ASSISTANT TO DIRECTOR, PUBLIC AFFAIRS
OFFICE OF MANAGEMENT AND BUDGET

Ron Nesson:

For your information.

Joe Laitin

EMBARGOED, NOT FOR RELEASE
UNTIL 12 NOON, MONDAY,
FEBRUARY 3, 1975

PRESS BRIEFING

ON

FISCAL 1976 BUDGET MESSAGE

State Department Auditorium
10 a.m., Saturday
February 1, 1975

MR. LAITIN: I am Joe Laitin and the briefing on the 1976 budget will start promptly at 10 a.m. Everything said here is on the record but is embargoed **-- all file and audio, along with the budget itself -- for release at 12 Noon Monday, February 3.**

If you have questions later today or tomorrow, we have a professional staff standing by in my office and you may want to take these phone numbers down: 395-4854 and 395-4709.

If you have any questions for Treasury on revenue estimates and so forth, you can call George Ross and Jim Parker later this afternoon or tomorrow at these numbers: 964-5252 and 964-2041.

Sitting at the table on my left are Roy L. Ash, Assistant to the President and Director of the Office of Management and Budget; ~~Stanley~~ Stephen Gardner, Deputy Secretary of the Treasury, and Paul O'Neill, Deputy Director of OMB.

Director Ash will have some opening remarks and then we will throw it open to questions.

Now, one other item. Ron Nessen, the President's Press Secretary, has advised me that when the President drops by here this morning, his remarks and all film taken while he is here are for immediate use.

The fact that he was here and what he says and the pictures taken are for the record and for immediate use, but everything else is embargoed for 12 Noon Monday, along with the budget document itself.

I hope I have made that clear.

THE PRESIDENT: Thank you very, very much, Roy, and your associates in the Office of Management and Budget, members of the press and guests:

It is a great privilege to be here even though the news may not be good, but I come here this morning following in the footsteps of another President by coming here personally, face to face, to present my budget proposals for fiscal year 1976.

That President was Harry Truman and the last such occasion was January 19, 1952 when he met with the press to discuss the budget for fiscal year 1953 -- a budget, I might add, that had jumped to $85 billion, described at that time as astronomical.

In the discussion President Truman said, and I quote, "This budget has been the biggest headache I have ever had."

As I look at the federal budget for the fiscal year 1976 I can only say, "Harry, I hope you left some aspirin for me."

Let me begin by saying that the President's annual budget is a carefully considered and integrated set of policies, programs and priorities that a President recommends to the people and to the Congress to set our national course into the future.

Thus, the budget is one of the President's major policy pronouncements each year.

I want to talk to you about some of the key features of the budget for fiscal year 1976, which I will submit to the Congress next Monday.

It is a big budget calling for expenditures of $349 billion, almost $1 billion a day during the year starting next July 1.

It will result in a large deficit for the year -- $52 billion -- and this deficit, large as it is, would increase by another $17 billion to nearly $70 billion if the Congress does not agree to all of the reductions I have requested in this budget.

It is essential that the Congress be very mindful of this fact. I do not like to see deficits of this size nor any for that matter. I know most Americans agree, and I resolved to take those steps that will make such deficits unnecessary in the future.

That requires, most of all, the restoration of a vigorous economy in this country. But we must be realistic. We must recognize that in times like these it is good national policy both to provide financial support to those unemployed and to introduce a measured amount of additional stimulus into the private economy by a tax reduction.

My budget, as an integral part of the total economic recovery and energy independence plan I have proposed to the Congress, does just that.

Overcoming the recession, however, is not the only goal of my budget. It is equally essential that we not rekindle the fires of inflation. I have carefully gone over the programs proposed by the various executive departments for inclusion in the budget.

I have concluded that for this year at least it would be imprudent to initiate any new spending programs; except for energy, none is proposed.

Further, it has been a popular notion to consider some government expenditures as uncontrollable. That is, they would go on and on whether we like it or not.

I categorically reject that view. They are controllable if the Congress, on the one hand and the President on the other, do something about them.

My budget proposes significant reductions in a number of programs up to now considered to be uncontrollable. Together the reductions I am proposing amount to $17 billion for fiscal year 1976.

I urge the Congress to join me, to work with me, so that we can bring spending under control. For while the one-time reduction items proposed will aid the economy in overcoming the present recession, the more permanent program expenditure reductions are necessary if we are not to embark on a course of future spending that will be highly inflationary.

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Aside from the effects of my proposed tax reduction the deficits anticipated for both 1975 and 1976 are largely the result of aspects of the budget and the tax system that respond automatically to changes in the economy. That is, in the case of an economic downturn Federal tax collections slow down as incomes and profits slide and unemployment benefits rise very sharply.

These factors cushion the economy, but they also cost money. Specifically, aid to the unemployed including the special measures that I proposed and were enacted will be $12.7 billion larger in fiscal year 1976 than they were in fiscal year 1974. This will provide income support for more than 14-1/2 million beneficiaries and their families.

Federal receipts for fiscal year 1976 would be more than $40 billion higher if the economy were operating normally.

These factors, apart from any other consideration, more than account for the deficit in fiscal year 1976. Or, in short, if the economy were operating at the rate of only a year ago I would not be forecasting such a large difference between revenues and expenditures. In fact, we would have balanced budgets both this year and next.

Government expenditures at all levels, Federal, State and local together now account for almost one-third of our Gross National Product. An increasing proportion of these expenditures are payments for individuals such as

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Social Security, Medicare, public assistance and other programs.

But if these kinds of expenditures continue at anywhere near their past rate of growth, more than twice that of GNP, total Government expenditures could slice away more than half of our GNP in two decades.

When I submit my budget for this year, I especially urge the budget committees of the House and the Senate to take advantage of the provisions of the new Congressional Budget Control Act. This permits them in those two committees to set overall budget goals for the year and live within the total set.

In taking this action, the committees in both the House and the Senate should make a detailed study of the $349 billion budget for fiscal year 1976. The two committees should know that unless the goals set by the committees for the Congress hold my $17 billion in budget cuts, in other words, if they don't keep the budget reductions at the levels that I have suggested, the deficit for fiscal year 1976 will rise to nearly $70 billion, for 1975 and 1976 together to be $100 billion.

I, of course, will work very closely with the Congress in all of these matters. I will walk the extra mile and give all of my strength to getting the national economy in shape.

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I ask the Congress to walk that extra mile with me so that together we will lead the country with strength and purpose to a fuller life for all Americans.

In view of the fact that this briefing is under embargo, except for my remarks which I have just made, I am advised that a question and answer session by me at this time would not be appropriate.

However, I will be available to answer questions at a news conference next Tuesday.

It is now my pleasure to turn the meeting over to the Director of the Office of Management and Budget, Mr. Roy Ash.

Let me say at this point, I know first hand what a superb job Roy Ash and his people have done at the Office of Management and Budget. I am particularly grateful for the outstanding service that he has given. I think the American people should consider themselves most fortunate to have had in this important office Roy Ash. I wish to publicly thank him and express my indebtedness to him for doing an outstanding job for me as well as the country.

I will turn Roy over to you and you ask him all the tough questions and I will be glad to answer the easy ones Tuesday.

Thank you very much.

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MR. ASH: Ladies and gentlemen, the President has set forth the guiding policies behind his 1976 budget.

In the next 10 or 15 minutes I will develop some of these policies more specifically for you and particularly those of us up here in the front are prepared to answer your questions.

Joe Laitin has already introduced Mr. Steve Gardner and Mr. Paul O'Neill. I would like to add to those introductions others that will help answer any other questions that you may have.

Seated over to your right are Mr. Dale McOmber, Assistant Director of Office of Management and Budget, known in this city as Mr. Budget. He is the one who is responsible for having done all of the work that we are now all going to be talking about.

Next to him is John Hill, Associate Director of the Office of Management and Budget.

Next to him, Don Ogilvie, Associate Director, Wally Scott, Associate Director, and Ed Fiedler, Assistant Secretary for Economic Policy of the Treasury Department.

I also want to use this occasion to introduce my own successor. He is not up here yet and he is not yet confirmed. Jim Lynn is some place out there in the audience but next year he will be exactly here.

Where is Jim, anyway?

He is here.

(Applause.)

Jim is entitled both to ask and answer questions today in his capacity, so we will see which role he wants to play.

First, I want to set out the new features that are in the budget itself. This is a budget that contains some changes and some significant changes, and I will merely show them in summary for you and would suggest that as you get into the budget you give special attention to those that are the new features.

(Slide.)

Are they getting close to where you can read them?

The first one is that for the first time we are showing the economic assumptions on which the budget is based in some detail -- not only for 1975 and 1976, but in fact we are extrapolating some of those economic data all of the way out to 1980.

I must make sure that you understand that the 1975 and 1976 economic assumptions are forecasts of what is probable. On the other hand, the further out we go the more difficult it is to forecast. For the years beyond they are merely extrapolations toward a return to normalcy.

Also, I should call your attention to the section on tax expenditures -- the second item. There is a new section on tax expenditures which has received considerable attention this year and will be shown in the special analyses section. These, as you know, are the special constructions of the tax law to reduce tax payments for some individuals and for some groups. Certainly they have a very significant effect on the economy of the country, as much as items that are included in the budget, and they add up to billions and billions of dollars, and I suggest you give attention to how those are discussed.

Thirdly, as you know, the new Congressional Budget Act changes the fiscal year. It will move to one starting on October 1 in 1976. So, in addition to the fiscal year ending June 30, 1976, the budget for 1976 also contains in it a section for the transitional quarter, the quarter of July, August and September so that we can get on with the new fiscal year.

Well, those are the main features. You can read the rest of them on the chart. But I do call your attention to those as you look at the budget because there are some differences this year.

Now, let us go back to just some of the numbers the President mentioned and just briefly put them out. They are in the budget and printed many times over, and I think we ought to put them in perspective. This is the budget at a glance.

Of course, the key numbers to look at are the ones along the bottom line. The deficits are very large, as the President mentioned. They are and will be reported, obviously, as the highest in peacetime history and they are, but I want to come back a little later and put them in some perspective.

You will also notice the growth of outlays going up steeply, and the receipts not going up too steadily, thus causing the differences.

So, I wanted to put these out first, but I think before we get into them let me set out and show the effects of some of the main issues that are at the margin in the budget. There are two classes of issues that are primarily at the margin in the budget.

First, the President's economic and energy proposals and their effect on the budget. Again, if we go to the bottom line on the chart, we note the combined effect of the President's economic message and the economic program that he set out in that message. These have an effect of increasing the 1975 deficit by $5.5 billion and of increasing the 1976 deficit by $13.4 billion.

In effect, there is, combined, stimulus provided by two programs, obviously largely deriving out of the first section that deals with the recession tax cuts. The net effect of those programs is to introduce a measured amount, as the President said, of stimulus into the economy because of the need for it at this time.

Now the details are set forth there on the chart. I don't want to belabor any of this because we want to get to your questions and just want to put into perspective some of the issues that are at the margin in the 1976 budget.

Another class of item that is especially important at the margin in the 1976 budget is the one the President referred to a couple of times -- the expenditure reduction proposals. These are a very integral part of the policies and the budget and have significance in the effects of the budget on the economy.

Again, let us look at the 1976 column. We can go through the data at another time in more detail. But the column for 1976 shows that the total budget reductions that are implicit in this budget add up to $17 billion. That is as the President said, unless the Congress joins with the President in his recommendations, the deficit would not be $52 billion or so, but would become very nearly $70 billion.

Down below it shows the nature of those classes of expenditure reductions. Rescissions account for $800 million. Deferrals $1.8 billion; new legislation, $12.4 billion. A tremendous amount of new legislation we are asking of the Congress this year in order to effect reduced expenditures in certain programs. You may remember the ones that have come to be called the "capping programs." They are included in those numbers.

Again, there are administrative actions we will take, but some require permission of the Congress. This $17 billion of cuts in the budget should not be set aside in your consideration of the totals. In fact, it is an integral part of the policies implicit in the total budget.

Let us go to the next chart and look at the budget as it relates to the economy. Across the top you will see for the years 1975 and 1976 the receipts and outlays set forth in the budget. On the other hand it is essential that we put those in some context. We haven't used the technical context of the full employment budget. Instead, we have used as a norm a somewhat shorthand version of that.

We have said what if the economy were running at the rate it ran in 1974, a period that is so recent that it obviously is not a hypothetical year. It was a real year of very recent times.

If there were not the recession that we have at the moment and if the economy were running at that rate in 1975, receipts would be $30 billion higher -- due to more individual and corporate taxes -- and outlays would be $9 billion less because, of course, there would be less unemployment payments.

You can see the same numbers for 1976 -- $40 billion higher in revenues, $12 billion less in outlays.

The net effect, shown on the bottom line is that were it not for the economic downturn itself, the budgets for 1975 and 1976, as the President said, would be in balance, in fact, very slight surpluses. This was a part of the guiding measurement that we referred to in determining the measured amounts of stimulus that should be introduced into the economy.

Now I think it is important to again call to your attention the fact that this assumes the Congress will agree with the President on the $17 billion to reductions that he has proposed. If they were not to do so, then we would have, even under the times of a normal economy, substantial deficits. That $17 billion would be thrown back into the 1976 outlay level, and we would generate substantial and inflationary deficits.

Let us take one more quick look at the deficits and put them in a perspective, perspective over time. Sure they are the largest in absolute dollars. On the other hand, relating them to GNP they take on a somewhat different relationship to the total scale of the economy.

For the year 1975 the deficit represents about 2.4 percent of the GNP. For 1976 about 3.2. You will see in 1959 and 1968 we had deficits of approximately the same amounts relative to the then GNP. I would like to think at this time we certainly have greater need to put stimulus into the economy than we had in each of those years.

This is only to put them into perspective.

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Now let us get to the real story of the budget. The real story of the budget is not the year to year variation, but some of the very deep and forceful currents that are in government spending.

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This chart does nothing more than plot the line for the last 27 years, 1950 to 1976, of budget outlays. It is just a jiggly line that does not seem to go anyplace; it goes up, of course. It goes up with no particular trend other than up and it goes up at a steady turn, but in that line are concealed a number of very significant trends.

I think we should examine what is behind it and see what is concealed behind that number. Without this it is otherwise very difficult to get the full meaning.

We have gone back to 1950 to see what those outlays would be on a constant dollar basis, adjusting out the effects of inflation over the years with the changing value of the dollar.

Now we begin to see some very interesting stories. What are the stories?

Back to the time of the Korean War you can see federal outlays went up and back down. The defense establishment increased its total outlays. As the war was over, it went back down to a normal level.

Between the two wars, it began to move up; particularly as it came into the Vietnam War, it moved up steadily. What happened?

It did not go back down to any significant extent after that. If it had followed the course, say, of the Korean War, the 1976 number, instead of being almost 350, might well be

way

under 300. We don't know exactly what it might have been, but just assume it had followed the course it did in the Korean War.

This is the beginning of what is the real story of federal spending. Let us look a little behind that now that you have the idea of the top curve. Let us look at the comparison of that to get some clue as to what further has been happening.

National defense, just as I have described, did go up and did go down with the Korean War; did go up and did go down with the Vietnam war.

In fact, you can see with the 1976 budget on a constant dollar basis defense costs are less than they were through that whole period of time between the two wars.

Defense performed as you would expect it to do under changing circumstances. Interest and other non-defense functions followed pretty much a flat curve. They are growing slightly.

On the other hand, they do not significantly change the meaning of the flow of federal expenditures. Look at the top one, payment for individuals.

Payments for individuals filled in after the end of the Vietnam War. Therefore the outlays did not go down. go down. They continued to grow. These payments have become a major wedge in setting the course of government spending and this is the one to which the President was referring.

That wedge, even though we see out in later years, is a very wide one, was growing at a rate of eight to nine percent from all those years all the way back to 1952 or 1953.

It has been growing at a rapid rate. It was smaller in earlier years and we did not see the implications of that growth.

Now it is growing large, and keep in mind it is a compounded rate of eight to nine percent in constant dollars, just as it has been for the last 20 years.

That is where we are today.

We have a change in composition, a substantial change in composition of federal expenditures. We have some substantially foreceful new currents that are in federal spending and now let us look ahead at what we would get if those currents were to continue for the next 20 to 25 years.

I hope you can see those charts. First, let me identify what each is.

The top one is that of total government spending. The bottom left one is that of federal spending. The bottom right one is that of state and local spending.

What we have done with these data is to first divide all spending, whether it be state and local or federal into just two classes of outlays, those that carry the sovereign functions of a government, whether state, federal or local, and those that are payments for individuals; in effect, transfer

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That is, **adjust** all outlays into one or the other **category** and then project ahead the trends that have been in these two **categories** from the last 25 years, project them ahead to the next 25 years and see where they could take us.

Well, let us just look at the top one. Others are there in more detail and I won't go into it other than that you can see the others as they support the top one. If we continued on the course that we have been on, total Government spending, by the year 2000, **in constant 1976 dollars. It would be $2 trillion. It is not $349 billion,** $2 trillion and that is only 25 years from now, not so long.

It is not because direct operations have gone up. In fact, the Defense Department is projected here as a flat level of constant dollar outlays -- no increase at all in constant dollars for the Defense Department. Other Government operations go up a bit largely **because projections of State and** local government **expenditures are going up fadter by far than** Federal Government, **but transfer** payments and **payments for individuals, are going up at the most rapid rate.**

Now, if the GNP goes up only 3-1/2 percent a year **in real terms, between now and 1980, then as the President** concluded, Government at all levels will spend 50 percent of the Gross National Product in two decades compared to 33 percent or less at the moment. We will go up to almost 60 **percent by the year 2000, because by the year 2000, although the number** is not shown on the chart. In '76 dollars GNP would be $3 trillion 400 billion.

This is the real story in the budget and before we get into discussion of the 1976 budget in particular, I think it is important to note that the budget is not just a set of accounts for the immediate year but most of all it is a course for the future.

The President has decided not to go on that course toward the point where 50 percent of Gross National Product will be represented by Government in 20 years. He has already exerted all of his might to pull down the growth of Government spending; the $17 billion package to which he referred is certainly no picnic for all that will be involved in dealing with it, and yet it is an integral part of the policies of the budget.

Now, of course, we all need to make sure that Congress and American public see clearly the alternative courses of action. One is to go along that curve, go to where 60 percent of GNP is taken over by the Government and the other one is to find a different curve.

So that is the view that we want to make sure you have as a perspective, as we get into the budget.

Let me make one further statement before receiving your questions. The budget contains an outlay level of $1,165 million for the Pl-480 food aid program in fiscal year

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1975. As the budget has been in the process of preparation the President has been considering the matter further and there have been some discussions going on with the Congress and he has decided that he will be submitting a budget amendment, an amendment to increase 1975 by $178 million, and this addition, of course, is not included in the '76 budget.

At the appropriate time the State Department will advise you concerning the country by country distribution of the total, but that is the one change that you should have in mind as you look at the budget data.

Now, we are prepared to take any questions you have, and I am sure between all of us up here who I am sure have read among them the whole 1200 pages in the budget appendix, we will give it back to you in whatever way you wish to ask.

We are ready for your questions.

QUESTION: Mr. Ash, could you tell us what the major components are by function in that $17 billion cut package?

MR. ASH: Let me see. I don't have a schedule right here in front of me by function, but I can out of my head give you some of it.

Defense has in it something just short of $3 billion, has it not, Dale?

MR. McOMBER: Yes.

MR. ASH: Of the $17 billion. Social Security has

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in it something over $3 billion. Those are, of course, the two biggest single elements of it.

Then, the others are distributed across a number of different programs, certainly the "cap" program. The programs that we set forth in the fact sheet that went with the President's State of the Union Message, had a distribution of that $6 billion or so that comprised the capping programs.

All of the deferrals and rescissions that have heretofore been submitted and you have the details of all of that, are a part of it. So, that makes up the biggest part.

What are the significant parts that are worthy of mention? Those are probably the main parts that comprise it all.

QUESTION: What are the other significant ones?

MR. McOMBER: Let us just mention a few of the items of legislation which comprise the major portion of this. There is a proposal to block out, that is to create blocked grants for the child nutrition program, that is going to save approximately $500 million.

There is a proposal to modify cost sharing for the Medicare program and to place some limits on provider costs within that program. Those will add up to about $1,400 million.

There are several proposals to change the public

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assistance program which would add up to approximately $1,200 million.

There is included also, this may be familiar to some of you, a proposal to limit the educational impact aid program which would save something like $260 million.

And finally, we should mention a limit on social services that was included in the public assistance program we noted a minute ago. That will save us something like $400 million.

QUESTION: Are these cuts listed anywhere in the budget document?

MR. ASH: They are not listed in one place as they were in the 1976 budget. They ae listed under the proper places throughout the budget and it requires, I guess, that you look at whatever program in which you have an interest and see how it was dealt with.

I am not sure my microphone is on, but I would hope you can hear anyway.

QUESTION: Mr. Ash, just two weeks ago, January 15, the President said the deficit for '76 would be $45 billion to $47 billion and now it is almost $52 billion. How did you lose $5 billion in two weeks?

MR. ASH: This budget is unique in one respect. It is unique in the respect that it was prepared during a time when the economy was probably changing at a faster rate than

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it has every changed during a budget preparation cycle, so that we were revising the economic outlook and economic forecasts and all of the data that flowed out of it, right up to a week ago last Wednesday.

It carries into it, then, all of the changes that we were foreseeing in the economy during the last few weeks and those changes gave rise to the difference.

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QUESTION. Mr. Ash, in the section on economic assumptions, page 41, I notice that you project for calendar 1975 overall rise in CPI 11.3 percent. That would mean that you anticipate inflation this year is going to be greater than last year.

MR. ASH. Let me make two observations about that. About the tenth line down in the table, consumer price index, the series of which has an 11 percent increase for the calendar year 1974 over 1973, 11.3 1975 over 1974 and 7.8 for 1976 over 1975.

The question is why does it go up?

First you have to recall that the President's energy proposals contained within them factors that add to the CPI by approximately two percentage points and somewhat short of one and a half percentage points falls in that 11.3 number. So that if you can mentally adjust that 11.3 by something just short of one and a half to, say, 1.8 or 1.9, thereabouts, you will find that we would be showing a steady reduction from the present rate adjusted only for that very deliberate action taken regarding the energy package.

I should make one other observation. Those numbers represent the changes for the average of one year over the average of the previous year. As we go into the later quarters of 1975 and the first quarters of 1976 the quarter to quarter changes, that is, changes over the previous quarter, will be nothing like that. They, on an annualized basis, will be around the seven percent level of quarter-to-quarter changes.

The overall annual CPI changes are the result of trends averaged over the year, but it is important to keep your eye on the quarter-to-quarter changes of around seven percent as we go into the next year.

On Tuesday morning Alan Greenspan will be having a press briefing on the subject of the economic report. I am sure you will want to go into this whole table of economic assumptions a lot more with him.

QUESTION: Would you give us that quarterly profile?

MR. ASH: Alan will provide that quarterly profile next Tuesday. I just wanted to identify for you as we go out the end of 1975 and the front end of 1976, the quarter-to-quarter change at that point will be around seven percent on an annualized basis quarter to quarter. Alan will provide more specific information on the trend during the years.

QUESTION: You are saying first quarter of 1976 over fourth quarter 1975 or fourth quarter 1975 over third quarter 1975.

MR. ASH: I am saying first over fourth, fourth over third. It pertains to both. Alan will go into that in very specific detail.

QUESTION: In the same chart the unemployment rate, I don't see a recovery. It is 8.1 percent 1975 calendar year and 1976 7.9.

MR. ASH: This calls attention to the same table, economic assumptions, one line down from that which we were just looking at, unemployment, the specific average rate in 1975 of 8.1 will be moving to 7.9 as an average rate for 1976.

It certainly is going in the right direction. I guess the question is is it going far enough and fast enough. A very difficult matter and I think you should want to explore this at great length with Alan.

There are some very difficult decisions to be made in this area. What we must make sure of is that the policies that are implicit in the President's economic plan do not provide too much immediate stimulus since this would be too high a risk of reigniting the fires of inflation.

We are talking about risks here because if we move with too much stimulus, and the President has introduced a measured amount as he characterized it, we could regenerate inflation and in the process of regenerating inflation we would not have just gradually reducing employment. Quite the contrary, our greatest worry is that that inflation would in turn generate the economic consequences that would increase unemployment.

The basic thought at this moment is let us make sure that we work that number down, work it as close to the edge as we can without taking undue risk. Of course, the President as he did with the policies he just announced and as I am sure he will do during the course of this year 1975 or any other time, if he sees as the economy changes that he can take further actions that will improve it, of course he will.

But at the same time, he is exceedingly mindful of the risks of taking those actions that would not improve the economy, not even improve the unemployment rate.

QUESTION: Is it fair to conclude from that that this budget is weighted still in the effort to cope with inflation as against recession?

MR. ASH: The question is is it fair to conclude that the budget is weighted still with efforts to cope with inflation as well as recession.

QUESTION: Instead of recession.

MR. ASH: That is a very important distinction. Therefore, I will answer the question by restating how I misstated it.

It is weighted both ways. We are very mindful of the

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continual risk of reigniting the forces of inflation. They haven't totally disappeared out of this economy or any others in the world. We are very mindful of that.

The budget was constructed to first deal with recession, but to deal with recession in a way that would not generate our own inflation and those data in that economic assumption table reflect the consequences of applying that kind of policy.

If we go further down the year, and if our programs for recession work even better than we would at this moment expect, of course, we can look and see what further might be done. I am sure the President will.

But it is important that we not lose sight of the fact that inflation is still to be dealt with and it remains there insiduously waiting to come out and be a major problem in the future as it has been in the past if we don't have policies that are adapted to it.

QUESTION: Mr. Ash, for the true story about the constant dollar, could you give us a chart with constant dollars of 58 and 62 and compare the expenditure in recent years.

MR. ASH: The question is, can we, instead of presenting the data that we did on, and I am glad you used it, the true story of the budget, that is in constant dollars of 1975, could we put those in 1958 or 1968 or 1969 dollars.

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Yes, we could. They would not be much different at all. There are some things that would be slightly different. But the story would not be any different at all. The conclusions would not be very different. There would be minor modifications because of the different factoring that would apply depending on which year you took off from.

We put them in 1976 dollars so that you could see them in the context of the numbers we are living with today but the significance would not at all change were they in the dollars of a different year.

QUESTION: What part of the inflation rate is attributable to the size of the deficit?

MR. ASH: The question is: What part of the inflation rate is attributable to the size of the deficit.

That is one you should really ask Alan Greenspan next Tuesday because it is very difficult to ascribe any particular component of the inflation rate to any particular part of a set of integrated policies.

Of course, these all do relate but I don't think anybody, any economists in or outside of government, has a model that can break the inflation rate down in those precise slices.

QUESTION: Mr. Ash, this is a political as well as a budgetary and economic document. I wonder if, having been around politics in Washington for a couple of years, you think there is any possibility of a Republican Administration being re-elected in a year in which you project the average unemployment rate at 7.9 percent.

MR. ASH: As a political question, is there any possibility of a Republican candidate being elected or re-elected President based on an expected unemployment rate of 7.9 percent as it is here shown in 1976. I am not a politician so I think I should leave those kinds of questions to the rest of you to answer, but I do think that the main thing that people are looking to is a set of programs that head us in the right direction, head us in the right direction without taking the kinds of risks that can take us right over the cliff and right over the cliff particularly back to the inflation and back to inflation leading to even higher unemployment.

The programs that the President has proposed in his State of the Union Message and the programs that are proposed in the budget, the President submits as ones that are the best possible ones for the economy given its present state and its present condition.

He is obviously going to be aware of the changing conditions in the future as he has been in the past, and I would assume that the actions he has taken and will take between now and 1976 would be ones that any Republican candidate could not only run on and win on, but I am not a politician.

QUESTION: Mr. Ash, the $16 billion cut, how much of the cut would affect the poorest 25 percent of the American people?

MR. ASH: The question is: How much of the $16 billion cut would impact on the poorest 25 percent of the American people.

We don't have those numbers in detail, but let me give you some rough view.

First, that part of it that deals with capping federal pay, I don't think includes 25 percent of the poorest people, so we can put that aside as not impacting on them at all.

The part that deals with social security, you would find amazing how many of the recipients of social security are not in the lowest quintile of income, a fair part of that falls on those in higher levels.

I wonder if I have that number in front of me.

Dale, do you have one? I am not sure.

In any event, it again does not fall on the lowest 20 or 25 percent. I don't have the number here but I think it is not proper to conclude that either all of it does or the major part of it does.

This program as proposed falls across all sectors of society and offsetting this kind of a program are a number of other gross-in programs, especially those for the lowest income level people of the country.

We have another table, and I don't think we want to change the setting here toshow it, but that other table would show that where these cuts apply -- I think it is on page 22, not of the budget but of the fact sheet which went out with the President's State of the Union Address -- it would show for social security that while we do have a $2.5 billion component of the $17 billion related to social security, nevertheless social security goes up by $7.3 billion.

So, I think it is a conclusion that is

generalizable across virtually every program, that no program -- almost no program -- is being cut in absolute amounts that bear upon the poorer people of the country.

It is merely a containment of the level of increase in those programs. That is the basic content of that $17 billion as it relates to these kinds of programs.

QUESTION: Mr. Ash, you said a moment ago that the budget is weighted against both inflation and recession. Don't you have evidence of the fact that in answer to Mr. Shanahan's question before, that the biggest problem today is recession rather than inflation.

MR. ASH: Sure, the biggest problem today is recession and I think it is important, therefore -- the question is: Isn't it a fact that the biggest problem today is recession and I suppose implied is, therefore, why are you dealing with inflation as a prospective problem.

It is a fact and I certainly agree with you that today the most immediate matter to deal with is that of recession but we must deal with recession in a way not to kindle and rekindle the fires of inflation.

That is how they interlink. As an example, the President's proposal for a tax cut of $16 billion is specifically for the purpose of providing the stimulus the economy

On the other hand, the $17 billion, or at least a big portion of the $17 billion reductions proposed have as their purpose making sure that we do not add in a course of spending over future years that does restart the forces of inflation, so recession is the most important one, and the question is how to deal with recession and the answers to deal with it without restarting the inflationary fires.

QUESTION: The President's energy program is not enacted and you don't have that built-in two percent inflation , how much of the $17 billion could you retreat from?

MR. ASH: The President doesn't intend to retreat from anything, and for that matter the $30 billion energy program has, on the one hand, an increase of costs that are reflected through the CPI, but has on the other hand an equal offsetting amounts for those that incue those costs, so that it has a neutral effect on the economy in total.

So, it should not be traded off with anything. It stands with its own internal trade-off and certainly the energy package is not to be traded off with the $17 billion Presidential expenditure reduction program and certainly most of all the President doesn't intend to retreat from that or anything else.

He is willing to and he has said that he will work with the Congress and invite them to work with him, but working is not retreating.

QUESTION: Mr. Ash, you have raised your estimate of the deficit for 1976 by $5 billion in the last two weeks. Is it possible the economy will change so you will have to re-estimate?

MR. ASH: The question is: We have changed the expected deficit over the last two weeks by $5 billion level and we have -- and I think I answered that -- is it possible that the economy can change in the future?

Of course it is possible. It is possible that all kinds of things can happen in the future and there is no reason to believe that this is a special time in world affairs or economic affairs where the economy does not change.

I am sure that as the economy changes during the course of this year, just as it had in the past, the President will be well ready and prepared to put forth programs that will deal with the changing nature of the economy.

QUESTION: Mr. Ash, could you explain to us where that $5 billion increase lies?

MR. ASH: The question is: Could I explain where the $5 billion increase in deficit lies, the $5 billion between the estimate made two or three weks ago and the estimate included in this budget.

It lies in basically two places. It lies in an expectation of lower revenues and an increased unemployment compensation.

QUESTION: What was your unemployment rate projection a few weeks ago?

MR. ASH: I don't have the numbers, but I can give you, I can work back and give you a rough idea.

The question is what was the unemployment rate projection that was behind the other numbers that had a $5 billion less deficit.

Of the $5 billion I would estimate that about $4 billion is a reduction of revenue and about $1 billion, more or less, is an increase in unemployment. That is a fair but rough number of the composition of the $5 billion. Every one-tenth of one percent in the unemployment rate accounts for $250 billion to $300 billion. So you would be seeing therefore a three-tenths, or four-tenths, or so difference in the expected unemployment rate that would be implicit in that construction of numbers.

Is that about right, Ed?

FIEDLER: That is about right.

MR. ASH: That is about right.

QUESTION: Did you contemplate a statutory change that went into that estimate?

MR. ASH: The question is was there any contemplated statutory change that went into that difference? No. The difference was the difference that derived out of that economic forecast change and, as I said earlier, we have

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never changed so much so fast in budget preparation season than we did this year. That made it a little tight to get the budget in your hands, but you notice you have them.

QUESTION: Was there any change in the CPI numbers?

MR. ASH: There were changes in the whole set of economic assumptions. All the economic assumptions were brought right square up to date a week ago last Wednesday and became the basis of all the data that are in the budget.

QUESTION: Were there changes of that magnitude in the CPI?

MR. ASH: I don't know the numbers in CPI, but they were about the same, were they not?

MR. McOMBER: They were very minimal.

MR. ASH: As you know, one-tenth of one percent difference in the CPI rate is not something that we can all account for or justify or provide a tremendous amount of statistical support for. That number is not subject to that degree of precision.

QUESTION: Mr. Ash, if you were to erase the President's economic recovery program from this, what would the deficit be?

MR. ASH: I presume you mean separate from the energy message because that is a different thing.

Here is an easy way to answer it. $10 billion of

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the 1976 deficit comes from a tax reduction. That is of the total of the $16 billion tax reduction, $10 billion falls in fiscal 1976.

Now, were that $10 billion not to be placed back into the economy by a tax reduction the effect wouldn't be exactly $10 billion. Placing it back generates some further revenues back to the government of about $2 billion, say, so it would have an $8 billion effect on the deficit.

The deficit instead of being 52, would be about 44 were there not the tax reduction package proposed for the deliberate purpose of stimulating the economy.

Ed, would this be reasonable?

MR. FIEDLER: Those numbers are so hypothetical. A couple of billion dollar difference.

MR. ASH: It is only a couple billion dollars.

QUESTION: Is your estimate of the slight surplus with full employment based on 1974 of five percent or on the conventional four percent?

MR. ASH: The data I put on the chart was based on 1974 as a norm year only so as to avoid those arguments that one always gets into when he begins to argue the full employment calculations.

You will on the other hand find in the budget

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the full employment calculations made in its proper classical style and the surpluses would be somewhat bigger on that basis.

I said for the purpose of that data shown up here -- let us not get into all those arguments -- let us take a year that was a recent year, a real year, and eliminate the theoretical arguments. So we said what if the economy were operating at the level of 1974 and that led to the conclusion we would today have an approximately balanced budget for both 1975 and 1976.

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QUESTION: Mr. Ash, if Congress cuts the Defense budget, can some of these other cuts be reduced?

MR. ASH: The question was: If Congress cuts the Defense budget, can some of the other cuts be reduced, that is, can expenditures be reinstated.

This Defense budget is a tight one. You saw the chart that I put up there showing that we are at the lowest constant dollar level of many, many years, 25 years, and a lower percentage of GNP than at any recent time. It is a very tight Defense budget.

It has been cut from what it otherwise might have been. Three-quarters of the employees in the Federal Government are covered by the Defense budget and thus when there is a cap on pay, that cap applies very significantly in the Defense area.

In fact, the $92.8 billion of outlay for defense would be 94.6 billion were it not for that cap. So it is an integral part you might say of the $17 billion package, because the Defense Department includes so many of the cuts that are in the $17 billion package.

I think one shouldn't look outside of the Defense Department to get the best possible way to deal with defense. The budget should be l-oked at for what it is. The needs for national security should be related to need expressed different ways -- I don't think we should think of it in trading off against anything else.

QUESTION: Mr. Ash, do you look back to World War II for deficits that are remotely comparable to these?

MR. ASH: The question is: Do we look back to World War II for deficits that are remotely comparable.

Actually, if we look back to World War II, we find deficits that were not at all comparable. We find deficits that went to 20 or 30 percent of GNP for six years or five years, I guess, in a row. I was a totally different level of deficit relative to GNP.

Now, there are those who say that in absolute dollars these are big. Of course they are, but as Walter Heller said, we shouldn't get fiscal acrophobia and just be carried away with big numbers without putting them in proper reference context.

What I have done here is to put our numbers in the proper reference. Certainly relative to GNP, several war years in a row had higher deficits than they do in the years that we are now looking at.

QUESTION: What would be the impact of the Ullman tax package if it would be enacted instead of the President's?

MR. ASH: The question is: What would be the impact of the Ullman tax package if that were substituted for this.

We haven't calculated its impact because we believe that this is the program that should be considered by the Congress.

We will work with them in doing so but the last thing we can do is to go around and price out every proposed program that is put forth as an alternative.

We think we should look at the total program before we consider its economic implications and not just take individual pieces that may from time to time be advanced. Thus, we haven't priced it out.

QUESTION: You, in your answer previous to that, said the chief economic spokesman, who is noticeably absent, has fiscal acrophobia.

MR. ASH: The question was: Was I suggesting that the chief economic spokesman has fiscal acrophobia.

Absolutely not. He is fiscally very realistic and he will discuss it with you at great length, I am sure, on Tuesday. But I must say, even though he is not here today, one of the reasons he is not here is that we think, from your point of view, today's discussion should be concentrated on the budget. The economic message should be the focus of your discussions and questions a couple of days from now. We had breakfast together this morning to make sure that we are interlinked, and that we were both looking at things the same way. I can assure you that he doesn't have fiscal acrophobia.

QUESTION: As economic adviser -- I asked about the spokesman.

MR. ASH: That is the thinking of the chief economic adviser.

QUESTION: I was thinking of the chief economic spokesman.

MR. ASH: The reason his chief economic spokesman is not here today is that he is in London dealing with the international dimensions of the things that we are here talking about domestically. We do have Steve Gardner here, his deputy, and I would hope that you would get some questions his way.

QUESTION: Would he answer that question? Does the Treasury support Mr. Ash's views on these things?

MR. GARDNER: The Treasury is just as concerned as they have been about the size of these deficits and the relationship to GNP is one way to look at a deficit in a strong and booming economy.

We need to have a strong and booming economy. I think the reason we accept the deficits in the President's program and are working together in the Administration to move the economy forward and get that private sector, which you have heard Mr. Ash say is more than two-thirds of our economy, moving again through the tax program and the tax rebate and the like.

We are all, I am sure, concerned about the size, no matter to what standard we relate them. If you look at the chart that goes out to the year 2,000, and you saw that payments to individuals and federal expenditures would represent more than two-thirds of GNP, all I can say is I don't want to be trying to design tax systems that raise that money.

QUESTION: Mr. Ash, on the full employment budget that you spoke of, you said it was in classical fashion. Is that a classical 4.0 or 4.8?

MR. ASH: In the budget itself on page 46, the full employment calculation is shown and it is on the four percent classical base.

You will notice that on that base the margins in '75 are $17 billion and in '76 $12 billion, which are different numbers than you saw up here.

You also noticed, it is all of the way back to page 46 before we even discuss it.

QUESTION: Mr. Ash, since Mr. Simon is attending a meeting on the international impact of the project, could you tell us whether you feel that American allies consider it inflationary, especially given your unemployment assumption?

MR. ASH: The question is: Will American allies consider this budget sufficiently inflationary as they look at it from the outside.

The expressions that we have had so far from those that head other countries and are concerned with this is that they have been quite satisfied, and have so expressed themselves, with the policies that are implicit in this budget. I think as the discussions are going on over there in London now, that will be reaffirmed.

They have already said that they support generally and substantially the positions we have taken.

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QUESTION: Mr. Ash, could you discuss briefly the relationship of the foreign economic aid program and the military program to the budget, and what size or what the calculations are, what requests the Government will make to the Congress for foreign aid in this coming fiscal year?

MR. ASH: The question is will I discuss the relationship between the foreign aid aspects of the budget and the rest of the budget.

I guess that is the main question.

And what are the numbers that are shown for that?

Now, the numbers are set forth in a budget table this year that are a little different than they have been in past years. I think it is one that you will find very useful if I can figure out what page it is. It is page 83 in the budget, itself.

In the budget on page 83 is a table, set forth in a fairly comprehensive way on foreign aid of all kinds. I think there you can see the component elements of it. A major increase is proposed for the military assistance, shown up in the top section.

Again here, and you heard the President make statements on this recently and Secretary Kissinger make statements on this recently, foreign aid is not merely for the benefit of foreigners. Foreign aid is also for the benefit of all Americans. It is for the benefit of providing world security our own national security, and amounts spent for that purpose are certainly to be considered ones of benefit to the American people.

There are some difficult problems overseas that we have to spend monies on and propose to spend some on. The supplemental that the President sent up for South Viet Nam and Cambodia are included in the budget numbers for 1975 and 1976. We do think it is essential, and I won't repeat what has been already said on the subject, but we think it is essential that the Congress concur with the President's proposal on those.

QUESTION: Mr. Ash, I wonder as you wind up your job, would you be willing to say to what degree the policy decisions of the Republican Administration of which you have been a part are responsible for the budget and economic picture that you have presented here today?

MR. ASH: The question is to what degree are the policies of the Republican Administration responsible for the budget and economic picture presented here today?

Of course, the Republican Administration is responsible for the budget presented here today in the sense that it is its set of policies, programs and priorities that it proposes to the Congress. I think, though, what you had in mind was to what extent is the Republican Administration responsible for the economic condition in which we find

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ourselves. That may be the line of questioning that you have.

I am sure there are many people who have many different assessments as to cause, but when we look back and when history looks back and writes the story of how we got here, I think they will recognize that during calendar year 1973 we were moving our way fairly well down to what we then called a soft landing and a good, solid economic base going into the years ahead.

But also, as we look back we see, the oil embargo and the price increases along with the agricultural product shortages and the price increases that came from those. They did inject factors into the economy that certainly changed that soft landing into a much harder one than was expected.

Over and above that, the question is who is responsible for what policies. I can certainly say that in regard to some of these things that I have put on the screen here about the underlying forces behind the budget, there is plenty of responsibility to divide up as to how those forces got built into the budget and to the degree to which those forces have contributed to the past inflation and may prospectively do so.

So the blame can be divided up. I don't believe we can place it on the shoulders of the Republican Administration or earlier Democratic Administrations or even for that matter on any administration. There were last year some very significant outside forces.

So let us share the responsibilities and hopefully we can get an equal sharing of the responsibility to deal with the problems that we now have, let alone those that got us here.

QUESTION: Mr. Ash, do you have an estimate of how much of the $17 billion in cuts will impact directly on State and local governments?

MR. ASH: The question is: How much of the $17 billion of cuts will impact directly on State and local governments?

State and local governments this year, fiscal '75, will receive from the Federal Government about $52.6 billion and in 1976, $3 billion more, $55.6 billion.

Now, in addition to the State and local governments receiving those monies in direct grants, there are some changes proposed in this budget, particularly as it relates to sharing of various program costs. The effect of the changes implicit in this budget would reduce the Federal funds available for State and local governments. To put it another way, they would increase the need for State and local government financing by just short of a billion and a half dollars for fiscal 1976.

So, Paul, do you want to add further to that?

So those are the numbers to have in context, $52.6 billion and $55.6 billion of grants. This

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proposal does have an effect just short of a billion and a half, which is not included in the numbers I have quoted.

Additional State expenditures of $1.5 billion will be required to match or otherwise carry out the kinds of program construction we have in here.

QUESTION: Would you give us the detail of what the President had in mind when he spoke of reducing programs that had been considered uncontrollable?

MR. ASH: The question, can I give an idea of what the President had in mind when he said he would reduce programs heretofore considered uncontrollable.

Much of the $17 billion package is exactly that and again let me recount to you what they are so that they are not just an amorphous group, but so that you can identify them program by program.

There have now been submitted to the Congress eight eight deferral and rescission packages. I think you have copies, or at least they were available, of the materials that went along with each of those eight over a time starting September 23 for the first one. That is a big portion of the total.

In the State of the Union message and accompanying it was a fact sheet that set forth on page 22 a number of other reductions and in this budget, itself, as Dale McOmber mentioned a little while ago in response to a question, there is another $3 billion or so of reductions and all of those together comprise the $17 billion.

Why is it that the President says we are going to take programs that were heretofore called uncontrollable and make them controllable? It is because the President does not have the authority of his own to change these. It does require Congressional concurrence.

We therefore have before the Congress the deferral, rescissions and proposed legislation for that concurrence and there is a list, in fact the list includes 200 items, I guess, by now. It must be of that order, about 200 items that all together are included in that $17 billion.

QUESTION: Mr. Ash, with regard to payments to State and local governments, is there some kind of a breakdown by fields of education, health, and whatever?

MR. ASH: The question is, is there a breakdown by field of amounts paid to State and local governments?

I have some data here, it is in the special analysis that has that breakdown and you will see it. It begins on page 235 in the special analysis, that is the breakdown of the totals that I had earlier given you.

QUESTION: Mr. Ash, in view of the fact that in the past two or three weeks the decline in revenues and the increase in unemployment due to the recession have been so accelerated as to cause a 10 percent change in your budget deficit estimates, what assurance can you feel that that will not continue and require a further change?

MR. ASH: The question is -- similar to the one asked earlier -- in view of the fact that we have changed the expected deficit $5 billion or so in the last few weeks, what assurance can I provide that we won't continue to do the same thing in the next few weeks.

Of course, the economy changes and nobody can predict with certainty. I do think on the other hand, and I am sure all of you see beginning signs, of a leveling out of some of the statistical indices that have been moving fairly fast in a downward way in recent times.

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Not all of them are, but at least there are some beginning signs, but one cannot guarantee that the economy will either remain exactly as it is or will be exactly as forecast.

But at this moment, the budget represents the best view we have of what we do expect out into the future.

Joe Laitin says I can have one more question.

We negotiated on that and he said one and I said three. So we negotiated at three.

QUESTION: You said at some time the President would be ready to change his programs if conditions got worse.

MR. ASH: Or better.

QUESTION: But how much worse would unemployment have to get before he would present something different?

MR. ASH: Well, that is a hypothetical question. It is impossible to answer or can I say he is watching one particular statistic or another one, and what are the thresholds for action. Action will be taken when called for and it can be called for by any number of changes.

QUESTION: Mr. Ash, if there had not been an oil embargo, and if the price of oil had not increased, and if 1973 and 1974 had been bumper years, would you be presenting a balanced budget and would rates be lower?

MR. ASH: That is another question of the same sort.

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If we had not had all of the problems of the last year such as the oil problem and agricultural problem what would the budget look like, and would it be balanced?

We were coming in reasonably well with the economy headed for in a soft landing and let us assume we would have made a soft landing. It could well have been because you may remember a year or so ago we were looking to the possibility and hopefully the desirability of a balanced budget. It could well have been this time.

But who knows with precision because it is very difficult to compare this budget, let alone a possible alternative hypothetical budget, and so we didn't compare that.

QUESTION: How much are your projections and estimates based upon the correct behavior of the Federal Reserve and do you have any understanding with Mr. Burns on that?

MR. ASH: The question is, how much are the projections and estimates based on the correct behavior of the Federal Reserve and do we have any understandings on that.

Dr. Burns has worked with us, with the President and all of the rest of us, in the process of putting into place those policies and those programs that are in turn reflected in the budget.

I am confident that his participation has been

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such that he will manage the affairs of the Federal Reserve Board consistent with the program that we have set out here. Obviously it is an independent board and he will manage it as he sees best for the economy, but he is fully aware of and was in fact a participant in the discussions that led to these programs and I think that that should give us a clue that he will conduct himself with that knowledge.

QUESTION: Thank you, Mr. Ash.

MR. LAITIN: For those of you who may have some micro questions, I am sure the Associate Directors will be glad to stand around here for a few moments.

I want to remind you that the only appearance here which is for immediate release was the President's remarks. Everything else is embargoed for 12 noon EST on Monday and I would like to sound menacing when I say that.

Thank you.

END (11:23 A.M.)