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March 23, 1975

Dear Mr. Speaker:

I am writing you while the Conference Committee is considering the House and Senate versions of H.R. 2166, the tax cut which I urged last January to stimulate the economy. Although I am most anxious to sign a bill along the lines I have proposed, I am now concerned that Congress is trying to do too much in the legislation the Conference are considering, thereby providing an economic stimulus far beyond that which is needed.

The Conference and the Members should understand that I will be unable to accept a bill so encumbered with extraneous amendments and of such deficit-increasing magnitude as to nullify the intended effect of a one-time stimulant.

The purpose in asking the Congress to enact a simple tax cut as quickly as possible was to stimulate the economy. I proposed temporary one-time 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. Reasonable men can differ on the exact size of the tax cut, but everyone agrees on the need for prompt action. I indicated my willingness to compromise within reasonable limits.

I regret that the Senate version of H.R. 2166 goes far beyond the purpose of providing a quick stimulus and mortgages our economic future in a way that is unacceptable to me. It is unacceptable because:

(1) The Senate version would increase the size of the tax reduction from \$16 billion to more than \$39 billion -- roughly doubling the impact on combined fiscal years 1975 and 1976 budget deficits already far too high. That increase must be considered in the context of other Congressional actions and inaction. If Congress continues its present pattern of rejecting the spending cuts I proposed, the deficit would grow by an additional \$16 billion. And the minimum cost of the additional spending programs being considered in the Congress would add still another \$29 billion. In combination, these Congressional actions would increase these deficits by \$55 billion.

Such an enormous increase in an already substantial deficit jeopardizes the prospect of economic recovery and makes us hostages to future inflation.

(2) Although both bills incorporate billions of dollars of tax reductions which are temporary as written, they are of such a nature that they will undoubtedly continue next year and beyond. That is a sure formula for larger deficits and spiralling inflation for years to come, unless offset by other revenues or spending cuts. My proposal was for a one-year stimulus limited to \$16 billion. An amount unreasonably larger than the House bill would do more harm than good.

(3) The Senate version would raise major obstacles to badly needed reforms in the tax and welfare systems. I regard both reforms as matters of high priority. Both require the most careful deliberation but not in this emergency anti-recession legislation.

(4) The Senate version distributes the federal income tax burden unfairly by eliminating too many citizens from paying any tax. My January proposal would have distributed tax cuts evenly to those who now carry the tax load. I recommend that the conferees and the members review the bills before you to be sure that they do not discriminate against middle-income Americans, who already carry the major share of the tax burden.

(5) The Senate version, in particular, has several provisions which will not contribute to economic recovery and may cost additional jobs. I have consistently urged an uncomplicated tax refund to put extra purchasing power in the hands of American taxpayers.

I urge the conferees basically to accept the House bill with minor revisions. I am prepared to work with the Committee and the Congress as long as necessary to assure the American people of a reasonable tax cut which will stimulate the economy without jeopardizing its future.

Sincerely,

GERALD R. FORD

The Honorable
The Speaker
U.S. House of Representatives
Washington, D.C. 20515

cc: The Honorable John J. Rhodes The Honorable Al Ullman
The Honorable Thomas P. O'Neill, Jr.
The Honorable Herman T. Schneebeli