January 16, 1975

SUBJECT: ~~WHOLESALE~~ PRICE INDEX FOR DECEMBER

Wholesale prices fell by 0.5% (seasonally adjusted) from November to December. This was the first decrease in the wholesale price index since October 1973. The December decline reflected a 2.5% drop in the prices of farm products and processed foods and feeds and an encouraging "no change" in industrial prices.

Any comment on the decline in wholesale prices?

GUIDANCE: The decrease in the wholesale price index is welcomed news, and is pretty much in line with our expectations.

However, we are certainly the first to recognize that one month is not a trend and it would be premature to think that December's results are the start of an actual trend.

We are pleased that the industrial prices did not rise in December, but we are probably faced with additional price increases in the food component.

JGC

January 20, 1975

SUBJECT: THE ECONOMY

If people use their 1974 tax rebate to pay off old bills rather than purchase big ticket items or other items, will this help the economy or will this be the same as putting their money into savings?

GUIDANCE: It is our feeling that if people do pay off their bills, it will free the balance sheets of individuals and improve their financial capability. This will increase their confidence and eventually they will spend the money. Also help the financial position of the companies they pay.

Does a 2% increase in the cost of living because of the higher energy costs mean a 2% increase of inflation over the regular rate of inflation?

GUIDANCE: For that one particular year, the rate of inflation would be increased 2%, but thereafter it would not be a factor.

According to a recent Gallop poll, 55% of the population favors rationing while 32% preferred the Administration's plan. What's your reaction to this?

GUIDANCE: Under a rationing plan, people view themselves as getting "their equitable share" of available products, and the people answer a question on rationing in that context, assuming they would get "their equitable share" at the same price.

8-9 gallons a week. Was discussed before when previous adm considered.

However, if one could take a survey of what people thought "their equitable share" was and added it all up, it would be greatly in excess of 100% or greatly in excess of what we have to ration. This means that when an individual actually gets what they are allotted under a rationing system, they would think rationing was wholly inequitable. No long vacation drives. Also hurt travel industry, autos, motels, hotels,

Also, the poll showed that when asked if gasoline prices rose 10¢ per gallon, would they cut their driving; 49% said they would cut down, 48% said no cut in driving. Any reaction to this?

GUIDANCE: This is about what we would expect. If one half of the people cut their driving, and we have no reason to expect the other half would increase their driving, this would be very encouraging.

JGC

January 23, 1975

SUBJECT: FOLLOW-UP ON PRESIDENT'S SPEECH TO CONFERENCE BOARD

The President said last night that transfer payments, payments to individuals, have been growing at an annual rate of 9% for the past twenty years. If other sectors of the Federal Budget and state and local expenditures grow modestly in real terms, this trend will mean that within the next two decades, Government expenditures at all levels could eat up more than half of our Gross National Product.

What will the Gross National Product be in 1995, and what figure are you using for all Government expenditures at that time?

GUIDANCE: The estimate is that in 1995 the Gross National Product will be 2.902. That is two trillion, nine hundred billion, with total Government expenditures at all levels amounting to 1.459, or 50.3% of Gross National Product.

JGC

THE WHITE HOUSE

WASHINGTON

January 23, 1975

DEBT CEILING INCREASE

FYI: Secretary Simon, in testimony before the House Ways and Means Committee today, will request an increase in the temporary debt ceiling from $495 billion to $604 billion through June 30, 1976. The current temporary limit of $495 ~~expires~~ billion expires March 31, but will probably be exceeded before that, on February 18. The permanent debt ceiling is $400 billion--and that is what the ceiling would revert to if Congress did not act.

January 23, 1975

SUBJECT: FOLLOW-UP ON PRESIDENT'S SPEECH TO CONFERENCE BOARD

The President said last night that transfer payments, payments to individuals, have been growing at an annual rate of 9% for the past twenty years. If other sectors of the Federal Budget and state and local expenditures grow modestly in real terms, this trend will mean that within the next two decades, Government expenditures at all levels could eat up more than half of our Gross National Product.

What will the Gross National Product be in 1995, and what figure are you using for all Government expenditures at that time?

GUIDANCE: The estimate is that in 1995 the Gross National Product will be 2.902. That is two trillion, nine hundred billion, with total Government expenditures at all levels amounting to 1.459, or 50.3% of Gross National Product.

JGC

1-29-75

ULLMAN TAX REBATE PLAN

If asked if there is anything in Congressman Ullman's tax rebate plan that the President finds acceptable, Al Greenspan strongly urges that we not give any hint that Ullman has anything which is agreeable to the White House.

He recommends the following statement if the question comes up:

The President considered all the various options when he was putting his program together. What he has put forth is what he believes is the best for the nation. It is a program that is designed to revive the economy and get people back to work.

Implicit in what you are saying is that the President considered the points made in the Ullman plan and decided they wouldn't accomplish the goals that he had set for his program: Revive the economy and reduce unemployment.

Al also said we should not get into a dialog about the possibility of any compromise. "The President will take a look at what Congress finally comes up with, but the problems are immediate and he has a plan to solve them."

Also, if you get into a discussion about the focus of the President's tax rebate program (compared to Ullman's, say), Al strongly recommends that you say that the President's program is aimed "across the board" and is not limited to only one segment of the population, and that you not say that the President's plan is aimed at the $20,000 to $40,000 income level in order to get more money into the economy to increase productivity, although that is one of the goals.

February 14, 1975

SUBJECT: COMMENTS BY ALAN GREENSPAN

Mr. Greenspan said in testimony yesterday before the Senate Appropriations Committee, "Administration economists are seeing the very earliest stages of recovery. We see some very definite and quite hopeful signs." What are the hopeful signs seen by Mr. Greenspan?

GUIDANCE: One of the significant factors in any recovery is that of inventories. It appears that there is significant inventory liquidation going on at this time and that is usually, by its nature, the very earliest signs of a recovery.

Mr. Greenspan also said that there is evidence that the pace of inflation is softening. What is this evidence?

GUIDANCE: I think you can just look at the WPI for the last two months including those figures announced today and you'll see some softening in the industrial and agriculture prices.

What is your reaction to the WPI released today (down .3%)?

GUIDANCE: This is pretty much in line with our expectations.

JGC

Meeting with Meany) While Meany was here, ~~called~~ Ullman, told tax cut ~~sked~~ too slow. "Meany & I have together, pleased ~~with~~ you to speed up. Timing is as important as substance

For message to
Congs

HUBERT H. HUMPHREY "MEET THE PRESS" February 17, 1975

HUMPHREY: "Unless we take some very concrete and effective action, and very quickly, within the next 60 to 90 days, I think we would be approaching what you would call the dimensions of a depression."

* * *

SPIVAK: "When will Congress do something (about tax cuts)?"

HUMPHREY: "Within the next 30 days."

our economy and prosperity to our people.

I outlined specific steps to deal with high interest rates, inflation, the housing depression, and, most importantly, unemployment.

Mr. President, Congress must take the lead, in cooperation with the President, in forging a national economic policy that will break the back of recession and put America back to work.

I ask unanimous consent that the text of my response to President Ford be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

REMARKS BY SENATOR HUBERT H. HUMPHREY, RESPONSE TO PRESIDENT'S ENERGY, ECONOMIC MESSAGE, JANUARY 22, 1975, BROADCAST ON CBS-TV

Good evening.

If it were possible for you to talk with me tonight, I think I know what you'd probably say.

"No more speeches, Mr. Humphrey. In the past months all we've heard are words. What we want is some action."

Well if that's your message to me, I hear you loud and clear.

Both Congress and the President have wasted valuable time in getting our economy soundly on the road to recovery. There's no sense denying it. And it's futile arguing over who's more to blame.

We can't change the past. But if you can stand one more speech, I believe you'll be surprised to learn what Congress is planning for the immediate future . . . the decisive action that is long overdue.

I can report broad agreement among Congress and the President as to the need for an individual and corporate tax cut—to stimulate purchasing power, to accelerate business investment, to lower unemployment, to restore economic growth. Moreover, this tax cut can be a reality within four to six weeks.

Until the President's remarks last week, our country was like a seriously ill person whose doctors in the Executive Branch and Congress could agree on neither the diagnosis of the illness nor the proper treatment. President Ford initially proposed a curious remedy—his five-percent surtax. A tax increase in the midst of recession would have bled the country of its economic strength, weakening the patient still further.

Fortunately, Congress rejected this remedy. But while the doctors were arguing over the cure, the patient's health deteriorated rapidly.

At last, the doctors agreed on the source of the disease—the most serious recession since World War II—and at least part of the proper treatment—a large dose of economic penicillin in the form of tax cuts to bring the patient back to full health and normal activity.

The first action of this Congress must be a tax reduction for individuals and business. This can and must be done in the next 30 days.

We have now only to decide on the size and frequency of the tax cut and—most importantly—who gets the benefits.

Under the President's tax cut plan, a family of four with an income of $10,000 a year would receive only $100. Under a bill I have introduced the same family of four would receive a tax cut of $300.

President Ford's tax cut puts 43 percent of the benefits into the hands of the richest 17 percent of the population. This is not only unfair, it is bad economics because it will not stimulate the economy. Congress will not accept the President's plan.

I recommend an overall tax cut of about $20 billion. While some people may consider this too much, they should recall that in 1964 the Congress cut taxes by about $12 billion—when the economy was smaller and the recession less severe. In today's economy, that would be equal to a tax cut of about $26 billion.

If economic penicillin is needed to combat the recession, then we should prescribe a dose large enough to help the patient. And we cannot afford to wait until May and September to get extra money into your pocketbook, as the President advocates. Instead, Congress should provide a reduction of withholding rates, retroactive to January 1, 1975, to increase your take-home pay and to keep it coming on a weekly basis.

The tax cut I have proposed would reduce taxes by 61 percent for those earning under $5,000, by 32 percent for families with incomes ranging from $5,000 to $10,000, by 21 percent for those earning from $10,000 to $15,000, and by 16 percent for taxpayers with $15,000 to $20,000 incomes.

In addition to these individual tax cuts, business and farms need an increased investment tax credit—to provide new buildings, new machinery and equipment, and most importantly, new jobs. On this issue the President and the majority of Democrats stand together.

Next, the Congress should turn its attention to tax reform to provide greater fairness in our tax structure. By this, I mean phasing out the oil depletion allowance, strengthening the minimum tax to ensure that the rich pay their share, and eliminating foreign tax preferences that send jobs and capital abroad. And there are many more.

People have a right to expect that the tax laws will be fair.

Prompt action on a tax cut is only the first step on the Congressional agenda. Six and one-half million persons are presently out of work and that number will surely increase. One thing is certain: a tax cut is of little direct help to a person without a job.

In Congress, Democrats and Republicans alike, are committed to putting more people to work, to getting them off unemployment lines and into jobs where they can support their families and pay their share of taxes.

What America needs are jobs, not "Win" buttons. What Americans want is work, not welfare.

On its own initiative, Congress passed an expanded public service employment program providing 300,000 jobs in hospitals, schools, day-care centers, and other public facilities. Since this program was passed in December, half a million more people have become unemployed.

This simply means that more must be done. Democrats propose that Congress immediately authorize an additional 500,000 public service jobs. And an additional 250,000 jobs for each one-half percentage point rise in the unemployment rate.

Yes, I know that this will cost money, but it costs more to have people unemployed. When you're working, you're producing—you're both a consumer and a taxpayer—you're self-sufficient.

Unemployment is not only the loss of a job and income; it is being told you are not needed. This violates the promise of America.

The President has said that he will veto any new federal spending. He proposed that those on social security shall not receive more than a five percent increase in benefits, even though the cost of living has increased by 12 percent. Those on fixed incomes—the elderly, the blind, and the disabled—have suffered the most from inflation. To deny them an increase in benefits equal to the rise in the cost of living is wrong and unacceptable. The Congress will not permit it.

There is no sense punishing people who rely on a small social security check, or raising the price of food stamps for people who are already struggling to feed their families.

Congress is no less concerned than the President over the growth in federal spending and in controlling a large and wasteful bureaucracy. Last year, for example, we cut the President's budget requests by $5 billion.

There is one basic reason for the record-breaking deficits that have accumulated since 1969.

On two occasions, in 1969–70 and 1973–74, former President Nixon attempted to control inflation by slowing down economic growth. During these deliberately-engineered recessions, as production declined, incomes also went down, profits fell, people lost their jobs and, as a result, federal tax receipts dropped sharply. Unemployed workers and businessmen and farmers operating at a loss don't pay taxes.

In these recession years, the federal deficit grew by leaps and bounds. In just this year and the next we can expect a federal deficit of $80 billion. This is frightening.

The way to end these deficits is to get the economy moving—to get people back to work and business to invest. And we can do this with a prompt tax cut, sensible federal spending, and ample credit with lower interest rates.

These are among the major items on the Congressional economic agenda. They will offer each of you a greater measure of security as America begins the long period of economic recovery. But lasting economic health is impossible unless wise actions are taken in several additional areas.

First, let me discuss money and credit. Tight money and high interest rates have not halted inflation. They have added to it. That's obvious to everyone. But they have choked off economic growth, brought homebuilding to a virtual halt, increased bankruptcies among businessmen and farmers, and created havoc in our capital markets.

Yet in his remarks last week, President Ford was totally silent on the money and credit policies that will make economic recovery possible. I propose that the President convene an emergency conference on monetary policy, attended by the Federal Reserve Board and representatives of business, labor, banking, farming, and the investment community.

This conference should be convened for the express purpose of arriving at monetary policies that are fully consistent with the goal of economic recovery. Unless this is done, the desired economic effect of the tax cut and other economic recovery measures will be largely wasted.

I further propose that the President use the Credit Control Act of 1969 to channel credit into sectors of the economy now starved for funds, primarily housing, state and local government, small businesses, and agriculture.

Now let me say a word about housing.

There is no way out of a national recession while housing is in a depression. Today hundreds of thousands of skilled construction workers are out of their jobs and thousands of contractors are without work.

Yet America needs homes and many of our cities need massive reconstruction.

As early as 1949, Congress established a national goal of a decent home and a suitable living environment for every American family. To achieve these goals and rescue the housing industry, strong action is necessary.

First, Mr. President, release the funds that the Congress has provided for housing.

Second, Congress should consider establishing a National Housing Bank with sufficient funds to provide interest subsidies and other financing for low-and middle-income taxpayers.

Third, the President should use the authority he now has under public law to allocate credit for housing.

Economic recovery also depends on a sound national energy policy that can be supported by every American. This will re-

February 21, 1975

SUBJECT: CONSUMER PRICE INDEX FOR JANUARY

The cost of living increased 0.6% in January, the smallest increase since last April.

What's your reaction to the 0.6% increase in the January CPI?

GUIDANCE: The numbers are encouraging and are pretty much in line with our expectations. Projected at an annual rate, this is 7.2% or about in line with our thinking.

I might point out that the CPI has been advancing at a slower rate each month since September when the increase was 1.2%, in October and November, it was 0.9%, and December it was 0.7%. Of course, we are not going to get overly optimistic because of these figures.

JGC

CONSUMER PRICE INDEX

(Change)

	1974	1973	1975
January	+1.0%		+0.6%
February	+1.3%		
March	+1.1%		
April	+0.6%		
May	+1.1%	+0.6%	
June	+1.0%	+0.6%	
July	+0.8%	+0.2%	
August	+1.3%	+1.9%	
September	+1.2%	+0.3%	
October	+0.9%	+0.8%	
November	+0.9%	+0.8%	
December	+0.7%	+0.5%	

February 22, 1975

Comparison

Administration Tax Rebate Proposal	Ways and Means Bill
Tax Rebate for Individuals	
Amount - $12.2 billion	$8.1 billion
Formula - 12% of 1974 liability maximum - $1,000 minimum - none	10% of 1974 liability maximum - $200 minimum — $100 (or total tax, if less than $100).
Time - 2 installments, first as quickly as possible, second in fall.	1 installment, as quickly as possible.
Business Relief	
Investment credit: increase to 12%, for one year only. Special rules for assets ordered this year and placed in service later.	Investment credit: increase to 10%, expected to be permanent but technically needs to be re-enacted. Similar special rules for assets ordered this year.
Benefit: tax liabilities for 1975 reduced by $4.1 billion. Additional lesser reductions in 1976 liabilities for assets ordered in 1976 and placed in service later.	Benefit: tax liabilities for 1975 reduced by $2.4 billion.
No change in corporate surtax exemption (at present 22% normal tax applies to all income, but first $25,000 is exempt from 26% surtax).	Corporate surtax exemption increased from $25,000 to $50,000. Provides $1.2 billion of benefit to only 1.3% of all business entities, little or nothing for <u>most</u> small businesses.

Other Individual Relief

None

Increase in low income allowance from $1,300 for all to $1,900 for singles, $2,500 for joint returns. Increase in standard deduction from 15% of AGI with maximum of $2,000 to 16% with maximum of $2,500 for singles and $3,000 for joint returns. Total revenue loss: $5.1 billion.

Refundable credit on earned income. 5% of earned income up to a maximum of $200. Intended roughly to refund employees' half of social security taxes on first $4,000 of income. Credit phases out between $4,000 and $6,000 of AGI. Revenue loss: $3 billion.

These "other" individual provisions are technically applicable for a one-year period. However, the draft committee report states:

"In tax legislation to be acted on later this year, dealing with energy and tax reform, the committee expects to make these changes permanent and provide further tax reductions and structural changes."

Total Revenue Loss

$16.3 billion

$19.8 billion

Comparison of Administration Stimulus Proposals Only
With Ways and Means Committee Bill

Calendar years 1975 and 1976
($ billions)

Proposal	Administration's proposals	Ways and Means Committee bill	Ways and Means Committee in excess of Administration
	Calendar year 1975		
1974 Individual income tax rebate	-12.2	-8.1	+4.1
Investment tax credit...	-4.1	-2.4	+1.7
Low income allowance and/or standard deduction ...	--	-5.2	-5.2
Earned income credit ...	--	-2.9	-2.9
Increase corporate surtax exemption	--	-1.2	-1.2
Total calendar year 1975	-16.3	-19.8	-3.5
	Calendar year 1976		
Investment tax credit ..	--	-1.5	-1.5
Total calendar year 1976	--	-1.5	-1.5

Office of the Secretary of the Treasury
Office of Tax Analysis

February 19, 1975

Note: Figures may not add to totals due to rounding.

March

ATAX CUT VERSUS TJE OVERLOADED TAX BILL

There are already far too many add-ons to the Tax Cut Bill.

Congress might take a lesson from the automakers with action NOW on the stripped-down version everyone agrees is needed.

Senator Long pointed out yesterday that after days of debatge on the Tax Cur Bill, the Senate still hasn't taken ONE vote on a tax cut for anyone.. It seems strange that the Senators are giving so much priority to their own pet interests and so little attention to the people's interests.

It is hard to understand why the Senate spends all of its time trying to turn the Tax Cut bill into a Tax Reform Program. The Senate seems to be ~~turning into~~ a reformatory.

Or--I don't think the Senate should be a reformatory.

~~Keep adding~~

~~If the Congress adds many more special interest amendments~~

to ~~the Tax Cut bill~~

Easter Basket

March 6, 1975

SUBJECT: WHOLESALE PRICE INDEX FOR FEBRUARY

The Wholesale Price Index declined 0.8% during February, the third consecutive monthly decline.

What's your reaction to the WPI for February?

GUIDANCE: We are encouraged by February WPI. This is another indication that the inflation problem is improving. We must recognize, however, that the battle against inflation has not yet been won.

Though there has been a sharp drop in farm and food prices, industrial commodities rose .5% in February, as in January. This is down markedly from the 2-3% monthly rate of increase a year ago, but means that the inflationary battle is not yet behind us.

Therefore, in general, we feel that the February WPI is positive news, but there is still more work to be done.

JGC

WHOLESALE PRICE INDEX

(Change)

	1974	1973	1975
January	+3.1%		-0.3%
February	+1.2%		-0.8%
March	+1.3%		
April	+0.7%		
May	+1.3%	+2.0%	
June	+0.5%	+2.3%	
July	+3.7%	-1.4%	
August	+3.9%	+6.2%	
September	+0.1%	-1.5%	
October	+2.3%	+0.3%	
November	+1.2%	+1.8%	
December	-0.5%	+2.2%	

March 10, 1975

The President's Package is designed to help <u>everyone</u>, and lower income classes will benefit more than the others. But it must be viewed as a package, with several elements.

<u>Tax rebate</u>. The tax rebate proposal is a one-shot, one year action to stimulate the economy. It is not a program of permanent tax restructuring. If it succeeds in stimulating production that will be the most helpful thing we can do for all income groups--especially the lower income groups. No tax reduction is as important to individual taxpayers as having a job, and this proposal is designed to reduce unemployment.

The tax rebate proposal is, however, a <u>tax</u> relief proposal. It is not a welfare proposal. Tax relief should bear some reasonable proportion to the taxes people pay.

The rebates the President proposes would be roughly in proportion to the taxes people actually pay. Lower income taxpayers would get a somewhat greater share of the refund than the share of taxes they pay, because upper income taxpayers would get a lesser share. For example, lower and middle income taxpayers would all get a refund equal to 12% of their 1974 tax, while a $50,000 taxpayer would only get 8.7%. But it is necessary to keep in mind that lower income taxpayers do not pay most of the taxes, and they cannot fairly expect to get most of the refund.

The President's proposal is not only the fairest, but it will also be the most effective in re-stimulating the economy. It will go where it is most likely to find its way most directly and quickly into purchases of durable goods, which is the area of the economy most affected by the recession. Even additional welfare distributions would eventually be helpful to that area of the economy, because in time additional spending power, wherever it appears, will work its way through the entire system. But it would be much less effective and much slower if we distort refunds in favor of lower income persons. The January 15 Sindlinger report says:

> "Another paradox--and one that could distort the impact of any tax cut--is that willingness to spend the money saved is greatest in the upper income brackets among people who are less fearful about the future. In contrast, low-income persons, more concerned about their own economic security, are heavily disposed to put the money aside or use it to clear up bills."

And, of course, distortion of the refunds in favor of those who paid the least tax would not be fair to the taxpayers who, in fact, paid most of the taxes.

But the tax rebate is only part of the total program. The other parts are heavily weighted towards lower income persons. They are:

Permanent tax restructuring. The President also proposed major, permanent increases in the low-income allowance and decreases in the lowest rate brackets. He also proposes credits of $80 per adult to nontaxpayers to offset their increased energy costs. The President believes these changes should be effective for this year, but there is time to do them later in the year. They should not be done without deciding how they will be paid for--else they will later restimulate inflation, which is the most regressive of all taxes and the hardest on low and middle income persons.

Nontax programs. These include:

* The coverage and duration of unemployment insurance benefits have been increased, and additional funds voted for public service jobs. Such spending will triple from last year to a total next year of over $18 billion.
* Outlays for food stamp programs are increasing rapidly, to an estimated $3.6 billion next year.
* More than $3 billion is being spent on federal manpower training and related programs in the coming fiscal year.
* An additional $2 billion was recently released for highway construction, providing some 125,000 extra jobs.

March 13, 1975

SUBJECT: GREENSPAN SEES THE RECESSION DEEPENING

Alan Greenspan yesterday testified that real GNP could drop 10% in the first quarter and unemployment could reach 9%. This is up from a GNP drop of 9.1% and unemployment of about 8.5%.

Mr. Greenspan testified yesterday that the recession is deepening. Is the President considering changing his economic policies?

GUIDANCE: The President and his advisors are continually reviewing the economic situation and also continually, on a routine basis, receive updated statistical information.

I should point out that Mr. Greenspan did not predict a 9% rate of unemployment, but did say that he would not be surprised if unemployment did go to 9%. Greenspan has always said it was possible that unemployment would exceed 8.5%.

It should also be noted that Mr. Greenspan cited the quite impressive decline in the rate of inflation, surprisingly strong consumer and capital spending, a promising inventory situation, and some encouraging signs for the housing industry. Mr. Greenspan repeated that business inventories are currently being liquidated, and this is a key factor in the present severe production decline.

I talked with Alan Greenspan again this morning, and he continues to believe that the economic recovery should begin on schedule in the latter part of the year.

JGC

March 13, 1975

SUBJECT: GREENSPAN SEES THE RECESSION DEEPENING

Alan Greenspan yesterday testified that real GNP could drop 10% in the first quarter and unemployment could reach 9%. This is up from a GNP drop of 9.1% and unemployment of about 8.5%.

Mr. Greenspan testified yesterday that the recession is deepening. Is the President considering changing his economic policies?

GUIDANCE: The President and his advisors are continually reviewing the economic situation and also continually, on a routine basis, receive updated statistical information.

I should point out that Mr. Greenspan did not predict a 9% rate of unemployment, but did say that he would not be surprised if unemployment did go to 9%. Greenspan has always said it was possible that unemployment would exceed 8.5%.

It should also be noted that Mr. Greenspan cited the quite impressive decline in the rate of inflation, surprisingly strong consumer and capital spending, a promising inventory situation, and some encouraging signs for the housing industry. Mr. Greenspan repeated that business inventories are currently being liquidated, and this is a key factor in the present severe production decline.

I talked with Alan Greenspan again this morning, and he continues to believe that the economic recovery should begin on schedule in the latter part of the year.

JGC

March 16, 1975

Question: TAX CUT

Why do you say that the provisions for employee stock ownership are bad?

Background:

Larger companies that wish to take the 5% increase in the investment credit (from 7% to 12%), must give stock equal to 1/5 of that increase to their employees. Also, companies electing the liberalized carryback rules must give stock equal to 25% of the benefit to their employees.

Answer:

I think employee stock ownership is a good thing. The tax laws already provide very liberal incentives for such plans. But stock ownership plans are totally extraneous to the issue of business relief and stimulation. We should not blackjack companies and employees into such plans.

1. The provision is wholly unfair as among employees. Employees who happen to work for companies that are growing and profitable or that are capital intensive would get big grants of stock. Employees that work for small companies, or that are unprofitable or don't use much capital, would get nothing or very little.

2. We are proposing the 12% investment credit as an investment incentive. If companies have to give it away, the incentive is reduced accordingly.

3. In the longer run, this grant will be just another employee cost taken into account in setting wages and pensions. If companies are forced to compensate employees in this particular manner, they will have to give them less in other compensation. Thus, the bill would set us out on a road that would diminish the free bargaining choice of employees and employers. Many employees do not <u>want</u> to take their compensation in stock of their employers.

March 16, 1975

Question:

Will you sign the bill if it comes down as the Finance Committee reported it?

Answer:

I hope that the final bill will be a better bill. I will have to wait and see what finally emerges, as well as what Congress is doing on the spending side.

March 16, 1975

Question:

What are your views on the tax cut bill reported by the Senate Finance Committee?

Answer:

I am very disappointed and very worried about what the Finance Committee has done. These are the things that worry me:

1. The tax cuts voted by the Finance Committee come to more than $29 billion. That is nearly 10% of all of the revenues we collect and about twice the stimulus I recommended. I recommended $16 billion of temporary tax reduction because that was our best judgment as to the maximum amount of stimulus we could provide without setting off on another inflationary spiral a year of so down the road. $29 billion is playing with dynamite.

2. I recommended a cut as a stimulus and recommended that it be temporary to avoid future inflation. But most of what the Finance Committee has done--$16 to $20 billion of the $29 billion--is designed to be permanent.

3. It is the total budget deficit that is important and this tax cut is only part of the picture. While the Finance Committee is proposing to cut revenues by $29 billion, Congress is showing little inclination to make the spending cuts I recommended and a number of Congressional Committees seem to be off on new spending sprees.

4. Several of the individual provisions of the Finance Committee bills are very bad policy. The earned income credit, the housing credit and the employee stock ownership provisions are all ill-conceived.

A prompt stimulus is important, but there is some point at which the longer term cost is too high. A tax stimulus now is not desirable if it just primes the economy for another new inflationary cycle a year or so down the road. Inflation is the most burdensome, regressive tax of all.

March 16, 1975

Question:

What is your objection to the earned income credit?

Background:

The earned income credit would provide a cash payment equal to 10% of the $4,000 of earned income or a maximum credit of $400. Under the Senate version, the credit would be available only for individuals maintaining a household which is the principal place of residence for a dependent child. The credit would be phased out between $4,000 and $8,000 of income.

Answer:

1. This is just another welfare provision, to be administered by still another agency and added to the grab bag of overlapping and conflicting programs we already have.

2. It represents a "top of the head" undercutting of our social security system. This action makes worse the problem of underfinancing of the social security system. Congress needs to look carefully at this whole area.

March 16, 1975

Question:

What are your objections to the housing credit?

Background:

The housing credit would give purchasers a refundable credit equal to 5% of the purchase price of any house purchased in 1975 as a principal residence. The credit could not exceed $2,000.

Answer:

The basic objection is that we can't justify just giving away enormous amounts of money to consumers to do what they would do otherwise.

1. The credit would be very expensive ($3 to $4 billion) and would not contribute to a basic solution of housing industry problems. The basic problem with housing has been inflation, and the high interest rates inflation causes. Interest rates are now coming down, funds are flowing back into lending institutions and it appears that housing is on the road to recovery. If we simply give away billions of dollars that put us back on the road to inflation, housing will be back in trouble in a year or so.

2. Even if further subsidy for housing were desirable, this is an extremely inefficient subsidy. Most of the persons who buy houses during the next year would have bought them anyway, and most of the money would go to them. Thus, we would get nothing for most of the money we spent.

3. Over the rest of the year, the principal effect of the credit would be to increase the prices of unsold houses.

4. The credit would compound our lower income housing problems. The credit would be a further discrimination in favor of single family, owner-occupied houses. Owner-occupied housing is already highly favored under the tax code. Our biggest housing problem, however, has been in multi-family rental units, where starts are down more than 70%. This is the kind of housing that is especially critical for lower income groups.

5. To the extent that the credit may be effective, it would in substantial part simply change timing. It would cause taxpayers to do in 1975 what they would otherwise do in 1976. "Borrowing" for 1976 may dampen the recovery, which would be well underway in 1976.

March 19, 1975

SUBJECT: FORD AIDES REVIEW STATE OF ECONOMY, PER JACK ANDERSON

According to Jack Anderson, President Ford's economic forecasters have gone back to their computers to make another assessment of the faultering economy. The story says the President ordered the review upon the insistence of his political advisors who complained that the economists had misjudged the recession and left them unprepared for the political consequences.

Did the President order the economic advisors to make another assessment of the worsening economy?

GUIDANCE: As you are certainly aware, the President meets regularly with his economic and energy advisors, and a meeting was held yesterday afternoon which lasted for one and one-half hours. The President's economic advisors are continually meeting with the President and continually reviewing the economic situation.

Isn't it true, though, that the President just ordered a complete review of the faultering economy?

GUIDANCE: The Economic Policy Board's Executive Committee did conduct a periodic review of the economy on Saturday, and this is a regularly scheduled review. At this meeting, the President's economic advisors reviewed an updated forecast of the economy. Many of you were aware of this meeting, and I believe that Mr. Pierpoint actually went over and filmed a portion of it. There is nothing special or unusual about this periodic review.

What do the latest forecasts show?

GUIDANCE: I don't have all the details from the meeting, but the general feeling is that the economy will turn around about mid-year and that the second half will show an improving trend.

(More)

Is it correct that Jim Lynn has asked the Federal bureaucracy to submit ideas for spending programs that could be implemented swiftly to stimulate the economy?

GUIDANCE: Jim Lynn has not asked the Federal bureaucracy to submit their ideas for spending projects. However, in legislation signed last year, the Emergency Jobs and Unemployment Assistance Act of 1974, there was a requirement that the departments and agencies submit their ideas to the Department of Commerce (Economic Development Administration) for projects which would create employment. Those ideas are then evaluated by the Departments of Commerce and Labor and that is ongoing at the present time. According to the legislation then, Commerce will submit to Congress an assessment of the reasonableness and evaluation of these ideas.

Is it true that the President's economists have been reviewing the economic indicators and revising their assumptions and consulting outside economists?

GUIDANCE: The President's economic advisors continually review the economic indicators and review their assumptions. There was a meeting with outside economists on Friday to get their views and thoughts on the economy. This, also, is not new.

I think it is obvious that the President and his advisors are continually reviewing the economic situation and the state of the economy as evidenced by the fact that on March 5, the President announced an additional $1.625 billion for public service jobs, and an additional $412 million for summer youth programs. In addition, in Topeka, Kansas, the President announced the release of up to $2 billion in highway funds which is to stimulate approximately 125,000 jobs, so I think it is obvious that the President and his advisors are continually reviewing the economic conditions.

JGC

March 19, 1975

cc/AAT 3-19

Two months ago, I asked the Congress to enact a simple tax cut as quickly as possible. The purpose was to stimulate the economy. I proposed temporary tax cuts totalling $16 billion. My proposal was designed to provide maximum stimulus without setting the stage for a new inflationary spiral when the economy starts to recover. I indicated my willingness to compromise within reasonable limits.

However, the bill reported Monday by the Senate Finance Committee goes far beyond those limits.

- It would increase the size of the tax reduction from $16 billion to $29 billion -- nearly doubling the impact on a budget deficit already at an all-time high.
- It would incorporate $16 billion of tax reductions which are technically temporary but which will undoubtedly continue next year and beyond. That is a sure formula for future inflation, unless offset by other revenues or spending cuts.
- It would build major new defects into our tax system. The proposed housing credit would be a wasteful multi-billion subsidy detrimental to the economic well-being of the general public. The proposed earned income credit is undersirable because it would create yet another federal agency out of harmony with the basic Social Security and welfare systems now functioning. The employee stock ownership proposals would coerce both employers and employees into compensation

(more)

patterns which neither may desire. They would further complicate a tax system which is already far too complex.

While the Finance Committee was adopting these proposals, other committees of the Congress have been busy planning new spending programs and rejecting proposed cuts in existing spending programs. This double-barreled attack on the budget could mean a run-away deficit, followed inevitably by renewed and increased inflation. This must not happen.

I again ask the Congress for a prompt, simple, and temporary $16-19 billion tax cut to stimulate the economy and put people back to work.

# # #

March 19, 1975

SUBJECT: FORD AIDES REVIEW STATE OF ECONOMY, PER JACK ANDERSON

According to Jack Anderson, President Ford's economic forecasters have gone back to their computers to make another assessment of the faultering economy. The story says the President ordered the review upon the insistence of his political advisors who complained that the economists had misjudged the recession and left them unprepared for the political consequences.

Did the President order the economic advisors to make another assessment of the worsening economy?

GUIDANCE: As you are certainly aware, the President meets regularly with his economic and energy advisors, and a meeting was held yesterday afternoon which lasted for one and one-half hours. The President's economic advisors are continually meeting with the President and continually reviewing the economic situation.

Isn't it true, though, that the President just ordered a complete review of the faultering economy?

GUIDANCE: The Economic Policy Board's Executive Committee did conduct a periodic review of the economy on Saturday, and this is a regularly scheduled review. At this meeting, the President's economic advisors reviewed an updated forecast of the economy. Many of you were aware of this meeting, and I believe that Mr. Pierpoint actually went over and filmed a portion of it. There is nothing special or unusual about this periodic review.

What do the latest forecasts show?

GUIDANCE: I don't have all the details from the meeting, but the general feeling is that the economy will turn around about mid-year and that the second half will show an improving trend.

(More)

Is it correct that Jim Lynn has asked the Federal bureaucracy to submit ideas for spending programs that could be implemented swiftly to stimulate the economy?

GUIDANCE: Jim Lynn has not asked the Federal bureaucracy to submit their ideas for spending projects. However, in legislation signed last year, the Emergency Jobs and Unemployment Assistance Act of 1974, there was a requirement that the departments and agencies submit their ideas to the Department of Commerce (Economic Development Administration) for projects which would create employment. Those ideas are then evaluated by the Departments of Commerce and Labor and that is ongoing at the present time. According to the legislation then, Commerce will submit to Congress an assessment of the reasonableness and evaluation of these ideas.

Is it true that the President's economists have been reviewing the economic indicators and revising their assumptions and consulting outside economists?

GUIDANCE: The President's economic advisors continually review the economic indicators and review their assumptions. There was a meeting with outside economists on Friday to get their views and thoughts on the economy. This, also, is not new.

I think it is obvious that the President and his advisors are continually reviewing the economic situation and the state of the economy as evidenced by the fact that on March 5, the President announced an additional $1.625 billion for public service jobs, and an additional $412 million for summer youth programs. In addition, in Topeka, Kansas, the President announced the release of up to $2 billion in highway funds which is to stimulate approximately 125,000 jobs, so I think it is obvious that the President and his advisors are continually reviewing the economic conditions.

JGC

March 20, 1975

SUBJECT: BALANCE OF PAYMENTS--
FOURTH QUARTER 1974

The Commerce Department announced yesterday that the nation's balance of payments was in deficit by $5.9 billion in the fourth quarter of 1974, an increase of $2 billion from the $3.9 billion deficit recorded in the third quarter. For the entire year, the deficit was $10.6 billion compared with $1 billion in 1973.

What's your reaction to the balance of payments deficit reported yesterday?

GUIDANCE: Of the $10.6 billion deficit for 1974, it should be noted that nearly all of this can be attributable toward dependency on foreign oil.

In addition, we should point out that this balance on current account and long term capital does not include the large inflows of capital in 1974, (about $11 billion) of investments held by the oil producing countries. It is for this reason that we now have a basic study under way to totally revise these balance of payments presentations. If this investment were included, it would have effectively reduced the deficit reported. Therefore, I think this is just a further example of why the United States needs to enact the President's program and become energy self-sufficient by 1985. Each month that the President's energy plan is not enacted, is another month of increased expenditures and dependency on foreign oil.

JGC

March 20, 1975

SUBJECT: CONSUMER PRICE INDEX FOR FEBRUARY

The Consumer Price Index rose 0.6% in February, seasonally adjusted, the same increase as January. Food prices registered their smallest gain in seven months. The February CPI was the lowest since April 1974.

What's your reaction to the February CPI?

GUIDANCE: This is reasonably good news with the increase the same as last month. The news is especially good in the area of food prices, which registered their smallest gain in seven months. However, we have not yet observed any real deceleration in the area of services.

We feel that the February CPI does bring in more evidence that the rate of inflation has subsided substantially from the pace during 1974. These figures show that the deceleration of the inflation rate which began early last fall is continuing.

On the whole, we feel these figures are encouraging.

JGC

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March		+1.1%	
April		+0.6%	
May		+1.1%	+0.6%
June		+1.0%	+0.6%
July		+0.8%	+0.2%
August		+1.3%	+1.9%
September		+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

March 20, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: MAX FRIEDERSDORF

SUBJECT: The Tax Reduction Bill

Consideration of the tax reduction bill is expected to continue throughout the evening and they still expect to finish the bill sometime tomorrow.

The recommittal motion by Senator Mansfield which carried by 85-11, broke a dead lock on extended consideration of Pastore's 8.7% social security increase which was in the process of being talked to death.

Our Senate liaison staff reports that the Senators are getting increasingly restless and particularly sensitive to White House criticism for delaying the bill.

Mansfield surprised the Senate by offering a motion to send the bill back to committee with instructions to report out a new bill, strip the $1 billion Lockheed, Pan Am, Chrysler tax break for failing companies and a foreign tax amendment of Senator Hartke's.

As a compromise on the Pastore social security increase, they now have a $100 one time payment to social security recipients.

Toaal cost of the package is $31 billion with additional amendments expected. The bill that is now being worked on is essentially the Senate Finance Committee bill with the following additions:

1. The above mentioned social security provisions.

2. Rebates of '74 taxes would be increased from 10% with a $200 maximum to 12% and a $240 maximum with a minimum of $120 if at least that much was paid in taxes.

3. A 5% credit on new homes to a maximum of $2000.

In a subsequent vote today the foreign tax amendment was again attached to the bill by Hartke.

At this writing the oil depletion repealer which was wiped out by the Mansfield recommittal, is again being considered under a Hollings amendment.

It is predicted that cloture may be obtained tomorrow and the bill concluded sometime later on Friday.

If this is accomplished, the House Ways and Means and the Senate Finance Committee staffs would work over the weekend on preparation for the start of a conference on Monday with a goal of completion by Wednesday before the recess starts.

bcc: Jack Marsh
Don Rumsfeld
Bob Hartmann
Ron Nessen

March 20, 1975

SUBJECT: CONSUMER PRICE INDEX FOR FEBRUARY

The Consumer Price Index rose 0.6% in February, seasonally adjusted, the same increase as January. Food prices registered their smallest gain in seven months. The February CPI was the lowest since April 1974.

What's your reaction to the February CPI?

GUIDANCE: This is reasonably good news with the increase the same as last month. The news is especially good in the area of food prices, which registered their smallest gain in seven months. However, we have not yet observed any real deceleration in the area of other goods and services.

We feel that the February CPI does bring in more evidence that the rate of inflation has subsided substantially from the pace during 1974. These figures show that the deceleration of the inflation rate which began early last fall is continuing.

On the whole, we feel these figures are encouraging, but we recognize there are still areas of concern & that inflation is coming out of the system very slowly.

NON FOOD SECTOR

DEC.	JAN	FEB.
+.4	+.6	+.8

14.4 — 7.2

Hold budget deficit down

JGC

March 21, 1975

SUBJECT: SENATE TAX BILL

<u>What's your reaction to the $31 billion tax bill proposed by Senator Mansfield and others?</u>

GUIDANCE: We continue to oppose any kind of tax reform AMENDMENTS and other complicated provisions which are being attached to the tax bill.

We prefer a simple clean bill with an amount much closer to the $16-$19 billion the President recommended.

We urge the Congress to speedily simplify the bill so that we can get the tax refunds back to the American people as soon as possible.

JGC

SUMMARY OF 1975 REVENUE EFFECTS
(in billions)

Individual Tax Cuts

	House	Senate	Net Change
Rebate	8.1	9.7	+ 1.6
Standard deduction	5.1	--	+ 1.0
$200 optional credit	--	6.1	
Reduce lower bracket rates	--	2.0	+ 2.0
Earned income credit	3.0	1.7	- 1.3
5% new housing credit	--	1.0	+ 1.0
Soc. Sec. recipients' $100 payment	--	3.0	+ 3.0
Child care	--	0.8	+ 0.8
Home energy credit	--	0.9	+ 0.9
subtotal	(16.2)	(25.2)	+ 9.0 1/

Business Tax Cuts

	House	Senate	Net Change
Investment credit	2.5	4.3	+ 1.8
Corp. surtax exemption	1.2	1.2	--
4% reduction, first $50,000 of income	--	0.7	+ 0.7
Used machinery investment credit	--	0.1	+ 0.1
Inv. credit foreign oil rigs	--	*	*
Net operating loss carryback	--	0.5	+ 0.5
Truck & parts excises	--	0.7	+ 0.7
Accumulated earnings credit	--	*	*
subtotal	3.7	7.5	+ 3.8 1/
tax cut subtotal	(19.9)	(32.7)	+12.8 1/

1/ Increased loss
* Less than $50 million

Revenue Gainers

	House	Senate Comm.	Net Change
Repeal depletion	2.2	1.6	- 0.6
Repeal deferral of tax on foreign inocme	--	0.6	+ 0.6
Repeal foreign tax credit on foreign oil inc.	--	1.5	+ 1.5
Repeal DISC on energy & short supply products	--	*	*
revenue subtotal	2.2	3.7	+ 1.5 2/
Total	(17.7)	(29)	+11.3 1/

3/22/75

1/ Increased loss
2/ Increased gain
* Less than $50 million

March 25, 1975

SUBJECT: HAS A PRESIDENT EVER VETOED A TAX BILL?

In yesterday's briefing, I was asked if any President had ever vetoed a tax cut. After some quick research, we have found that President Harry S. Truman vetoed as least three bills to reduce income taxes.

On June 16, 1947, President Truman returned, without his approval, H.R.1, "An Act to Reduce Individual Income Tax Payments". His veto statement at that time said:

> "The right kind of tax reduction, at the right time, is an objective to which I am deeply committed. But I have reached the conclusion that this bill represents the wrong kind of tax reduction, at the wrong time. It offers dubious, ill-appointed, and risky benefits at the expense of a sound tax policy and is, from the standpoint of Government finances, unsafe. Proposals for tax reduction must be examined in the light of sound and carefully-related fiscal and economic policies. Unless they are consistent with the demands of such policies, they should not be approved."

On July 18, 1947,President Truman vetoed H.R. 3950, a bill which was almost identical to H.R.1, except it provided for a later effective date. President Truman said this was still the wrong kind of tax deduction.

President Truman also vetoed H.R.4790 on April 2, 1948. This was also an "Act to Reduce Individual Income Tax Payments." At the time of the veto, he issued a statement which said:

> "But I am convinced that to reduce the income of the Government by $5 billion at this time would exhibit a reckless disregard for the soundness of our economy and the finances of our Government."

There may have been other vetoes of a tax cut by other Presidents, but this quick research shows that there is a precedent. In addition, I have not gone in depth as to the reasons for President Truman's vetoes.

JGC

March 25, 1975

SUBJECT: HAS A PRESIDENT EVER VETOED A TAX BILL?

In yesterday's briefing, I was asked if any President had ever vetoed a tax cut. After some quick research, we have found that President Harry S. Truman vetoed as least three bills to reduce income taxes.

On June 16, 1947, President Truman returned, without his approval, H.R.1, "An Act to Reduce Individual Income Tax Payments". His veto statement at that time said:

> "The right kind of tax reduction, at the right time, is an objective to which I am deeply committed. But I have reached the conclusion that this bill represents the wrong kind of tax reduction, at the wrong time. It offers dubious, ill-appointed, and risky benefits at the expense of a sound tax policy and is, from the standpoint of Government finances, unsafe. Proposals for tax reduction must be examined in the light of sound and carefully-related fiscal and economic policies. Unless they are consistent with the demands of such policies, they should not be approved."

On July 18, 1947,President Truman vetoed H.R. 3950, a bill which was almost identical to H.R.1, except it provided for a later effective date. President Truman said this was still the wrong kind of tax deduction.

President Truman also vetoed H.R.4790 on April 2, 1948. This was also an "Act to Reduce Individual Income Tax Payments." At the time of the veto, he issued a statement which said:

> "But I am convinced that to reduce the income of the Government by $5 billion at this time would exhibit a reckless disregard for the soundness of our economy and the finances of our Government."

There may have been other vetoes of a tax cut by other Presidents, but this quick research shows that there is a precedent. In addition, I have not gone in depth as to the reasons for President Truman's vetoes.

JGC

SUMMARY OF REVENUE EFFECTS

(As of 7:00 p.m. 3/25/75)

(billions)

Tax Rate Reductions	House	Senate	Net Change	Conference
Individuals				
(1) Rebate	8.1	9.7	+1.6	8.1
(2) Standard Ded.	5.2	-		
$200 Optional Credit	-	6.3	+3.4	
Tax Rate Reductions	-	2.3		
(3) Earned Income Credit	2.9	1.5	-1.4	1.5
(4) House Purchase Credit	-	1.1	+1.1	
(5) Child Care	-	1.7	+1.7	.090
(6) Home Insulation	-	0.7	+0.7	Dropped
Subtotal	16.2	23.3	+7.1	9.69
Business				
(1) ITC	2.4	4.3	+1.9	3.39
(2) Corp. Surtax Exempt.	1.2	1.2	-	1.55(est
(3) Tax Rate Reductions	-	0.7	+0.7	
(4) NOL	-	0.5	+0.5	Dropped
(5) Repeal Truck Excise Tax	-	0.7	+0.7	Dropped
Subtotal	3.6	7.4	+3.8	4.94
Increased Expenditures				
(1) $100 Payment to Certain Program Beneficiaries	-	3.4	+3.4	
(2) Emergency Unemployment Benefits	-	0.2	+0.2	0.2
Subtotal	-	3.6	+3.6	0.2

Tax Rate Reductions	House	Senate	Net Change	Conference
Tax Increases				
(1) Depletion	(2.2)	(1.7)	(-0.5)	
(2) Foreign Oil Taxation	-	(1.5)	(+1.5)	
(3) Deferral of Foreign income	-	(0.5)	(+0.5)	
	(2.2)	(3.7)	(+1.5)	
I. Total Net Revenue Loss Before Conference	17.6	30.6	+13.0	

II. Total Net Revenue Loss After Conference of 3/25/75 — $24.22B

III. Reduction from Senate bill - $6.38B

March 26, 1975

COMPARISON OF SUBSTANTIVE HOUSE AND SENATE PROVISIONS IN CONFERENCE

Individual Reductions	House	Senate	Conference	Savings From Senate Bill
1. Rebate 1974 Tax	-8.1	-9.7	-8.1	+1.6
Adopted: House version. 10%, max. $200, min. $100 (or actual tax, if less).				
2. Individual Permanent Items	-5.2	-8.6	-7.8	+0.8
House proposed changes in standard deduction Senate did not change standard deduction, but provided an optional $200 per person credit in lieu of present $750 exemption, and lowered rates on first $4,000 of income. Adopted: increased min. standard deduction from $1,300 to $1,600 for singles, $1,900 for marrieds; provided an additional (not optional) credit against tax of $30 per person.				
3. Earned Income Credit	-2.9	-1.5	-1.5	---
Adopted: Senate version. 10% refundable credit on first $4,000 of income, phasing out between $4,000 and $8,000.				
4. House Purchase Credit	---	-1.1	-0.6	+0.5
Adopted: credit of 5% up to maximum of $2,000, covering only new houses purchased between March 26 and Dec. 31, 1975, construction of which began before March 26. Seller to give affidavit that house has not been offered at lower price. Includes mobile homes.				

5. Child Care	---	-1.7	-0.1	+1.6
Adopted: minor liberalization of existing law.				
6. Home Insulation	---	-0.7	-0-	+0.7
Adopted: deleted, saved for energy bill.				
Subtotal	-16.2	-23.3	-18.1	+5.2
Business Reductions				
1. Investment Tax Credit	-2.4	-4.3	-3.3	+1.0
Adopted: Increase to 10% for 2 years. Liberalizing limitation for utilities, provide for credit as payments are made. An additional 1% allowed if employer puts stock of equal amount in employee stock ownership plan.				
2. Corporate Surtax	-1.2	-1.2	-1.2	---
Adopted: Both bills provide for increase from $25,000 to $50,000 of amount subject to "normal" tax (presently 22%).				
3. Corporate Rate Reduction	---	-0.7	-0.3	+0.4
Adopted: Changed normal tax rate from 22% to 20% on first $25,000.				
4. Loss Carryback Liberalization	---	-0.5	-0-	+0.5
Deleted.				
5. Elimination of Excise Tax on Trucks	---	-0.7	-0-	+0.7
Deleted.				
Subtotal	-3.6	-7.4	-4.8	+2.6

Increases in Nontax Expenditures				
1. Social Security	---	-3.4	-1.7	+1.7
Adopted: $50 to each social security recipient.				
2. Unemployment Compensation	---	-0.2	-0.2	---
Adopted: extends eligibility 13 weeks, but not beyond June 30, 1975.				
Subtotal	---	-3.6	-1.9	+1.7
Gross revenue loss	-19.8	-34.3	-24.8	+9.5
Tax Increases				
1. Depletion	+2.2	+1.7	+1.7	---
Eliminated for all but first 2,000 bbls. a day. 2,000 limit reduced 200 per year to 1,000 in 1980, then 2% to 15% in 1984.				
2. Foreign Oil Tax	---	+1.5	+0.3	-1.2
Limits excess credits for foreign oil production (more liberal than 1974 Treasury proposals).				
3. Deferral	---	+0.5	-0-	-0.5
Amends technical rules relating to tax-haven companies. Similar to 1974 agreed version. Effective in 1976.				
Subtotal	+2.2	+3.7	+2.0	-1.7
Total	-17.6	-30.6	-22.8	+7.8

April 22, 1975

SUBJECT: CONSUMER PRICE INDEX FOR MARCH

Consumer prices in March rose 0.3%, the smallest increase in 20 months. This moderate increase was attributed to lower mortgage interest rates and food prices, particularly beef, eggs and sugar.

Is the CPI for March in line with the President's projections?

GUIDANCE: Of course, the President is pleased by the March CPI. However, the March CPI is doing better than we expected. Since the rate of decline in food prices was so large, we would not expect to be able to hold to this rate of increase in the future.

We think, because of various technical reasons and the fluctuations in price indexes, that this figure, 0.3%, is a little bit lower than the underlying inflation rate. We don't believe that we can have continued improvement from these levels.

None the less, we are pleased by the March CPI and feel that this is a further example that the President's policies and economic programs are working.

JGC

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April		+0.6%	
May		+1.1%	+0.6%
June		+1.0%	+0.6%
July		+0.8%	+0.2%
August		+1.3%	+1.9%
September		+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

April 25, 1975

SUBJECT: PRESIDENT SEES BRIGHT SPOTS IN THE ECONOMY

During his remarks yesterday to the Advertising Council, the President said he saw some bright spots in the economy. Can you give us some idea what he is referring to?

GUIDANCE: As you know, the inventory liquidation rate appears to be even larger currently than in the second quarter, and this is an excellent sign.

There is evidence now that the decline in new orders is bottoming out. Production levels, while still declining, are beginning to slow very perceptively their rate of decline.

Retail sales are holding their own.

Existing home sales have picked up significantly, and there is some early evidence that similar things are occuring in new home sales.

All these factors are signs suggesting that the duration of the recession has got to be limited and suggests that we are on schedule for bottoming out and for a recovery the latter part of this year.

Unemployment likely to rise.

JGC

May 8, 1975

SUBJECT: WHOLESALE PRICE INDEX FOR APRIL

Wholesale prices increased 1.5% in April, with 4.8% of the increase attributable to farm prices.

<u>What's your reaction to the sharp increase in WPI?</u>

GUIDANCE: As we have mentioned here in the past several months, we did not regard earlier reductions in the WPI and CPI as permanent reductions in inflation. We are not surprised by this month's WPI. We knew that even though there were sharp declines in farm product prices between December and March, that this decline could not be expected to continue. Therefore, we are not surprised by the sharp increase of 4.8% of farm product prices in April. However, we are pleased that the industrial commodities, which we regard as being especially significant in regard to price movements in general, rose in April only .1%, the same as in March, and substantially less than the rates of 1974.

JGC

WHOLESALE PRICE INDEX

(Change)

	1975	1974	1973
January	-0.3%	+3.1%	
February	-0.8%	+1.2%	
March	-0.6%	+1.3%	
April	+1.5%	+0.7%	
May		+1.3%	+2.0%
June		+0.5%	+2.3%
July		+3.7%	-1.4%
August		+3.9%	+6.2%
September		+0.1%	-1.5%
October		+2.3%	+0.3%
November		+1.2%	+1.8%
December		-0.5%	+2.2%

May 8, 1975

SUBJECT: WHOLESALE PRICE INDEX FOR APRIL

Wholesale prices increased 1.5% in April, with 4.8% of the increase attributable to farm prices.

What's your reaction to the sharp increase in WPI?

GUIDANCE: As we have mentioned here in the past several months, we did not regard earlier reductions in the WPI and CPI as permanent reductions in inflation. We are not surprised by this month's WPI. We knew that even though there were sharp declines in farm product prices between December and March, that this decline could not be expected to continue. Therefore, we are not surprised by the sharp increase of 4.8% of farm product prices in April. However, we are pleased that the industrial commodities, which we regard as being especially significant in regard to price movements in general, rose in April only .1%, the same as in March, and substantially less than the rates of 1974.

JGC

WHOLESALE PRICE INDEX

(Change)

	1975	1974	1973
January	-0.3%	+3.1%	
February	-0.8%	+1.2%	
March	-0.6%	+1.3%	
April	+1.5%	+0.7%	
May		+1.3%	+2.0%
June		+0.5%	+2.3%
July		+3.7%	-1.4%
August		+3.9%	+6.2%
September		+0.1%	-1.5%
October		+2.3%	+0.3%
November		+1.2%	+1.8%
December		-0.5%	+2.2%

May 8, 1975

SUBJECT: **WHOLESALE PRICE INDEX FOR APRIL**

Wholesale prices increased 1.5% in April, with 4.8% of the increase attributable to farm prices.

<u>What's your reaction to the sharp increase in WPI?</u>

GUIDANCE: As we have mentioned here in the past several months, we did not regard earlier reductions in the WPI and CPI as permanent reductions in inflation. We are not surprised by this month's WPI. We knew that even though there were sharp declines in farm product prices between December and March, that this decline could not be expected to continue. Therefore, we are not surprised by the sharp increase of 4.8% of farm product prices in April. However, we are pleased that the industrial commodities, which we regard as being especially significant in regard to price movements in general, rose in April only .1%, the same as in March, and substantially less than the rates of 1974.

JGC

WHOLESALE PRICE INDEX

(Change)

	1975	1974	1973
January	-0.3%	+3.1%	
February	-0.8%	+1.2%	
March	-0.6%	+1.3%	
April	+1.5%	+0.7%	
May		+1.3%	+2.0%
June		+0.5%	+2.3%
July		+3.7%	-1.4%
August		+3.9%	+6.2%
September		+0.1%	-1.5%
October		+2.3%	+0.3%
November		+1.2%	+1.8%
December		-0.5%	+2.2%

MAY 14, 1975

SUBJECT: THE PRESIDENT'S MEETING YESTERDAY WITH HIS ECONOMIC AND ENERGY ADVISORS

Do you have a readout from the meeting the President held with his economic and energy advisors yesterday afternoon?

GUIDANCE: Mr. Greenspan opened the meeting by reviewing the current status of the economy for the President. He stated that the economy is bottoming out, but it could be sluggish for the next several months. Mr. Greenspan emphasized that the recessionary forces do appear to be running out of steam.

The President then received a report from the Economic Policy Board on the June 1st update of the budget which will be presented to the Congress. I cannot go into any more details of the report at this time.

Will there be a revised page 41 released at the time of the budget update?

GUIDANCE: Congress will be advised of the economic assumptions underlying the update. That's all I can give you at this time.

JGC

May 14, 1975

SUBJECT: SUMMARY OF ECONOMIC AND ENERGY MEETING, MAY 13--4:45 p.m.

Alan Greenspan reviewed the current state of the economy for the President. He stated that:

--expect industrial production down for April, about .4 or .5, one half of March decline

--insured unemployment data indicates that unemployment may be peaking, but will still edge somewhat higher. Expect low 9's for May.

--the economy is bottoming out and will be sluggish for the next several months. We should say that, "The recessionary forces are running out of steam, but not that the recovery is under way."

--retail sales look good, but auto production still is poor. Environmental control costs and safety costs are incredible.

--CPI estimates from the WPI suggest that the CPI will be running at .4 or .5 for April.

Jim Lynn then reviewed the budget and economic assumption which will go into the June 1st update of the budget. In deciding which assumptions to use, the President had to make several decisions. These included:

ENERGY POLICY

. Decided to retain original energy package with a new effective date of September 1. We will send our decontrol program to the Hill five days before Congress adjourns. Zarb and the President think the Congress will override this plan. Then we will go ahead and add the second dollar. The President and Zarb feel that Congress will not be able to override this second dollar.

TAX CUT AND TAX REFORM

The President said that we should assume that the tax cut will end as scheduled. Also, that we should not count on any tax reform.

(More)

REDUCTION PROPOSALS

The President said that we should go on the basis that Congress will allow the 8.5% Social Security increase and not go along with our 5% cap.

$60 BILLION DEFICIT TARGET

The President stated that we must stick to the $60 billion figure and should Congress go above the $60 billion, it may be necessary to recommend cuts in other areas. In discussing the off-shore oil receipts, Zarb and Lynn recommended that we hold to the $8 billion in OCS revenues since any change would be merely a guess.

PROJECTIONS

After a lengthy discussion, the President said that we should project 8.6% unemployment rate for 1975, and stick with 7.9% for 1976.

STYLE OF PRESENTATION

There was then a brief discussion of how the update and a revised page 41 should be presented to the Congress. It was decided that this information should be put in the update of the budget, but the President said he would let the technicians decide on actually how best to do this.

JGC

MAY 14, 1975

SUBJECT: THE PRESIDENT'S MEETING YESTERDAY WITH HIS ECONOMIC AND ENERGY ADVISORS

Do you have a readout from the meeting the President held with his economic and energy advisors yesterday afternoon?

GUIDANCE: Mr. Greenspan opened the meeting by reviewing the current status of the economy for the President. He stated that the economy is bottoming out, but it could be sluggish for the next several months. Mr. Greenspan emphasized that the recessionary forces do appear to be running out of steam.

The President then received a report from the Economic Policy Board on the June 1st update of the budget which will be presented to the Congress. I cannot go into any more details of the report at this time.

Will there be a revised page 41 released at the time of the budget update?

GUIDANCE: Congress will be advised of the economic assumptions underlying at the update. That's all I can give you at this time.

JGC

May 14, 1975

SUBJECT: SUMMARY OF ECONOMIC AND ENERGY MEETING, MAY 13--4:45 p.m.

Alan Greenspan reviewed the current state of the economy for the President. He stated that:

--expect industrial production down for April, about .4 or .5, one half of March decline

--insured unemployment data indicates that unemployment may be peaking, but will still edge somewhat higher. Expect low 9's for May.

--the economy is bottoming out and will be sluggish for the next several months. We should say that, "The recessionary forces are running out of steam, but not that the recovery is under way."

--retail sales look good, but auto production still is poor. Environmental control costs and safety costs are incredible.

--CPI estimates from the WPI suggest that the CPI will be running at .4 or .5 for April.

Jim Lynn then reviewed the budget and economic assumption which will go into the June 1st update of the budget. In deciding which assumptions to use, the President had to make several decisions. These included:

ENERGY POLICY

Decided to retain original energy package with a new effective date of September 1. We will send our decontrol program to the Hill five days before Congress adjourns. Zarb and the President think the Congress will override this plan. Then we will go ahead and add the second dollar. The President and Zarb feel that Congress will not be able to override this second dollar.

TAX CUT AND TAX REFORM

The President said that we should assume that the tax cut will end as scheduled. Also, that we should not count on any tax reform.

(More)

REDUCTION PROPOSALS

The President said that we should go on the basis that Congress will allow the 8.5% Social Security increase and not go along with our 5% cap.

$60 BILLION DEFICIT TARGET

The President stated that we must stick to the $60 billion figure and should Congress go above the $60 billion, it may be necessary to recommend cuts in other areas. In discussing the off-shore oil receipts, Zarb and Lynn recommended that we hold to the $8 billion in OCS revenues since any change would be merely a guess.

PROJECTIONS

After a lengthy discussion, the President said that we should project 8.6% unemployment rate for 1975, and stick with 7.9% for 1976.

STYLE OF PRESENTATION

There was then a brief discussion of how the update and a revised page 41 should be presented to the Congress. It was decided that this information should be put in the update of the budget, but the President said he would let the technicians decide on actually how best to do this.

JGC

May 21, 1975

SUBJECT: CONSUMER PRICE INDEX FOR APRIL

The Consumer Price Index for April increased .6 of a percent, with food prices increasing after declining for two months.

Do you have any reaction to the April CPI?

GUIDANCE: As you recall, at the time the March CPI was released with a 0.3% increase, we stated that the CPI was doing much better than we expected, and since the decline in food prices was so large, we could not expect to hold to this rate of increase in the future. Well, this is exactly what happened, with grocery prices rising .4% in April after declining .9 in March and .6 in February.

We feel that the CPI shows that inflation is subsiding substantially from the pace during 1974 and is pretty much in line with our estimates of 6% to 7% inflation this year.

Do you feel that this will be the average rate of CPI increase in the future, or can you lower it somewhat?

GUIDANCE: We think that the .6% increase can be improved slightly, but probably not down to the 0.3% level experienced in March.

JGC