treatment of beneficiaries.

Over the years, the income security of our labor force has been enhanced by liberalization of benefits and coverage under our unemployment insurance system, while increased employment opportunities have been created in areas of high unemployment. The special unemployment assistance measures I proposed last October have been enacted into law as the Emergency Jobs and Unemployment Assistance Act and the Emergency Unemployment Compensation Act. With these new acts, total unemployment assistance, including employment programs, will expand—% from \$—— billion in 1974 to \$—— billion in 1976.



January 19, 1975—REVISED

11 Part 1—MESSAGE

DOMESTIC ASSISTANCE

The enormous growth in recent decades of Federal programs for assistance to individuals and families, and to State and local governments, has placed heavy demands on the budget. This growth expressed the desire of a compassionate society to provide well for its retired workers, veterans, and less fortunate members without sacrificing our proud and productive tradition of individual initiative and self-reliance. In the process, we have built a stronger partnership between the various levels of government: Federal, State, and local.

AID TO INDIVIDUALS AND TO STATE AND LOCAL GOVERNMENTS

[Dollar amounts in billions]

Item	1968	1970	1972	1975	1976	Percent increase, 1968 to 1976
Payments to individuals ¹	40	51	70	94	134	239
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Supplement



12 Part 1—MESSAGE

Our present welfare system is inefficient and inequitable. It is wasteful not only of tax dollars but, more importantly, of human potential. Left unchanged, over the long run the situation will almost surely continue to deteriorate. I urge the Congress to work with my Administration to develop reforms that make the system simple, fair, and compassionate. This approach need not cost more, but rather can use our welfare dollars more effectively.

America needs to improve the way it pays for medical care. We should begin plans for a comprehensive national health insurance system. However, in view of the economic developments and the measures I have proposed to combat recession and inflation, I cannot now propose costly new programs. Once our current economic problems are behind us, the development of an adequate national medical insurance system should be our first national priority. I urge the Congress to work with my Administration in order to devise a system that we will be able to afford.

The major Federal programs for financing medical care now in existence, medicare and medicaid, are now 10 years old. Medicare outlays of \$14.7 billion in 1976 will help to meet the medical costs of an estimated 12.7 million aged and disabled Americans, 23% more people than were aided in 1971. Medicaid outlays of \$7.1 billion will help to pay medical care for 25 million low-income Americans in 1976—a 37% increase in beneficiaries since 1971. Federal health programs also provide health care and insurance for Federal employees, veterans, and other groups. In total, existing Federal health programs now pay about [35] % of the Nation's total health bill.

General revenue sharing.—General revenue sharing has become an integral and important part of the Federal grants-in-aid system. This program has been highly successful, providing fiscal assistance that can be applied flexibly to meet the needs of States and localities according to their priorities. It has distributed assistance more equitably than before, reaching many local governments that had not received Federal assistance in the past.

Current authority for general revenue sharing will expire at the end of calendar year 1976. Because I believe in the soundness of this program, I shall propose legislation extending general revenue sharing through fiscal year 1982. Prompt action by the Congress on the proposed extension will permit State and local governments to plan their future budgets more effectively and avoid the waste and inefficiencies that prolonged budgetary uncertainties would create.

Transportation.—My budget recommendations anticipate legislation that I will propose to increase long-term funding for highways and extend the highway trust fund through 1980. My proposal will focus Federal assistance on more rapid completion of segments of the Interstate Highway System needed to link the system together. They will also combine a number of narrow categorical grant programs for highway assistance to eliminate red tape and allow localities greater flexibility in meeting their transportation problems.

January 19, 1975—REVISED



January 19, 1975—REVISED

13 Part 1—MESSAGE

In order to improve the safety and efficiency of the Nation's airways system, and to increase its responsiveness to current needs, I will propose legislation to restructure Federal aviation and airways development programs. My proposal will broaden the range of aviation activities that may be financed from the airways trust fund, eliminate unnecessary Federal involvement in airport investment decisions, and allocate airport user fees more equitably among aviation system users.

BUDGET REFORM

As demands on the budget have grown, the need for better congressional procedures for considering the budget has become increasingly clear. In the past the Congress has acted upon the budget in a piecemeal fashion, with far too little attention to the total. The Congressional Budget and Impoundment Control Act passed last summer mandates sweeping changes in the Federal budget and in congressional procedures for dealing with it. Under the new procedures, the Congress will have a larger and better-defined role in developing sound budget and fiscal policies. Congressional organization and procedures will be changed to focus greater attention on the budget totals early in the legislative process.

Major provisions of the act require greater attention to the future-year costs of legislative proposals and ongoing programs and establish a budget committee in each Chamber and a Congressional Budget Office to aid Congress in its consideration of budget recommendations. The shift of the fiscal year to an October-to-September basis will give the Congress more time to complete action on the budget before the fiscal year begins.

The act also provides for a closer working relationship between Congress and the executive branch in controlling outlays. I look forward to a new era of fruitful cooperation between the legislative and executive branches on budgetary matters, a cooperation that will enhance fiscal responsibility, make the budget a more useful instrument of national policy, and promote a more careful allocation of limited resources.

During the past 6 years, the budget has become increasingly forward-looking, focusing attention on the future effects of budget proposals. The new act builds upon this initiative with the requirement that the budget present more extensive 5-year projections of outlays and receipts. These projections indicate the large natural increase in receipts resulting from rising incomes and profits as the economy returns to healthy growth and higher employment. These increased receipts, coupled with *prudent fiscal restraint*, will make it possible to avoid deficits that would be inflationary when the economy returns to high employment.

The Government strongly affects the economy in many ways not fully reflected in the budget. These influences include tax provisions such as those that encourage homeownership and business investment; and the operations of Federal or federally-sponsored enterprises, particularly in the credit field, that are excluded from the budget. The new act recognizes the importance of these factors by requiring that they be given greater consideration in connection with the budget.



14 Part 1—MESSAGE

CONCLUSION

As we approach our national Bicentennial, difficult challenges lie before us. The recommendations in this budget address the Nation's problems in a direct, constructive, and responsible fashion. They are designed to move the Nation toward economic health and stability. They meet human needs. They provide for the strong defense essential to our national security and to our continuing efforts to maintain world peace.

Looking beyond the Bicentennial, toward the year 2000, the practical limits to the growth of the Federal Government's role in our society become increasingly clear. The tremendous growth of our domestic assistance programs in recent years has, on the whole, been commendable. Much of the burden of aiding the elderly and the needy has been shifted from private individuals and institutions to society as a whole, as the Federal Government's income transfer programs have expanded their coverage.

These programs cannot, however, continue to expand at the rates they have experienced over the past two decades. Spending by all levels of government now makes up a third of our national output. Were the growth of domestic assistance programs to continue for the next two decades at the same rates as in the past 20 years, total government spending would grow to more than half of our national output. We cannot permit this to occur. Taxation of individuals and businesses to pay for such expansion would simply become insupportably heavy. This is not a matter of conservative or liberal ideology. It is hard fact, easily demonstrated by simple extrapolation. We must begin to limit the rate of growth of our budgetary commitments in the domestic assistance area to sustainable levels.

The growth of these domestic assistance programs has taken place in a largely unplanned, piecemeal fashion. This has resulted in too many overlapping programs, lack of coordination, and inequities. Some of the less needy now receive a disproportionate share of Federal benefits, while some who are more needy receive less. We must redouble the efforts of the past 5 years to rationalize and streamline these programs. This means working toward a stable and integrated system of programs that reflect the conscience of a compassionate society but avoid a growing preponderance of the role of the public sector over the private. It means, too, decentralizing Government operations and developing a closer partnership between the Federal Government, State and local governments, and the individual private citizen.

The Congress will approach this budget in a new way, with new legislative machinery and procedures. I pledge to work in a spirit of cooperation with the Congress to make this effort a success. The tasks before us provide difficult tests: to meet immediate economic problems; to relate our limited Federal resources more clearly to current national priorities; and to develop long-term strategies for meeting Federal responsibilities as we begin our third century. I am confident of success.

GERALD R. FORD.

FEBRUARY 3, 1975

January 19, 1975—REVISED





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

M
JAN 21 1975

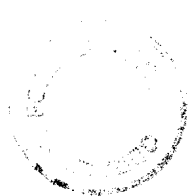
January 20, 1975

Memorandum for: Roy Ash
Paul O'Neill

From: Bob Bonitati *BB*

The attached letter has just been sent to all newly elected Members of Congress.

We will be contacting each of their offices in the next few days to arrange for a briefing of their staff members on "How to Use the Catalog of Federal Domestic Assistance."



Economic Focus by Daniel J. Balz

Ash Looks at the Deficit

104

1/18/75
NATIONAL
JOURNAL
REPORTS
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Roy L. Ash's last budget will be unveiled soon and already he is asking people for a little patience and understanding when they see the deficit in it.

This is the same Roy Ash whose name and agency, the Office of Management and Budget (OMB), have been linked with such "evils" as impoundments, rescissions, deferrals, outright cuts—in short, with being

In contrast, a deficit of \$50 billion would be only about 4 per cent larger than the \$12.8 billion deficit of the last bad recession.

"Deficits as a percentage of GNP is a different thing than the horror that one thinks of deficits in absolute amount."

THE WHITE HOUSE
WASHINGTON

January 21, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JACK MARSH

FROM: JERRY H. JONES

The attached memorandum was returned in the President's outbox with the following notation to you:

-- Your suggestion?

You should note that the President requested this information be transmitted to you before your meeting with him tomorrow morning.

Thank you.



THE WHITE HOUSE

INFORMATION

WASHINGTON

JAN 21 1975

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: Congressman Rhodes' request for the
FY 1976 Central Arizona Project
funding level

Congressman Rhodes has asked me to provide him with the amount to be included in the FY 1976 budget for the Central Arizona Project. I have been unwilling to give Congressman Rhodes the Central Arizona Project funding level in your FY 1976 budget in advance of its transmittal to the Congress on February 3, based on long-standing budget policy on the privileged nature of budget data. To provide Mr. Rhodes with the FY 1976 funding level for the Central Arizona Project in advance, if it becomes known, would immediately result in similar requests from other Congressmen with an equally strong desire to obtain advance budget data on their favorite project. I wanted you to be aware of this, however, in the event you want to depart from disclosure policy in this case. The facts on the project are as follows.

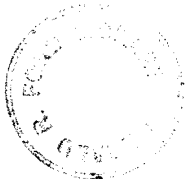
The Central Arizona Project will provide an irrigation, municipal and industrial water supply to the Phoenix area by diverting water from the Colorado River through an aqueduct over 200 miles long. The project received a \$23.0 million appropriation in FY 1975, of which \$2.5 million was deferred. Two major construction contracts will be awarded in FY 1975 for the main Granite Reef Aqueduct and the FY 1976 budget will include \$29.2 million to continue all ongoing work and also provide for additional contracts. The July 1 to September 30 transition quarter request will provide \$8.8 million to continue construction progress. With this 1976 funding, the anticipated date for delivery of water to Phoenix is January 1985. This schedule permits a rapid construction program and the 1976 budget level should be "good news" to Mr. Rhodes.



Mr. Marsh
(WH)

M

CHARTS PRESENTED AT THE JANUARY 29, 1975 CABINET MEETING





Major New Features of the Budget

- Section on economic assumptions and long-range projections.
- Analysis and data on tax expenditures.
- New functional classification and presentation.
- Expanded discussion of receipts, including the President's tax proposals on fiscal stimulus and energy.
- Estimates of budget authority and outlays for the transition quarter.
- Increased budget authority shown for subsidized housing programs to reflect the maximum Federal payment.

Budgetary Impact of Tax and Energy Proposals

(Fiscal Years; in Billions of Dollars)

* Anti-recession tax cuts:	<u>1975</u>	<u>1976</u>
Investment tax credit increase	-1.2	-2.9
Individual income tax rebates	<u>-4.9</u>	<u>-7.3</u>
Subtotal	-6.1	-10.2
Energy tax proposals:		
Excise taxes and import fees	4.3	19.0
Windfall profits tax	---	16.3
Individual income tax cuts	-1.4	-24.9
Corporate income tax cuts	<u>-1.8</u>	<u>-6.6</u>
Subtotal	1.1	3.8
Total tax changes	<u>-5.0</u>	<u>-6.4</u>
Increased outlays due to energy price increases	<u>.5</u>	<u>7.0</u>
Total increase in deficit	<u>5.5</u>	<u>13.4</u>



Budget Reductions

(In Billions of Dollars)

	Effect on Spending	
	1975	1976
Proposed last year:		
Total proposed	-5.2	-8.9
Overturned by Congress	2.0	1.0
Adjustments	.5	-.2
Total remaining	-2.7	-8.1
New actions proposed this year		
Total budget reductions	-3.0	-9.0
Of which:		
Rescissions	-.5	-.8
Deferrals	-.7	-1.8
New legislation	-1.0	-12.4
Administrative and other actions	-.8	-2.1



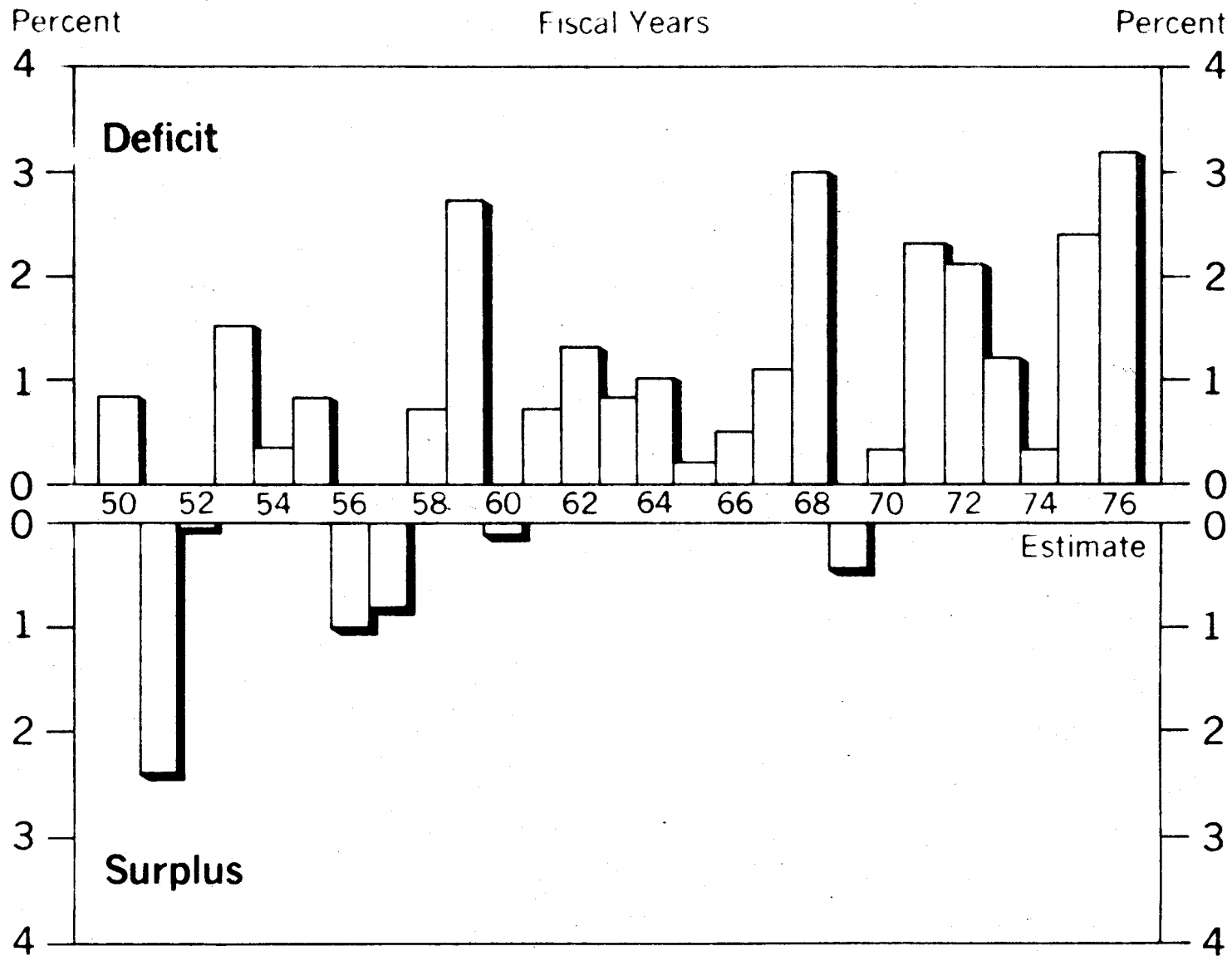
The Budget and the Economy

(Fiscal Year Estimates; in Billions of Dollars)

	<u>1975</u>		<u>1976</u>	
	<u>Receipts</u>	<u>Outlays</u>	<u>Receipts</u>	<u>Outlays</u>
Proposed	278.8	313.4	297.5	349.4
Change if there were no recession	<u>+30.0</u>	<u>-9.2</u>	<u>+40.0</u>	<u>-12.7</u>
Budget totals without recession	308.8	304.2	337.5	336.7
Change if there were no energy and tax proposals	<u>+5.0</u>	<u>-.5</u>	<u>+6.4</u>	<u>-7.0</u>
Budget totals without recession or energy and tax proposals	313.8	303.7	343.9	329.7



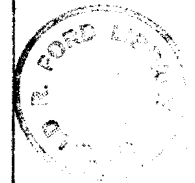
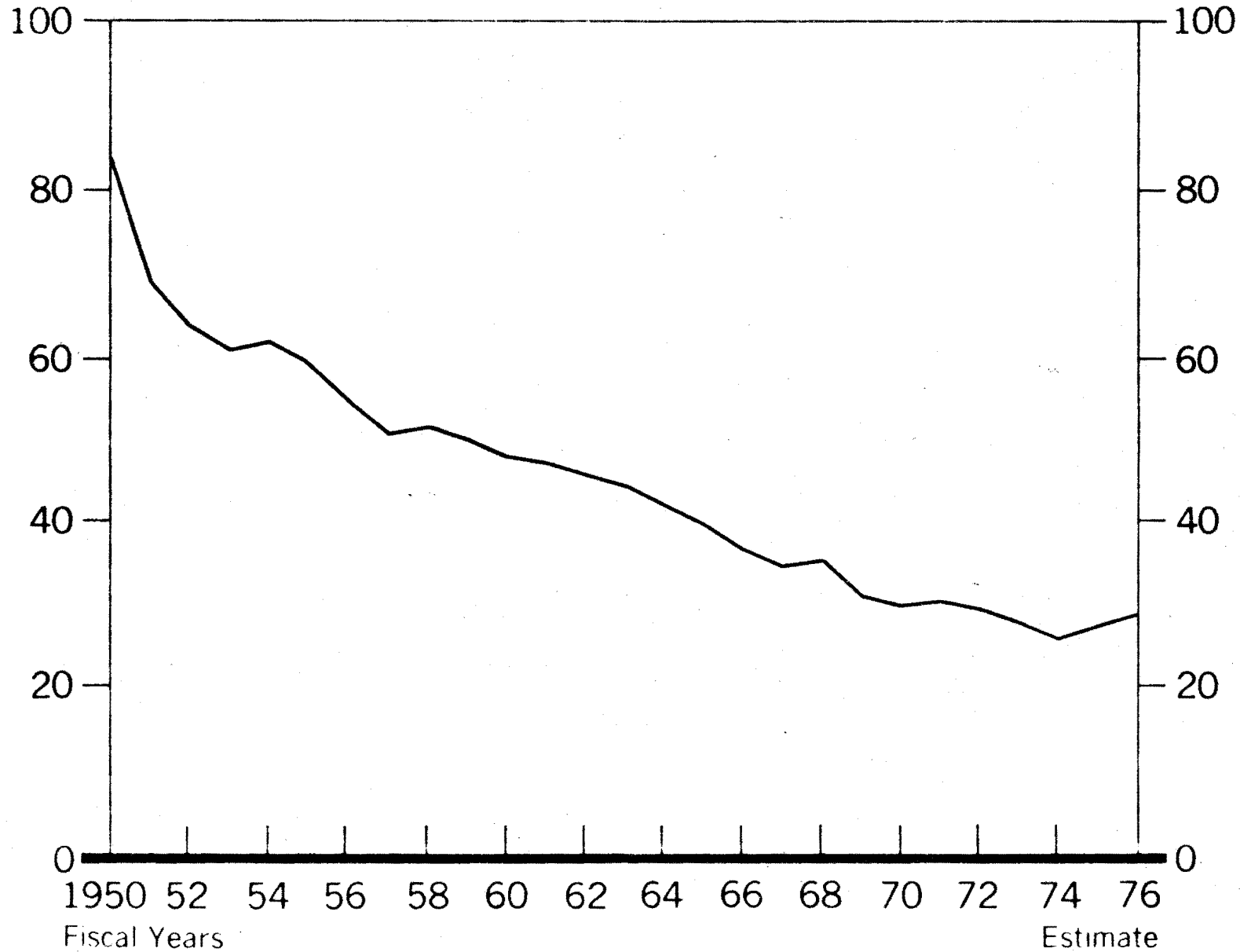
Budget Deficits and Surpluses as a Percent of GNP



Federal Debt* as a Percent of GNP

Percent

Percent



Federal Budget Outlays, 1950-1976

\$ Billions

400

300

200

100

0

\$ Billions

400

300

200

100

0

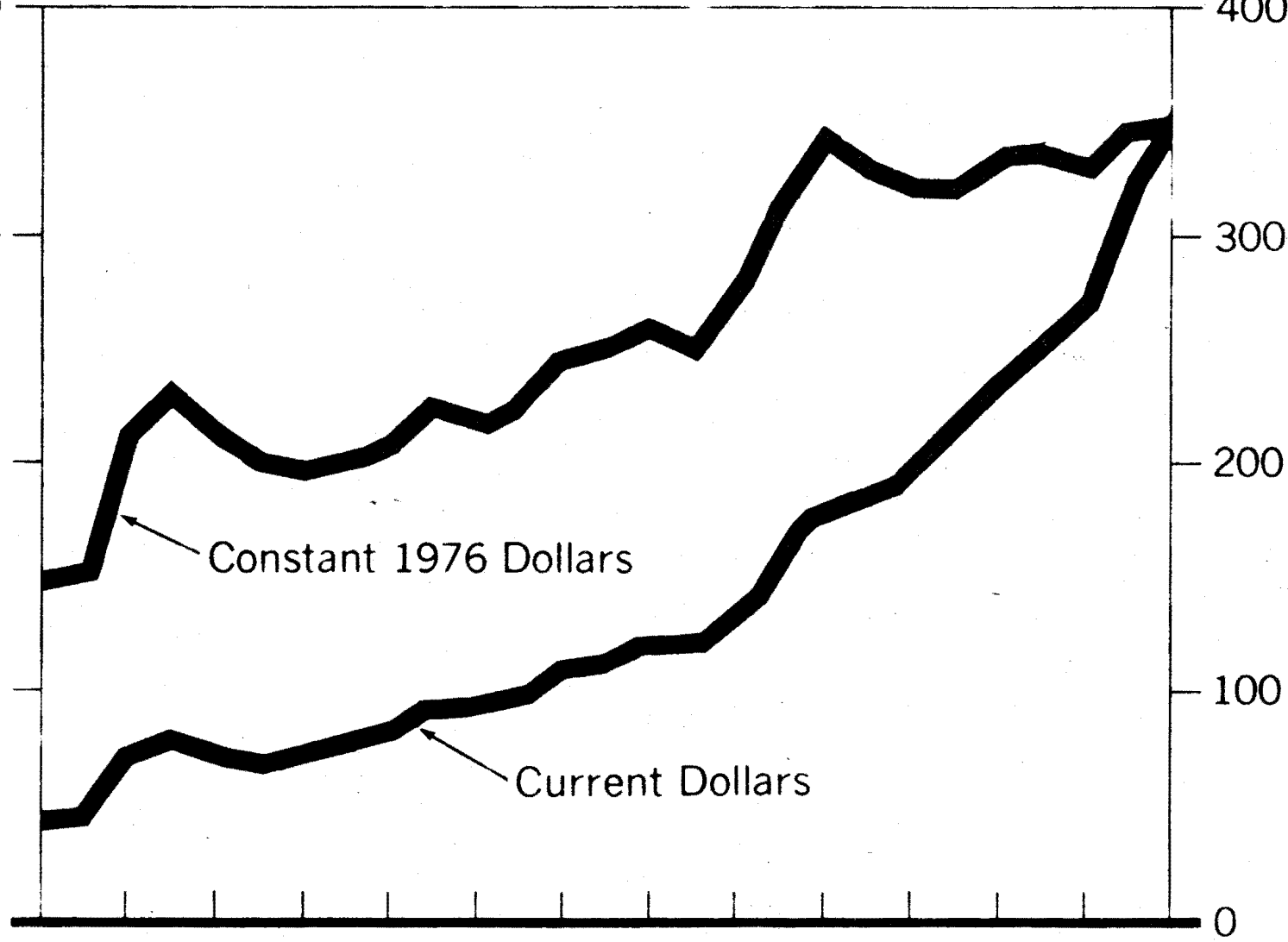
1950 52 54 56 58 60 62 64 66 68 70 72 74 76

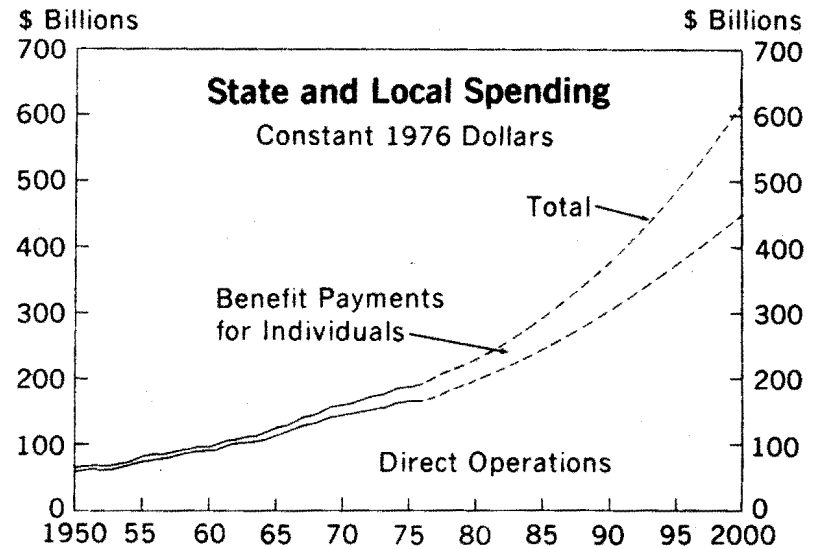
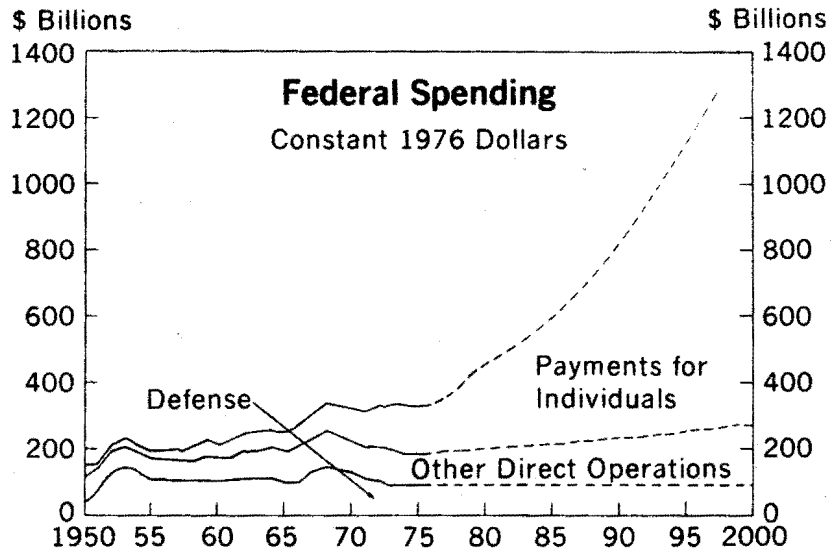
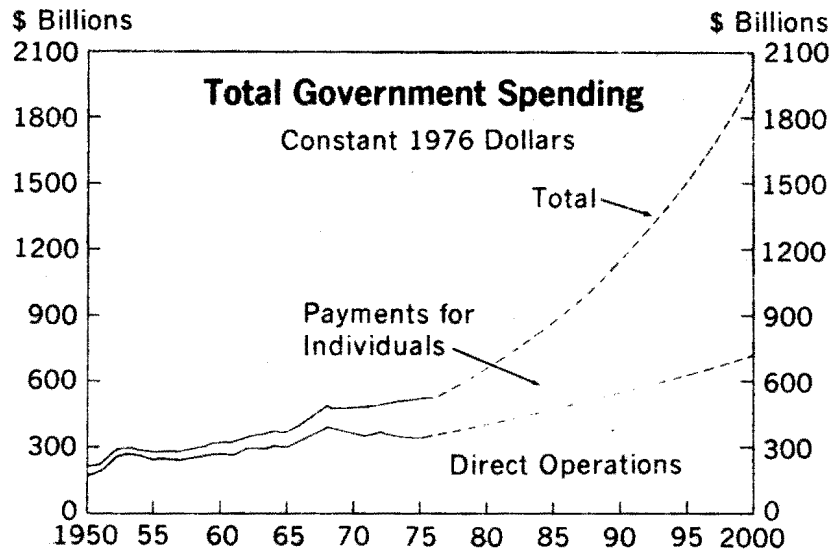
Fiscal Years

Estimate

Constant 1976 Dollars

Current Dollars





THE WHITE HOUSE
WASHINGTON

Russ --

You should get the names of people he thinks should be invited. Many of the White House people have already attended these briefings.

Jack



THE WHITE HOUSE

WASHINGTON

February 7, 1975

MEMORANDUM TO: JACK MARSH

FROM: RUSS ROURKE R

Jim Jura of OMB called stating that there will be a final briefing for White House Personnel and Vice President's Personnel on the budget as well as energy issues. A "detailed" brief will be given as well as answers to specific questions. This will take place sometime during the middle or the latter part of next week, and will last approximately 1 1/2 hours to 2 hours.

Jura would like the names of those people you might suggest to attend. My own feeling is that the following should be invited:

- 1) Entire Congressional Relations team
- 2) Recommendations from Jim Cannon
- 3) Recommendations from Baroody



THE WHITE HOUSE
WASHINGTON

RUSS - re the attached Jim Jura
would like to know how many.

Briefing will be Friday,
February 14 - Room 450 EOB
2:00 energy policy
3:00 budget



February 7, 1975

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- 2) Recommendations from Jim Cannon**
- 3) Recommendations from Baroody**



THE WHITE HOUSE
WASHINGTON

February 7, 1975

RUSS:

Jim Jura called of OMB (2316 or 6190) --there will be a final briefing for White House Personnel and Vice President's Personnel on budget and energy issues. -- a "detailed brief" and specific questions will be answered - it will be about 1 1/2 - 2 hours long - sometime during the middle or latter part of next week. JURA would like names of those people you (or JOM) might suggest to attend.



con

Movement standstill
was in last week -

Will come over next week
and

NICK WOUNDWATER

- ① Entire Cong. Relations team
- ② Suggest next summer recommendations
- ③ " " " Barry " "



THE WHITE HOUSE
WASHINGTON

2/27

Russ -

Per our conversation, here is a copy of Jerry's decision memo to DR for your files.

judy licata



FEB 6 1975

THE WHITE HOUSE

WASHINGTON

February 6, 1975

MEMORANDUM FOR: DONALD RUMSFELD

FROM: JERRY JONES 

Sometime ago we discussed the White House budget and how our testimony should be handled on the Hill. Tex Gunnels, the House Appropriation staffer, strongly urged that we send someone from the White House this year rather than relying on OMB to handle our testimony. When we discussed it you indicated that you perhaps would go to the Hill to testify. We now need to decide whether or not to send a White House staffer. The arguments for sending someone from the White House, and you particularly, are that we are better able than anyone else to defend our budget requests and that the Congress would be pleased and receive this gesture of openness and cooperation well.

The arguments against sending a White House staffer is the argument for executive privilege. In the past the White House staff has never gone to the Hill to testify, but instead the Department's and Agencies, OMB, and other offices within the Executive Office of the President have carried the burden of testimony. It has been thought in the past that if we ever broke the line on White House staff members testifying the staff would forever be on the Hill in front of committees and make it difficult for them to do their work for the President. The Hill tendency would be to call on the staff rather than the Department's and Agencies with substantive responsibility. Also, the second concern is that the staff member would be put in an embarrassing political situation by either having to testify as to what the President thinks or decline to testify as to conversations held with the President. Either position can be embarrassing on sensitive issues.



I am sure that your handling the testimony on our budget will make the process go smoothly this year. I am also sure that we will have a hard time holding the line on further testimony in other areas if we break over the line on the budget. Only the President and you can decide if this is something we want to do.

_____ Donald Rumsfeld will carry the
White House budget testimony

DR Let OMB continue to represent
the White House in the budget
hearings



THE WHITE HOUSE
WASHINGTON

2/27/75 - per RAR

Judy in Jones' office is sending us a copy of Jones' memo recommending against the suggestion that Rumsfeld testify on White House budget.



THE WHITE HOUSE
WASHINGTON

R - Check
Jerry

AM



Feel w/ Cheney.
Special Council from Reel that
Members of wit staff do
not testify - Right?

FEB 14 1975

THE WHITE HOUSE

WASHINGTON

February 12, 1975

MEMORANDUM FOR: JOHN O. MARSH
MAX L. FRIEDERSDORF

THRU: VERN LOEN *VL*

FROM: DOUGLAS P. BENNETT *DPB*

SUBJECT: White House Budget

I understand the decision was recently made that the White House Budget will be presented by OMB as opposed to a White House top staffer. I think this decision should be reevaluated for the following reasons:

(1) Chairman Steed of the House Appropriations Subcommittee on the White House Budget has indicated he will do everything to support our budget but is most anxious for a White House official to present it.

(2) It seems to me we can get around the precedent-setting rationale by distinguishing between testimony on a substantive issue as opposed to this, which is administrative in nature.

(3) It would continue to demonstrate the President's willingness to have an "open" White House.

(4) The President himself testified before the House Judiciary Committee with respect to the Nixon pardon thereby setting a very open and candid tone for the White House. It would be easier to volunteer than to run the risk of being subpoenaed (which is not entirely out of the question).



*Draft,
not for distribution
or release.*

March 11, 1975

BUDGET OUTLOOK
(Dollars in billions)

	1975		1976	
	The Budget	Effect on borrowing a/	The Budget	Effect on borrowing a/
Original 1976 Budget:				
Receipts	278.8		297.5	
Outlays	313.4		349.4	
Deficit	-34.7	57.9	-51.9	78.9
Assured changes in deficit:				
Administration changes:				
Release of highway funds	-*		-1.0	
Request \$2.0 B for public service jobs and summer youth	-.1		-1.8	
Food for Peace and other requests	-.3		-.1	
Congressional action on food stamp increases	-.2		-.6	
Loss of offshore oil and receipts	-2.5		---	
Court actions requiring fund release ...	*		-.1	
Deficit with assured changes	-37.8	61.0	-55.5	82.6
Revised estimates:				
Higher Food Stamp use	-.6		-1.5	
Increased GI bill participation and other veterans benefits	-.5		-.6	
Other changes* (HEW, Defense, etc.)	-2.0		---	
Deficit with expected changes	-40.9	64.1	-57.6	84.7
Further changes under consideration in Congress not duplicated above:				
Rejection of rescissions	-.4		-.7	
Emergency Employment appropriation	-1.5		-1.9	
Ways and Means Committee recommendation on tax cut	-2.8		-1.1	

a/ Includes total Federal and federally assisted borrowing from the public.

* Principally spending above plan.



	1975		1976	
The	Effect on	The	Effect on	
Budget	borrowing	Budget	borrowing	

Further changes under consideration in Congress not duplicated above--Cont.:

Inaction on "cap legislation"	---		-6.1	
Inaction on other reduction legis- lation:				
Medicare cost sharing	-0.3		-1.3	
Medicaid, social services and other public assistance reform	-0.3		-1.5	
Other reduction legislation	-0.6		-3.4	
Health insurance for unemployed	---		-2.0	
Wright-Pastore (Majority) recommenda- tions to \$271.8 and \$293.0 totals <i>reducing receipts</i>	-4.2		-3.4	
Humphrey (JEC) recommendations to Budget Committee to about \$267.8 and \$274.5 totals <i>reducing receipts</i>	-4.0		-18.5	
Senate Budget Committee staff sug- gestions: <u>b/</u>				
Rejection of energy tax equalization payments	+0.5		+7.0	
Accelerated social security and SSI.	-2.6		---	
Housing and other	---		-1.5	
Humphrey (JEC) recommendations to Budget Committee: <u>c/</u>				
Anti-recession grants	---		-4.0	
Public service employment	---		-7.2	
Improvements in unemployment compensation	---		-3.0	
Total with changes under consideration	-57.1	80.3	-106.2	133.3

b/ But staff recommendation was for deficit of \$44 in 1975 and \$62 in 1976.

c/ But recommendation was for deficit of \$47 to \$49 in 1975 and \$68 to \$70 in 1976.

Note: Possible additions in unemployment benefits have not been added because of the stimulus implicit in the above estimates. However, the implicit stimulus might be expected to raise interest payments in sizeable amounts.



EXECUTIVE OFFICE OF THE PRESIDENT
 OFFICE OF MANAGEMENT AND BUDGET
 WASHINGTON, D.C. 20503

MAR 31 1974

March 31, 1975

M

To: OMB Senior Staff

From: Bob Bonitati *AB*

THE WASHINGTON POST *Sunday, March 30, 1975*

David S. Broder

The Budget Trap

It's that new mechanism, which requires Congress each spring and fall to set and accept targets for its own overall budget, that is being tested for the first time this year. And it may turn out to be just the weapon Mr. Ford needs to regain the upper hand.

Calculating the effects on the congressional tax cut bill and the tentative spending plans submitted by committees, the budget committees project a deficit for fiscal 1976 far larger than anyone thinks acceptable.

Sen. Edmund S. Muskie (D-Maine), chairman of the Senate Budget Committee, said last week that a \$68 billion deficit was "virtually unavoidable."

Interestingly, both Muskie and Adams put aside their own short-term political interests to insist on laying the unvarnished truth in these reports. Muskie is running scare re-election in 1976 in Maine, with eye out for the possibility of aidential nomination. Adams has de on the Washington State Senate if Sen. Henry M. Jackson (D-W who's up in 1976, wins the presid or vice-presidential nomination.

Neither of them would be hurt their own constituents by ballyh the public works, public employ and public spending schemes p among Democrats as a cure for

APR 24 1975



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 4/23/75

TO: John Marsh

FROM: Robert F. Bonitati
Assistant to the Director
for Congressional Relations
395-3381
(Code 103)

The attached is provided for your information.



OMB FORM 38
REV AUG 73

Budget Report/Fiscal committees send final proposals to Senate, House

by Joel Havemann

The Senate Budget Committee, rejecting many of the spending proposals from other Senate committees, has approved a fiscal 1976 budget resolution that is even more fiscally restrictive than that of the House Budget Committee.

Three Budget Proposals

The table compares President Ford's April 4 revision of his budget proposals with outlay and revenue targets adopted by the House and Senate Budget Committees (figures are in billions of dollars):

579

4/19/75
NATIONAL
JOURNAL
REPORTS
©1975

Draft

April 28, 1975

STATEMENT ON BUDGET RESOLUTIONS

This week the Congress has an opportunity to show the American people where they stand on fiscal responsibility.

Under a new procedure established by the Congress last year, Budget Committees have been established in both the House and the Senate. These Committees have been hard at work since the 94th Congress convened. Each Committee has now produced a resolution calling for a ceiling on Federal spending for fiscal year 1976 and these resolutions will come before the Members for a vote this week.

As you know, when I signed the tax cut bill, I drew my line on the Federal deficit at \$60 billion. I reaffirm my commitment to that \$60 billion ceiling.

Both the House and the Senate resolutions would raise my ceiling. The Senate resolution would establish a ceiling at \$67 billion; the House at \$73 billion. Obviously, I believe my limit is far preferable to either alternative. But it is of overriding importance that both Houses of Congress adopt a resolution this year.

Until now, there has been no mechanism for instilling discipline in the total spending actions of the Congress. Instead, the legislative process has proceeded in a piecemeal fashion, each Committee acting on its own. As a result, no one in Congress was responsible for assuring that we could afford everything that was enacted.

Our economic circumstances cannot tolerate such a haphazard approach. Therefore, I urge, in the strongest possible terms, that both Houses of Congress adopt a spending ceiling resolution. I do not believe the people will gladly suffer a failure on the part of the Congress to draw a firm spending and deficit line.

THE WHITE HOUSE
WASHINGTON

McC Call



THE WHITE HOUSE

WASHINGTON

MR. MARSH - Jim Jura would like any scratch notes you wish to make on attached. - He'd like this today, if possible. Thanks.

cb

PH:3160

[ca. 4/30/75]

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*The national interest requires that Congress draw a firm spending and deficit line.



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*by adopting a resolution
to place a ceiling on spending.*



[ca. 4/20/75]

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April 30, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

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