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THE WHITE HOUSE

PRESS CONFERENCE
OF
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THE BRIEFING ROOM

1:30 P.M. EST

MR. NESSEN: We are going to bring out Roy Ash, the Director of the Office of Management and Budget, who will probably have a little statement to make at the beginning and then can answer your questions.

Just before Roy comes out, be sure you all have the correction in the supplement to the message on budget restraints, action recommended, page 17. Larry Speakes has a little sheet with the correction on it. Be sure to get it before you go.

Also, please, remember that this is all embargoed for 3 o'clock release.

Mr. Ash.

MR. ASH: Thank you, Ron.

Ladies and gentlemen, I hope you have had that long enough now so you can find your favorite programs and see what is happening to them. I hope you have had it long enough to get the sense you are not looking at marshmallows but bullets. (Laughter)

I brought along the top management of OMB because I am sure some of the questions you have may go more deeply into some of the individual programs than I could, so we are here to cover them in any way you wish.

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(OVER)

The President's message -- and I presume you have copies of that -- speaks for itself, and I wouldn't pretend to reread it or cover it again. I am sure that the 200-plus pages that go along with it in the supplement speak for themselves, but I do want to call your attention to some of the most important features that are involved in the President's statement.

First, you noticed that the President particularly called attention to the Congressional resolve expressed in various ways to reduce expenditures this f scal year. The House, the Senate, the joint economic committee have each in their own way determined that it would be in the national interest to reduce expenditures from the amount that had been in the budget.

I want to further observe that while the package of reductions that amount to $4.6 billion brings the total expected outlays this year to $302.2 billion were it not for the $2.7 billion increase in payments to the unemployed, the total program the President would be proposing would come down to $299.5 billion.

The President did consider very carefully possible additional reductions even to offset the increase in payments to the unemployment and concluded that further reductions would be unwise.

I think it is also significant to note that this package calls for 135 separate Congressional actions or inactions, as the case may be, and 11 actions by the Administration.

Recognizing the recess the Congress is about to take, and recognizing the complexity of the package, the President has determined not to stop these programs and stop spending on these programs until December 16 in order to give the Congress a full opportunity to consider all of their implications.

He does have the legal right to stop today, but has chosen to defer that to give Congress the time. In making the reductions proposed, the President took a zero base, looked at all of the programs across the whole of Government, particularly centered in on those that are less essential; not to say that those in the list are bad programs necessarily; in fact, in many cases the issue here was distinguishing between good and better, not between good and bad.

He attempted to achieve equity in distributing the burden of Federal expenditure reductions across the whole of the economy, particularly intended to avoid undue additions to the unemployment roles, because obviously whenever the Government changes its level of spending, the employment is affected.

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He also gave a special consideration to those most adversely affected by inflation and by the economy so as to preserve as best as possible all of their economic status.

He also took into account earlier Congressional actions, and other changes, that have taken place in the program during the year. In this particular case, I think the most important table for you to refer to is in the President's message on page 2 because on that you will see summarized the impact of these actions, along with other actions, as they relate to the various kinds of programs of the Federal Government.

Looking at that table, I call your attention to the column headed "Defense," noting first last year's expenditures for defense, $78.4 billion, the 1975 budget, $85.8 billion, the changes made since that budget was submitted, by the Congress, by other actions and by this particular program which has in it some reductions for defense, leaving a presently proposed level for defense for 1975 of $83.2 billion. You will see immediately below, that is 3 percent less than the budget submission and it is 6.1 percent over expenditures in defense last year.

Then, if you look across and particularly look at the column, "Payments for Individuals," these are payments made directly by the Federal Government to individuals, social security, and veterans payments and retirement payments, AFDC and others, and also payments made through State and local governments that are also ultimately paid to individuals.

Those numbers go from $110 billion last year up to $131.5 billion this year even after the changes proposed. And in fact, you will note that changes in those programs made by the Congress, made in other ways during the year, and through this program of reductions, has the net effect of increasing payments to individuals $1 billion from the level that was shown in the 1975 budget when we last reported it officially to the Congress on July 1.

You note again down below under those programs that this represents a .7 percent increase over the budget as last presented, but most of all, it represents a 19 percent increase over last year's expenditures for individuals.

The rest of the columns you can read likewise, but I think it is important to take into account when the President reviewed all of these programs, took into account Congressional and other actions up to this point, that his final decisions resulted in this distribution of payments to the various programs, various activities, various beneficiaries of Federal Government expenditures.

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Now, I am prepared to take any questions you may have, and I have with me the management of OMB to augment anything I might need to turn to them for.

Q Mr. Ash, in the briefing this morning to the Congressional leaders, did they give you any indication about the willingness of Congress to deal with these measures before this 93rd Congress ends?

MR. ASH: There was only one statement that would have had that effect. One of the Members of the Congress asked, "What would be the consequences if the Congress did nothing?" The answer to that question is that most of these proposals that we have made call for affirmative action of the Congress. A few of them can result in expenditure reductions without action of the Congress, but even if the Congress did nothing with those submitted for their approval, we would only be able to reduce outlays by say $300 million.

You note in the fact sheet you have listed deferrals and recissions and the amounts involved in deferrals and recissions, and that fact sheet shows that 39 recissions add up to $224 million, 41 deferrals add up to $317 million.

Those are under the new Congressional Budget Act and as to the deferrals, Congressional inaction would result in a continual withholding of that expenditure, but all of the rest up above in that list does require affirmative Congressional action to hold down these outlays and reduce them to the levels herein proposed.

Q Mr. Ash, in the message the President did not oppose the increase levels for public jobs that the House and Senate put in the Labor-HEW money bill. Can you tell me now, considering the fact that there is not too much support for the President's public job proposal, and considering the bills in Congress now carry much higher price tags, what is his position about spending for public jobs now?

MR. ASH: We have before the Congress the National Employment Assistance Act, which we believe is the proper way to respond to unemployment and the conditions of unemployment, and certainly not only support but commend to the Congress that bill as a way to deal with the matter of unemployment and anticipate in these data that that bill will be passed and that will become the program to deal with unemployment.

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Q Would Ford veto the Nelson and Daniels bill now in Congress?

MR. ASH: Let's see when the bills come down. We are certainly resting our case on that, which we submitted, which we believe is certainly the way to go about it, and would have considerable question about alternative ways as encompassed in those bills.

Q Mr. Ash, what unemployment rate is anticipated by the end of the fiscal year?

MR. ASH: We expect that the average unemployment rate on which these numbers are based will exceed 6 percent by a fraction of a percent, and of course it has been a little bit lower than that so far this year, so obviously we would expect it to be 6 or more for the rest of this fiscal year.

Q How much more?

MR. ASH: In the fraction of a percent. I will tell you the number built in here. The number built in here is about a 6.15 to 6.2 average for the year.

Q How high does it go by the end of the fiscal year?

MR. ASH: You can figure out the curve that averages it, but it would go to a little bit higher rate than that before the year is over.

Q Mr. Ash, in view of the fact that you didn't make the $300 billion figure target and you had to add 2.7 for unemployment assistance, how would you characterize this budget now, an anti-inflation budget or anti-recession budget?

MR. ASH: I would characterize it as stated in the first paragraph of the President's message. In October he submitted a balanced program recognizing not only that inflation was a major problem to deal with, but also recognizing that the recessionary pressures were upon us and needed to be dealt with, and particularly needed to be dealt with by programs such as that for the unemployed so this program I would characterize as a balanced one, recognizing that we have pressures coming in from both sides.

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Q How would you respond to the contention that this program was essentially framed last August when inflation rather than recession was the dominant thought in the minds of the Administration, and that you have carried it through even at a time when unemployment figures appear to be reaching a politically difficult rate?

MR. ASH: I wouldn't say this program was put together, or whatever words you used, fashioned last August. Actually last August the President asked the departments and agencies to look over all of their activities and programs to see those that were candidates for reduction.

Since that time many things have happened. Let alone the actions in the economy, the President has spent considerable time in his October pre-summit meetings and summit meetings gaining insight from the public as to what the issues were and what the potential solutions were, and has gone over all of these programs one by one, has come out with his own October 8 message which itself was a program of balance.

Especially during the week just before the President took off on his last trip he spent hours upon hours the week before last in going over individual programs and making the decisions that are herein contained. So I would say that this program has been fashioned in this month and in the last parts of last month, and is a current one recognizing the realities of the present economic situation.

Q Mr. Ash, if I read this chart correctly, the major cuts are of course in Defense and Health, Education and Welfare, and in the Veteran's Administration. I wonder if you could amplify that by indicating what those cuts will consist of?

MR. ASH: First, I would not want to say that the major cuts are in those programs. I would again refer you to the table on page 2, and observe that the President took into account all other actions that had affected expenditures in those programs during the year in making his own decisions. And of course payments to individuals even after these particular proposals are increased rather than reduced from the budget as it stood in July, and certainly increased by 19 percent from last year's expenditures.

The individual programs are identified in this sheaf of papers. You have 225 pages or so. I know that 30 minutes wasn't a long time to seek out every one, and I wouldn't want to list them all, because as you can see with 135 actions being put before the Congress, it would take some time just to list them. If you want to inquire about any particular one I can certainly answer that, but I don't think you want me to read off the list that is here.

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Q The major one in HEW, then?

MR. ASH: Major measured how? There are many wasy of measuring a program. I am not sure even what that means. There are a number. Maybe the thing to do is to look in the list and find some. I could read off the list if you want, but that doesn't help, I don't think, anybody.

Paul, do you want to suggest one, just as an example?

MR. O'NEILL: Asking the Congress to hold the 1975 appropriation bill to the original budget request.

MR. ASH: That is a good one. Asking the Congress to hold the 1975 appropriations bill to the original budget request. As you know, that appropriation bill is being considered there now. We are in here asking that they do not allow that to exceed the budget request put before the Congress. That is a $410 million item all by itself.

Q Could I ask you to amplify on a couple of specific items? First on page 12 on the 40 percent lowering medicaid matching from 50 to 40 percent for the wealthy States you mentioned only the 13 highest income States would be affected. Do you have a list of those 13 States and individual breakdowns?

MR. ASH: Here is a good opportunity for me to introduce to you the prospective Deputy Director of OMB, Paul O'Neill, who is in the process of confirmation.

Q Could we get that after the briefing?

MR. ASH: Yes, he can get that for you.

Q The second specific is on page 15 on the naval petroleum reserves. Under proposed new legislation you are pushing again for opening of Elk Hills and using the proceeds of oil sales to finance development and exploration. The question is, if you do not get that legislation, will you defer or rescind the available appropriations for that work at Pet. #1 and Pet. #4?

MR. ASH: Don, do you want to answer that one, or Frank?

MR. OGILVIE: I don't believe that there has been a decision made to take that action. We are anticipating that the Congress will give us this authority and we will have the $125 million.

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Q In the meantime you are not stopping this work?

MR. OGILVIE: No.

Q Mr. Ash, your unemployment estimate by some measures may be rather optimistic. Can you tell us what might happen to the anticipated spending level if unemployment rises more sharply than you anticipated?

MR. ASH: Obviously the anticipated spending level would go up. This is only a rule of thumb, but each tenth of 1 percent is about $300 million. Everything else being equal. Everything else is not always equal, in short, unemployment versus total unemployment. Everything else being equal, a tenth of a percent is about $300 million.

Q How about the revenue side on the same basis?

Q Mr. Ash, Secretary Simon said in an interview published today that the unemployment rate will reach 7 percent by spring, he thinks. Do these estimates incorporate that?

MR. ASH: These are not based upon reaching 7 percent by spring.

Q The other thing is that the President said in October when he first made his proposals public and promised this list, that he expected Congress to act on all these spending cuts before the end of December. Do you expect Congress to take 135 actions by the end of the session?

MR. ASH: You should ask that question of the Congress. They have no excuse in saying that the Administration has more work to do before they can consider these actions. They are there in front of them.

As you will note, among this 225 page document we have not only recommended what they do but in the cases where legislation would be required we have even drafted the prospective legislation. Every piece of paper, every word on every piece of paper is in front of them at 3 o'clock, and they will have no excuse not to act. Nothing will be due from the President the moment that this arrives. It is all up to them.

Q If they don't act by the end of December then these numbers don't mean much any more. Are they predicated on that?

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MR. ASH: I think the key point there is that this savings of $4.6 billion is a savings to be realized in what remains of the fiscal year and basicly were predicated upon actions sufficient to begin those savings in December and certainly in January. If they don't act, or delay their actions, you can well see how these amounts of savings would not be realized in this fiscal year.

You also should look at the data that shows these actions, if the Congress concurs, would have a nearly $7 billion affect on next year's outlays. So the issue at stake here is not just the cash outlays of the Fiscal Year 1975, but the course of outlays out of the future, and they have an even greater affect on next year.

The question of revenues you wish to bring up. Revenue expectation at this time is $293 billion. So with $293 billion of revenue from the $302.2 you can see we are talking about a $9.2 billion deficit, assuming the Congress joins with us in the actions that we herein propose.

You are talking about a bigger deficit if they do not. All the more reason for Congress to do its work, to take these 135 actions and keep that deficit from being any higher than the $9 billion.

Q Mr. Ash, if the Administration's chief economic spokesman is publicly discussing a 7 percent unemployment rate for next spring, which is not inconsistent with expectations of other economists in the Administration, why are your budget figures not based on such a figure?

MR. ASH: The budget figures are based on an average for the year, and the average can be made up of all kinds of individual monthly or quarterly rates and clearly include months we have already had of much lower rates even than that. That is first.

Secondly, the budget estimates and budget data have been prepared some time before this morning, and the conditions of the economy are changing faster sometimes than we can change the budget, so that that factor needs to be taken into account as well. But there is not a necessary inconsistency because we deal here with averages over the year, and we have already had nearly five months of rates considerably lower than anything he has said, and ones which when averaged with higher numbers can still be consistent with what we have included in the budget.

Q If you don't foresee a 7 percent rate of unemployment, what is the top figure you allow for in the budget in getting your 6.2 average?

MR. ASH: It goes up above the average, of course, and it goes up into the mid-6's.

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Q How high, 6.7, 6.8?

MR. ASH: Actually, with the amount a little bit at the extra, it is a little hard to estimate. Who can tell what next June's unemployment rate is, plus or minus a tenth of one percent?

Q I want to know the figure you are basing the average on.

MR. ASH: 6.5, 6.6, 6.7, something like that. The particular number of what it is in a particular month is really not the issue. The issue is for the purpose of expected outlays the average over the course of a year. So even a one month rate that might be at variance from any number I have said only has one-twelfth weighting in the total of the average, and having already five months in history you can see that variations month by month have less and less affect on the total for the year.

Q You have a $6.7 billion reduction in expenditures in 1976. What would this bring your projected expenditure outlays in 1976 down to?

MR. ASH: The 1976 budget is still in preparation. As you know, we have provided budget guidance to all the departments and agencies adding up to a little less than $330 billion. It is becoming clear that numbers higher than that probably will be resolved upon for the final budget. But the final number hasn't been determined. Whatever that number might be, it will be different and lower if the Congress joins with us in these actions than if it were to ignore them.

Q Mr. Ash, at this point you are including the increased unemployment payments as an increase in deficit. I haven't finished your sheaf of papers here, but is the President at this time giving up or admitting that the Congress will not pass his 5 percent surcharge to take care --

MR. ASH: Quite the contrary. The revenues estimated include the revenues from the 5 percent surcharge.

Q What would happen if Congress failed to enact his tax proposals, or the Ways and Means Bill on the revenue side?

MR. ASH: If Congress fails to do anything then these numbers all change. These numbers are predicated upon the Congress joining with the President in fighting inflation, in dealing with the problems of recession, and in carrying out the balanced program that he has put before them. Obviously, if the Congress does not do its part, then any of these numbers could be changed whether it be revenues or outlay numbers.

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Q How much has the revenue number been increased or affected by including the three proposed items?

MR. ASH: The revenue numbers are affected to the extent of $800 million by the net affect of the surcharge in the investment tax credit, up, so that the revenues would be $800 million less for this year, and, of course, next year have even a greater affect if the Congress did not do so. On the other hand, we don't want to suggest in any way the Congress should not do so. This is merely a hypothetical answer.

Q What about the Ways and Means bill?

MR. ASH: The Ways and Means bill would be about neutral on revenue as it presently stands. So the 293 then, as you can see, is a number that is fairly close to what the present outlook will be, and only subject to relatively minor change from the tax legislation now in process.

Q Mr. Ash, I don't get to work with budget figures very often --

MR. ASH: Neither do I. (Laughter)

Q -- but I am afraid I am confronted with a numbers game here. When you talk about Defense reductions, for example, in this table you referred us to you say that there would be an overall reduction of $2.6 billion?

MR. ASH: That is right. From the programs included here, plus all of their actions since the budget itself was submitted, and particularly including the Congressional actions to reduce expenditures.

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Q I understand that. Unfortunately, without having a chance to wade through this supplement it is hard to know --

MR. ASH: Let me tell you how much is in defense in this supplement.

$381 million of defense reductions are included in this message, but I think it is important to note, as set out in Table 2, that the President looked at these programs from a zero base and looked at them relative to all other actions that have borne upon various classes of programs since the budget was prepared and drew his conclusions to affect the greatest equity and balance considering all of these actions rather than just deal with the increments.

Q Could I go into that a little further? I was wondering if you could do the same thing for us with the help of your aides, if necessary, in some of the other major categories, because I would like to distinguish between what it is that you are proposing and what it is that the Congress is doing so that we could understand who is really cutting the budget and who is trying to maintain it.

MR. ASH: Let's take interest on the public debt. Obviously, there is nothing in this package to deal with interest on the public debt. Let's take payments for individuals. This package has $2 billion 663 million.

Q Can you detail those?

MR. ASH: They are detailed specifically in here, dollar by dollar; for all other, $1 billion 537 million. And I think again, it is important to make that statement that the President made these decisions in the context of all other actions going on and attempted to bring about total equity and the net effect of this is to increase payments to individuals 19 percent over last year.

Q Mr. Ash, does this propose any cutbacks in specific Corps of Engineer projects?

MR. ASH: Here is a good chance for Frank Zarb, as one of his last acts maybe as Associate Director of OMB, to deal with the Corps of Engineers and not energy.

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MR. ZARB: This supplemental does not, but it does take into consideration the deferrals which were sent up as deferral package number 3. Youmay recall when the President signed the public works bill he asked the Congress to cooperate in decreasing the outlays to levels that were not inflationary.

He then asked the Congress to defer one-half of all Congressional add-ons, and one-half of the funding for all new starts. Those deferrals went up about a month ago, and the Congress presently has those.

Q What is the direct impact on jobs of the President's proposals?

MR. ASH: This proposal would have a less than 3000 personnel effect on Federal employment. It will have probably something over a 40,000 effect on private employment, so total employment affected is something between 40,000 and 50,000.

Q Are you speaking of the Public Employment Assistance Act?

MR. ASH: I am talking about the reductions here proposed would require some cutbacks in Federal Government employment, in private employment. The cutbacks in employment from this package would be something between 40,000 to 50,000 people, 3000 or so less in the Federal Government, and the others in the private sector.

Q Speaking of jobs, how many jobs are provided by each million dollars that is spent in public employment assistance?

MR. ASH: Paul, maybe you can answer it because it isn't that easily answerable.

MR. O'NEILL: About $3,000 per job per year under the present proposal and the average annual rate under the existing program is about $9,000 per job. Under the proposal the President sent to the Congress in his October 8 message, we proposed a $7,000 lid or ceiling on the reimbursement rate for jobs funded under that proposal, and we anticipated that the average annual rate would be about $5,000.

So, you can divide 5000 into $1 billion and get 200,000 jobs out of each billion dollars worth of what the President proposed.

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Under the existing Comprehensive Employment and Training Act, the limitation, as I recall, is $12,000, and the average is running about 9, so the relative efficiency in terms of providing jobs under the existing Comprehensive Employment and Training Act is about half of what the President proposed in his new program.

Q Are you saying for each billion dollars it is how many jobs?

MR. O'NEILL: Two hundred thousand. And about half that number under the existing program.

Q I hate to bring you back to this, Mr. Ash, but I am thoroughly confused. The figures that you gave me a minute ago don't necessarily contradict, but present a very different picture of what the Administration is doing as I read the tables.

You talk about a reduction in defense spending of $2.6 billion. Apparently, all but $381 million of that amount is the result of Congressional action. Is that right?

MR. ASH: Not all of it, no. If you look on pages 5, 6 and 7 of the bulk of your material, you can see the very specific actions that have caused changes in these various accounts. This is an accounting in great detail reconciling last year's expenditures, particularly reconciling the budget as it stood on July 1 and all the changes made by the Congress, made by other means and made in turn by this message, to bring you out to some grand totals.

I think I must say for the fourth or fifth time, the President in making these decisions did take into account all of the actions that otherwise had been going on so that he could preserve equity across the Government and among all kinds of programs and worked from a zero base analysis; that is, looked at every program in total rather than just at a margin, made those decisions and judgments to affect a new and balanced total expenditure level adding up to the $302.2 billion.

The objective was not to see how much you could get out of defense, or how much you could get out of some other program. It was to rebalance the whole of the President's programs.

Q I understand that, but your figures suggest, for instance, here looking at the table, that there is a $2.6 billion cut in defense. Well, that is fine, but then when you get to payments for individuals, it seems if I got your figures correct a minute ago that the Administration is asking for a $2.6 billion cut.

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MR. ASH: I think it is quite consistent. This table, as I have said now four or five times, is the effect of the changes included in this message plus all other changes that have been going on. The other numbers you refer to are just these particular changes with no reference to all other changes going on. It is important to look at all of them.

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Q But the thrust of your message is it is up to the Congress to act now?

MR. ASH: It is.

Q Obviously your message is based on actions that Congress is now taking or has taken already?

MR. ASH: That is correct. But there are many more yet to take.

Q It is very difficult for us to, in 30 minutes, see what it is that you are asking to be done and what you are challenging the Congress to do.

MR. ASH: I realize this can't be read in 30 minutes. But on the other hand, it is all there. I have provided the summary that I think is the kind that makes sense to you and I think it is essential that you keep in mind the table on page two because that bottom line can be read as the President's new budget for 1975; $83.2 for defense, $33 for interest, $131-1/2 for payments to individuals, $54.4 for all others. That is his new budget in effect for 1975 and comparing it to 1974 actuals, will lead you immediately to the bottom line which shows what increase each of those categories is over the previous year, and showing, among other things, the payments for individuals are 19-4/10 percent up over the previous year. His new budget provides for payments to individuals 19 percent higher than payments to individuals were last year.

Q Mr. Ash, I note in your message that you have a lot of deferrals and recisions for HEW. Does Mr. O'Neill perhaps have a total of the deferrals and recissions?

MR. ASH: For HEW?

Q For HEW alone?

MR. ASH: I don't think we have exactly the deferrals and recisions for HEW.

MR. O'NEILL: It is a combination of deferrals, recissions and legislative actions.

MR. ASH: If you look on page 7 you have it by HEW and the total is $1.7 million. That is you can see on table 5 page 7, fifth line down, HEW, proposed reductions, fifth column over, $1.7 billion.

Q Mr. Ash, you said these changes would produce a reduction in Federal employment of about 3,000?

MR. ASH: Or less, yes.

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Q Do you plan any other actions designed to reduce the size of the Federal payroll, such as hiring freezes, promotion freezes within the work force?

MR. ASH: The President has already announced his intention to reduce by 40,000 the Federal Government employees on the payroll next June 30 from that originally in the budget. We are still on the course toward doing that and that is the only other specific action save only that as set forth here on some page -- I don't know the number -- as an effort being undertaken in the Administration.

We have not ascribed any dollar saving to it, but we expect to get some; to find other ways through reorganization, greater and more effective use of personnel to reduce personnel even further. We haven't ascribed dollars to it.

Q How much further would you estimate?

MR. ASH: We haven't ascribed any dollars to it, but I could well see we could well be saving $50 million or more.

Q This is 3,000 in addition to the 40,000 announced earlier?

MR. ASH: That is right.

Q On that point, where in the private sector will most of those jobs be?

MR. ASH: There are some programs in here that reduce defense procurement, to pick one in particular. There will be some reductions in the private sector. I haven't in front of me the data that calculates the effect on employment of each and every program. I am sure it is discernible from these data and you can distinguish.

Q Would that be the biggest one, defense procurement?

MR. ASH: I think the best answer is it is scattered all over and I wouldn't want to identify one in particular.

Q Is it reasonable to conclude from these figures that the World Food Conference has not stimulated any increases in spending for food aid?

MR. ASH: The final decisions for food aid spending this year are yet to be made by the President as the year unfolds. We have at this stage assumed that the expenditures for food aid or aid in total will be those that were included in the budget. The President does in this and every other matter continue to look at changing events and of course make the decisions consistent with those changing events. Sometimes they do represent a change in budget levels. For this purpose we have assumed no increase.

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Q Mr. Ash, quite a few of your savings are predicated on reductions in grant-in-aid programs, education, welfare and Medicaid. I see in Medicaid alone you have a full year cost of $636 million under the 40 percent proposal. Would it be fair to estimate that at least a billion dollars of your reduction would in effect be put on the back of State and local governments, and if so, are you really engaging in a kind of revenue sharing in reverse? And, secondly, why did you not propose any cuts in general revenue sharing?

MR. ASH: Let me answer those two related questions, because they are related. These reductions would involve somewhat over $1 billion, $1.2 billion, or $1.3 billion reductions in payments through one program or other to State and local governments. With that level of reduction we felt that general revenue sharing probably should stay the level at which it already is in the budget and, therefore, is not included in this.

Q Will it be easier from a policy standpoint to take the $1.2 billion, or 3 from general revenue sharing and let State and local government make cuts where they want to instead of dictating at the Federal level where the cuts are?

MR. ASH: Just the opposite. It would be both easier and better leaving the money in general revenue sharing allows the State and local governments to make the kind of decisions that they feel fits their local circumstances rather than leaving it in categorical or narrow programs. So the purpose here was to deal especially with the categorical or narrow programs, leaving the monies in the general revenue sharing so they can do just exactly what you have said, make the decisions that fit their circumstances.

Q Mr. Ash, you mentioned that this budget was going to set up a $9.2 billion deficit, I think. How does that compare with deficits in the past? Are we getting closer to balancing things up or not?

MR. ASH: Last year it was much closer to balancing than this one is. On the other hand, this one beats many years that preceded last year. Of course, the economy is different than it was. You remember last year we had a 3.4 deficit. Obviously this number is bigger than that. But if you look at the history of deficits I have seen a lot bigger than the one that we expect this year.

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Q Do you have a number on this year's full employment?

MR. ASH: We haven't calculated the full employment number with any precision at all. I haven't even heard many people talk about full employment lately. But on the other hand I would say that if we were to make a similar calculation this year as was made in other years under the rules by which the full employment surplus is calculated there would be a substantial full employment surplus. It would be $30 billion or some such number, making the calculation the same way.

Q Your $9.2 billion budget deficit, as I understand it, depends on virtually everything breaking your way. That you do get the spending cuts you proposed, the surtax and other revenues. That the economy is not worse than you say it is going to be. That you do get the revenues from selling the oil leases, and so on. How high could the deficit go if many of these things go in the opposite direction? What is the outside reasonable estimate?

MR. ASH: That is a good question, but in a sense hypothetical. Let's take this package.

Q Your budget deficit is just as hypothetical as my question, isn't it? (Laughter)

MR. ASH: You are right. Let's take this package of 4.6. First you add that back to the $9.2, and you can add as well as I on that one. Then let's take the $800 million on revenue; that is the President's package on revenue, and add that one back in. You are up to about 14.6 by now. Then talk about outer continental shelf. We would like to get the sales made in time to provide the $3 billion or so that we had contemplated in the budget from the California sales. If we don't, that is about a $3 billion or so further variance.

So you can see the kinds of factors at work, and you can see what they do to the deficit.

Q And then there is the economy.

MR. ASH: And there is the economy. Who knows about the economy?

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Q Mr. Ash, will these figures tend to confirm or contradict the views you expressed earlier this year that it would be unlikely or in fact impossible to make total reduction in the budget of more than about $2 billion?

MR. ASH: It seems to me that they come right in on the same point I have been making for months and months and months. One need only look at that fact sheet to observe down at the bottom line, Executive actions under current law, $979 million for this year.

Those are the ones that can be done by the Administration over and above the ones the Administration has already done, and they come down to that same $2 billion or $3 billion range in which the Executive can affect actions reducing expenditures.

Beyond that, legislation in one form or other is required and what we are fundamentally doing here is putting before the Congress our recommendations for that legislation, because it is obvious that there is no other way besides that of Congressional concurrence that we can get to the levels we need to get.

Q May I follow up? Since you have indicated this would tend to justify the views that you have expressed, would you feel it was a mistake for the Administration to come out with a target of bringing the budget to under $300 billion and now to have to renig on that?

MR. ASH: No, I don't think it is a mistake for two reasons. One, we certainly are proposing to get quite close compared to alternatives even as this package would bring the total to $302.2, furthermore as said in the message, were it not for that single item of increase in unemployment compensation we would have been down to 299-1/2.

This might be a good occasion to call your attention to two other points made in the message. The fact that we did offer the Congress earlier some opportunities to help bring expenditures down, deferral of Federal pay increases. They didn't do so. That added on $700 million.

We were and are right about there even with this and would have been there had there not been some actions that on the one hand either were good to take or on the other hand the Congress itself refused to take.

MORE

Q Mr. Ash, if my figures are correct, you propose total deferrals greater than the proposed recissions. Some of the budget experts in Congress believe that Congress' intent was that the major reductions should be handled by recissions only.

How do you justify the inclusion of $317 million in reductions by the deferral?

MR. ASH: Because we believe that is the way that the law reads, and are complying with the law and so reporting. We know one Senator who would think otherwise, but we think this is the way the law reads and will comply with it.

Q How much will this reduce the rate of the inflation?

MR. ASH: Federal expenditures, of course, bear upon inflation. A $5 billion or $10 billion variance bears only in the fractions of one percent on inflation in the year of that variance, but I think it is essential to keep in mind that the most important thing that we have to work on in the budget is the direction of expenditures and of expenditure growth; that is, a $4 billion expenditure saving this year would become a $7 billion expenditure saving next year, and become a 10 or more in years out and have tremendous effects in holding down inflation in those future years.

Part of the reason that we have inflation this year is because of budget deficits of considerable amounts in earlier years. So, I think while the narrow answer is the budget deficit has only a fractional effect in the year of that deficit, it can have tremendous effects in out years, and that is the key point to make in relationships between expenditures, deficits and inflation.

Q A follow-up, please. If you can't get the reduction you are proposing by the deferral method, will the President try to do it through the recission method?

MR. ASH: Let's give the Congress a chance to work and keep our options open until they have determined what actions they intend to take. The President met with the bipartisan leadership this morning and made it very clear to them that he does expect them to give serious consideration to the package that he is proposing and then certainly recommends strongly that they take the kind of actions he has put before them.

THE PRESS: Thank you, Mr. Ash.

END (AT 2:16 P.M. EST)