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SECRETARY

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Last month I sent a 31-point economic program to the Congress. That program was a balanced one, both dealing with the forces of inflation and anticipating the possibility of recessionary pressures. It was, and remains, my particular concern to help those hardest hit by inflation and by the slack that has developed in some sectors of the economy.

Responsible restraint of government spending is an integral part of my economic program. The Congress has publicly proclaimed its support of restraint. In June the Senate voted 74-12 in favor of legislation to hold Federal spending to \$295 billion. In September the Joint Economic Committee unanimously recommended holding spending to \$300 billion. Last month the House voted 329-20 for a budget target of the same level.

Soon after I took office I asked the heads of Federal agencies to undertake a thorough review of 1975 expenditures. In my October 8 Message to the Congress, I pledged to forward a package of proposed actions to reduce the 1975 budget. Today I am reporting on the results of this review and presenting my specific recommendations for reducing Federal outlays.

First, it is important to understand what has been happening to the budget. When the current fiscal year began last July 1, budget outlays for the year were estimated at \$305.4 billion.

Interest costs for Federal borrowing are now expected to be \$1.5 billion more than the estimate last June.

The Congress has also added to 1975 budget pressures. Congressional reductions in some programs have been more than offset by actions it has taken to increase spending in others. Particularly disappointing was the Congressional unwillingness to join with me in deferring for three months a Federal pay raise. This cost the taxpayers \$700 million. Equally discouraging was the passage by Congress over my veto of the Railroad Retirement bill costing \$285 million this year and \$7 billion over the next 25 years.

There have been some reductions in expected spending levels. The Environmental Protection Agency will spend less than planned because anticipated schedules for sewage treatment construction have not been met.

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However, the most significant change is the increased aid to the jobless -- including the National Employment Assistance Act I proposed last month -- that added \$2.7 billion to the budget. This increase is necessary to ease the burden on those who are most affected by current economic stress.

Taking these developments into account, my present recommendations for \$4.6 billion of budget reductions will result in a budget total of \$299.5 billion before considering \$2.7 billion increased spending for aid to the unemployed. These recommendations represent a major effort at budgetary restraint. It would be unwise, in my view, to add additional dollar reductions for each dollar of increased aid to the unemployed.

The fiscal year 1975 budget actions by the Executive and the Congress since July 1, including those I now propose, are summarized and compared to last year's actual expenditures as follows:

CHANGES IN BUDGET SPENDING
(Fiscal years; dollar amounts in billions)

	<u>Defense</u> ¹	<u>Interest on the Public Debt</u>	<u>Payments for Indi- viduals</u> ²	<u>Other</u>	<u>Total</u>
Actual 1974 expenditures....	\$78.4	\$29.3	\$110.1	\$50.5	\$268.4
1975 Budget (July 1 estimates)	85.8	31.5	130.5	57.6	305.4
Changes (including those proposed)..	-2.6	+1.5	+1.0	-3.2	-3.3
Presently proposed levels for 1975..	83.2	33.0	131.5	54.4	302.2
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1975: Percent change since July 1 ...	-3.0%	+4.8%	+7%	-5.5%	-1.1%
1975: Percent change over 1974.....	+6.1%	+12.6%	+19.4%	+7.8%	+12.6%

¹Department of Defense, Military and Military Assistance.

²Nondefense

The 1975 outlay estimates can be affected significantly by variations in income from oil lease sales on the Outer Continental Shelf. This income is treated in the budget as an offset to spending. If the current schedule of lease sales is not met, for environmental or other reasons, or if the bids are significantly less than anticipated, outlays could further increase -- possibly by \$3 billion or more.

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The reductions I propose to the Congress will require a number of changes in basic legislation and in pending appropriations. I am also transmitting proposed rescissions and deferrals, as required by the Congressional Budget and Impoundment Control Act, to reduce programs for which funds have already been appropriated. The rescissions would result in decreased outlays of over \$200 million in 1975. Deferrals would reduce 1975 outlays by over \$300 million.

Normally, funds are already being withheld when reports on rescissions and deferrals are transmitted to the Congress. Recognizing that these rescissions and deferrals are an integral part of a more far reaching and comprehensive proposal, I will not begin to withhold funds for the affected programs until December 16 although the law permits me to do so immediately.

The reductions I propose focus on programs that have grown rapidly in recent years or that have been increased substantially over budget proposals. In most cases, the level of 1975 outlays will be materially above actual spending last year. Even after the proposed cut-backs, Federal benefit payments to individuals are estimated to be \$131.5 billion. This is \$1.0 billion above the July estimate, and \$21.4 billion, or 19%, above actual spending last year.

While I am recommending further cuts in defense spending, I have taken into account the substantial reductions already made by the Congress. My current expectation for defense spending is \$83.2 billion, \$2.6 billion below the June estimate. I believe that further cuts in defense spending would be exceedingly unwise, particularly at this time.

In determining which budget programs should be reduced, I have tried to eliminate the less essential and to overcome inequities. I have tried to avoid actions that would unduly add to unemployment or adversely affect those hurt most by inflation.

The \$4.6 billion budget outlay reduction I now propose is not large when compared with total Federal spending. Nevertheless, the Congress may find it difficult to agree with all my proposals. I strongly urge the Congress to accept them and join with me in this belt tightening. The reductions are essential to demonstrate to the American people that the Federal Government is working seriously to restrain its spending. They are also a start toward the imperative of gaining control over budgets in the future.

GERALD R. FORD

THE WHITE HOUSE,

November 26, 1974.

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