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THE WHITE HOUSE

PRESS CONFERENCE
OF
JAMES T. LYNN,
DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET,
ALAN GREENSPAN,
CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS,
L. WILLIAM SEIDMAN,
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC AFFAIRS,
AND
JAMES M. CANNON,
ASSISTANT TO THE PRESIDENT
FOR DOMESTIC AFFAIRS

450 EXECUTIVE OFFICE BUILDING

6:30 P.M. EST

MR. NESSEN: I don't know if you have all had a chance to finish reading the State of the Union, but we wanted to start on time because I know you have a lot of work to do tonight.

First of all, let me say -- in trying to clean up a question I had at the briefing about how much time the President spent on the State of the Union -- we researched it as much as we could, and it would be fair to say his work on the State of the Union has fallen into two stages. The last week or ten days he has been involved in writing the actual speech. It would be fair to say he spent at least 50 hours in the last week or ten days writing the speech, but the preparation of it in the sense of coming to grips with the issues has gone back a number of months.

In fact, I think you have to say the first meeting which contributed to his view of the issues to be addressed in the State of the Union was February 3, 1975, when he visited Atlanta for the first of the White House Conferences. If you count the information he got from people speaking at White House Conferences, the other meetings he has had around the country with various citizens and citizens groups, the meetings he has had with Jim Cannon's Domestic Council and so forth, that really stretches over the months beginning February 3.

We are not able to give you a total number of hours, but you could say he has literally had dozens of meetings on the issues of the State of the Union and in the last week or ten days at least 50 hours writing the State of the Union.

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With that the briefers are going to begin this briefing,and this briefing is embargoed for 9:01, the same as the Message itself -- Jim Lynn, the Director of the OMB; Bill Seidman, the Executive Director of the Economic Policy Board, Jim Cannon, Director of the Domestic Council; and Alan Greenspan, the Chairman of the Council of Economic Advisers.

I think we might start with just a couple of minutes from Jim Cannon on the three or four major points the President feels are most important in tonight's speech.

MR. CANNON: Thanks, Ron.

First, let me say that I don't think that there is any President that I remember, of these times, anyway, that came in with tougher problems than this one, and from my point of view, from my perspective, anyway, this is President Ford's first true State of the Union in which he is totally in control. Last year, of course, when he became President, many of the decisions were already well underway, but this time he did address this from almost the days after he had addressed the Congress last year, addressed it from then on to -- in fact, he instructed us from the first days we came over to get to work on his program for 1976 in the State of the Union for that year.

So he came with a number of problems,which we all know -- and the economic group will state better than I -- but he also came with a great range of social problems which were rapidly getting worse, and it was these, principally, the Domestic Council had to address.

In this speech it seems to me that he makes four major points about his philosophy, the first one of which, which is in the speech, is his philosophy of Government. Very simply that Government exists to create and preserve conditions in which people can translate their ideals into practical reality. I think that is a concise statement that flows and is followed throughout the speech.

Another that came forth in the many discussions we had were many ways he kept coming back to a word -- realistic, realism. This comes through in another quote, which I think is a good quote which is in the speech; that is, "In all that we do, we must be more honest with the American people, promising them no more than we can deliver and delivering all that we promise."

A third one that is here, I think -- and this was another one he articulated in our meetings with him -- was stability, and in the speech he proposes that we strike a new balance in the relationship between the individual and the Government, between the Washington Government and State and local Government, between spending on domestic, between spending on defense. This new balance is a phrase that has come up many times in our discussions with him.

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The fourth -- and I think one of the most important of all -- is hope. It comes through at the beginning of his speech and at the end of the speech, that life will be better for my children because it was better for me. He articulates this, as I say, and I think this is the essence of the philosophy of the speech that I see.

MR. NESSEN: You can address your questions to any of the four panelists.

Q I have a question for Mr. Seidman or Mr. Greenspan. The President talks of a $28 billion tax reduction; that is to say, $10 billion on top of the annualized $18 billion, but the fact sheet, adding up individual and corporate tax cuts, only comes to $22.2 billion.

MR. GREENSPAN: The particular numbers you are looking at are for 1976, which, as the fact sheet says, is a combination of the first half of 1976, which represents an extension of the 1975 cuts in the second half, which represents the President's $28 billion tax cut. It is not exactly an averaging of the two, but if you look at the method by which the calculations were made, what it is attempting to represent is approximately an amalgamation of the first half and the second half of the year. The full tax cut effect becomes effective as of January 1, 1977, so far as liabilities are concerned, but the withholding rates fall on July 1, 1976 to those which would prevail throughout 1977.

Q Is there anywhere in this fact sheet -- which most of us had not had time to read carefully -- how can we tell taxpayers,including corporate taxpayers as well as individual taxpayers, what their final cut would be?

MR. GREENSPAN: I think you will find what you see on this calendar year 1976 is basically the tax cuts for the year as a whole, with an explanation of the specific individual items relevant to the specific tax forms. That is under Item B, which is calendar year 1976. This is on Page 2, calendar year 1976. You will observe at the bottom it discusses for individuals, and then later on for business, what the implicit combined averaging effects are.

Q On Page 4, the President states one-tenth of a healthy economy is a job for every American who wants to work, which sounds like some kind of a goal that could be quantified. What is your goal of the number of people unemployed that is reasonable?

MR. GREENSPAN: We don't have a specific number, but the essential goal is to obtain a level of employment -- or more exactly that which creates a level of unemployment -- which is as low as is capable of being kept indefinitely.

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By that I mean there are numbers of levels of unemployment percentages which obviously can be obtained for very short periods of time, but then create unstable conditions thereafter. Now we don't have a specific number, and the reason we don't is that the unemployment rate, per se, is a very large average which constitutes the rates of a vast variety of different types of groups -- teenagers, men, women, for example, to give you three types of ratios which tend to differ quite significantly. As a consequence, there is no specific number, largely because it depends, to a large part, on the composition of the labor force.

Obviously, we would like to get it down very significantly. Our view is it can be gotten under 5 percent, perhaps significantly under 5 percent, and stay there. We have not, at this stage, ruled out the possibility that 4 percent still is not an obtainable goal, but I don't think that specifying a number actually assists one in policy making. The policy is to get it as low as possible consistent with its staying there.

Q Mr. Greenspan, last year the President said that he was trying to turn from checking inflation, or fighting inflation, primarily, to creating jobs, and of course the inflation rate has come down about half since then, yet the unemployment rate is about where it was almost a year ago -- it is a little different -- but there is less emphasis on the job side this time. Can you explain why that is?

MR. GREENSPAN: Basically we don't view the issue of jobs and inflation as mutually exclusive. I don't want to get into the President's economic report. The President will address this issue in some broader detail in his Message of January 26. All I could say at this particular moment is that he will reiterate what he has said in the past; namely, that he views inflation as a major unstabilizing force in the economy and, therefore, a creator of unemployment, and that a necessary condition to bring the unemployment rate down in a permanent manner is to diffuse the inflationary forces. So that the emphasis on the President's program is broadly to create a healthy economy from which significantly lower rates of unemployment are feasible.

I don't think that we can appropriately look at the issue of unemployment as separate from the issue of inflation since they are so intricately intertwined.

Q Mr. Greenspan --

MR. GREENSPAN: Am I the only one here who can answer questions? (Laughter)

Q I think you can answer this one best.

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The President made a big thing late last year about trying to get Congress to commit itself to a specific spending ceiling, and reading his speech tonight I don't see any mention of that. Has he given up on that idea?

MR. GREENSPAN: Why don't I give this to the Budget Director, who is in control of all the money, to answer.

MR. LYNN: I think the answer lies in the action that Congress itself took in the closing day, I think it was, of the last session where Congress committed itself to a principle of coupling any tax reductions to reductions in Federal expenditures. That commitment is on the books, and I think the President fully anticipates the Congress will abide by the principle that is enacted.

Q So, he is not asking them to go beyond that, and his proposal for another $10 billion in tax cuts will in no way be tied to any more --

MR. LYNN: Look at it this way. Congress has adopted a principle that says that tax reductions will be given to the extent that they are expenditure moderations. The President is saying under that principle what we should do for the American people is hold the Federal expenditures for the next year to $394.2 billion, which will enable his tax cut at an annual rate of the $28 billion. That is his proposal.

He is saying to the Congress of the United States: this is feasible, this is proper, please implement it. By saying that, of course at the same time he is saying to them, this will be application of the principle that you adopted yourself in the last day of the last session.

Q Mr. Lynn, if the Congress determines in the course of the budget resolutions that the spending level is actually higher than $395 billion, say around $420 or $425 billion, and then proposes the $10 billion tax cut and will cut $10 billion from $425 billion to get to $415 billion, would the President oppose the tax cut because it does not get down to his $395 billion figure?

MR. LYNN: I really do think what should happen here -- and I think as the American people understand the President's proposal will happen -- is that Congress will see that it is right to give the full tax cut that the President is proposing and applying the principle that they have already adopted that they will come in at $395 billion or below, just as we did. I don't think it pays at this point to speculate on "what if." Congress has committed itself to a principle. The President has said in the application of that principle, let us give to the American taxpayers a tax reduction of the $28 billion. Now, I would like to think that as Congress progresses through its budget processes, which it wanted to reserve to itself, it will apply its principle to allow the full tax cut that the President thinks the American people should have.

Q But the point is Congress did not commit itself to $395 billion spending.

MR. LYNN: No, they did not. They committed themselves to a principle that if they are going to have the tax cuts, there will be the expenditure cuts. That is all they have committed to at the moment.

Q Let's say if they decide spending is considerably higher, $20 billion or so higher, than $395 and they say okay, we will give a $10 billion tax cut that we will have to cut from $425 to $395, will the President oppose such a tax cut because it is higher than his spending ceiling?

MR. LYNN: I have said many times before, and I will repeat it now, I have found in the past when I play "what if" I find myself talking about situations that don't happen, and I think I should stand on what I said. They have adopted the principle, and it is of key importance that they adopt it because we really do believe that the tax cuts should be accompanied by expenditure moderation.

The President will, in his budget that he presents to the American people two days from now, show, I believe, that a $395 ceiling can be achieved -- in fact, $394.2 -- and preserve the important priorities of the Nation. I have no reason to believe Congress won't be able to do the same thing, and I hope they will.

Q The point is, there is no room for flexibility on the side of Congress. They have to agree. If they disagree, will the President flatly refuse to consider their disagreements?

MR. LYNN: I would say to you, let's see what they do do.

Q The President says that we can achieve a balanced budget by 1979. What are the anticipated deficits for fiscal 1977 and 1978?

MR. LYNN: I am afraid you will have to wait for the budget briefing, which will be given an embargoed basis, tomorrow. I told my friend back here it may be difficult for me to draw a line between the State of the Union and the budget, but I think that is a clear line.

I will say to you, though, that the President's program, in our judgment, does result in achievement of the goal that he mentions in the State of the Union of the balanced budget by fiscal year 1979.

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Q Can somebody tell us -- it may be in the fact sheet someplace, but some of us have not had a chance to read it -- how this proposed new catastrophic health insurance plan or program would work? Could you give us some details of cost to the citizens and to the Government and so forth?

MR. LYNN: I think that is appropriate to brief on, isn't it, at this point?

The catastrophic, as the President's message says, what it is is a proposal that those covered by Medicare will never have to anticipate more than $500 in expense for hospital or nursing care in any year or more than $250 for covered care, for doctor's services in any year.

Now, there are two other parts of the proposal. One part of the proposal is that we will go to a co-payment basis on shorter illnesses. Let me explain. Under the present law, the patient on a hospital visit pays fully the first day's hospital bill. From the second to the sixtieth day, the patient pays nothing. Medicare picks up the whole thing.

After 60 days, it is all the patient's burden, no matter how big it is, completely.

Q There is a co-payment?

MR. O'NEILL (Deputy Director, Office of Management and Budget): It is 50 percent.

MR. LYNN: Fifty percent they have to pay after 60 days. I stand corrected.

What we are proposing is that starting with the second day there be a change. The patient would pay 10 percent of the hospital bill from the second day on out, but of course subject to that ceiling of $500. On doctor's bills, the co-feature would be 20 percent of the doctor's bills, but with a ceiling; again, a maximum of $250 a year.

At the same time, the President is also proposing that we will only pay in Medicare for increases in "per visit" for various kinds of services, increases of 7 percent from year to year as to hospital care, and 4 percent as to doctor's care.

Q And the cost of this, the annual cost to the Government?

MORE

MR. LYNN: The reforms in total result in a net savings. The maximums -- the catastrophic protection results in additional outlays by the Federal Government, $568 million. On the other hand, the proposals with respect to the sharing of payments, the cost-sharing, plus the 7 percent increase year-to-year limitations, and the 4 percent year-to-year limitations result in a net savings of $2.2 billion.

So, there is a net savings by way of outlays.

MR. NESSEN: You might want to point out the President feels that the catastrophic insurance provision is one of the most important innovations in the State of the Union speech.

MR. LYNN: Indeed, he does. I think he says it very well in the State of the Union, that this is a haunting fear of the elderly themselves. It certainly is a fear of their families, and what it is is an effort to say to our elderly and our disabled that no matter what kind of illness you have, no matter how long it takes or how long you are confined, that you can count on your fees for nursing home services or hospital services not exceeding the $500, and not exceeding $250 for doctor bills.

Q What is the net savings, $2.2 or $2.2 minus $568?

MR. LYNN: No, the total is the difference. $2.2 for both the plusses and minuses. $2.2 net savings.

MORE

Q How much more will Medicare patients pay under total? Do you have that number yet? Under the cost-sharing they are going to pay more.

MR. LYNN: I gave a figure for that. You are asking for a total dollar figure as to what they will pay as a group, all of them?

Q Yes. It is going to cost more money.

MR. LYNN: You mean the aggregate amounts it would cost under that cost-sharing formula?

Q For the Medicare payment.

MR. LYNN: 1.8.

Q How do you get to the $2.2 billion?

MR. LYNN: Because you offset figures. There is additional cost to the Government of the catastrophic protection. There is savings to the Government by virtue of the 7 percent and 4 percent limitations and by virtue of the cost-sharing arrangement we just mentioned.

Q I have a question on another aspect of the health program which is the $10 billion block grant of Medicaid and the 16 or so other health programs. What is the net cut? What is the net cut, if there is a net cut, that that $10 billion represents? What would it be if you had not put on a ceiling of $10 billion?

MR. LYNN: $200 million. Let's put it in context. If you look at the 1977 funding levels under the program that the President is proposing to make this block grant, and compare it with 1976 levels, it is up from 1976. On the other hand, it is restrained from where the figure would be if we were to continue business as usual.

In other words, just taking these runaway increases that we have had in the cost of medical service and fund them in Medicaid. That figure is -- we are saving $200 million. We are $800 million over the 1976 figures, but $200 million under where it would have been if we had just continued to go with the programs as they were. I think the fact sheet also points out there is no State that would lose funds compared to the 1976 levels under this program.

MR. CANNON: The Governors we talked to about this indicate that it will be better for them in providing medical care to recipients to have the $10 billion this way, better for them this way, than it would be if they had the higher figure with the restraints on it.

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Q Is that with the matching grants dropped out?

MR. LYNN: Yes, the matching grants are dropped out of all of the consolidation proposals.

Q Wouldn't the total go down more than the $200 million, if the States are not going to match these grants?

MR. LYNN; They don't have to match them, no.

Q Then won't that come out of the total?

MR. LYNN: That is provided in health service for lower income people? I would say I certainly don't think so. Let's take a look at the other side of the coin as to what is happening right now throughout the country. A number of the States have either done or are considering reductions in their Medicaid programs as a matter of general budgetary restraint in their own States. If the program continues the way it is now, those States will have a net loss of Federal funds because depending on what their matching share is -- let's take a State that is 50-50 -- for every dollar they cut out of their State budget, they are losing a dollar of Federal assistance.

Under the President's proposal, they will not lose anything from what they had at 1976. On the other side, it does seem to me with the procedures that have been provided as to community participation in what the plans will be, what priority this should have and so on, I don't think we are going to see much slacking with respect to these programs.

Q I was not finished. I assume that the $200 million slowdown in growth and the $800 million growth over 1976 are for the whole block,that is Medicaid plus --

MR. LYNN: That's right.

Q Now, I would like to get the same figures just for Medicaid. In other words, we took 1976 funding levels for the other programs and then on Medicaid we allowed this additional $800 million for the Medicaid component and that resulted in a total block grant program of the $10 billion.

Q So the $200 million and $800 million refer solely to Medicaid?

MR. LYNN: Yes, sir.

Q And what does that mean, just no change in the levels of the other 16 programs?

MORE

MR. LYNN: That's right, except we don't anticipate there will be other programs. This will be flexibility given to the State in order to handle the matter. There are also provisions incidentally limiting in the first years what the State may do to the particular kinds of facilities and providers that have already been providing the service under these many categorical programs. If my recollection is right, the present program design would say that the State may not, in the first year, provide less than 80 percent of the last year's funding level to any of the activities that had been funded under the categorical programs.

Q So if the States want to spend any money on any of these other 16 programs, that is to say for any of these other 16 functions, they are going to have to cut their Medicaid, right?

MR. LYNN: If they want to spend more money with respect to them?

Q Any money apparently.

MR. LYNN: No. Then you misunderstand what I am saying. There is in this block grant program an amount for each of the categoricals other than Medicaid equal to what was in the budget for 1976 for each one of those categoricals so that is there and they get that.

Q I guess the easiest thing to help me out of my confusion would be if you would tell me what the Federal spending for Medicaid will be in fiscal 1976.

MR. LYNN: We'll check it and get back to you.

Q If matching funds have always been considered a virtue in the past, what was the logic in eliminating them not only in the health programs but in other programs?

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MR. LYNN: I had some experience with getting rid of the match on a program for a year and nine months, I guess it was, ten months, while I was at HUD. You recall the Community Development Act of 1974 abolished the matching grant. I can say to you from my HUD perspective one of the reasons we abolished it, among others, was there was was absolutely no way of tracking the match.

By that I mean particularly where we allowed the match to be given in kind, particularly since people can move funds around within the State budgets or the local budgets, it is becoming really a difficult thing to see whether or not you do have maintenance of efforts within the State.

In other words, they may come up with the money to match this, but they may do it by taking it out of some other program where you also have, let's say, a national objective that you want to meet.

The other thing is, I think, this recognizes a feeling by the Administration that the necessity of helping the poor with this kind of a problem is there, whether or not the State has the funding available to match, and that there are poor people in States that have few resources and there are poor people in States that have large resources.

I think Secretary Mathews believes there has been a good deal of responsibility shown, growing responsibility over the course of the last ten years, at the local level, recognizing their responsibility, and that the mere elimination of match as a technical requirement is not going to be accompanied by the States reducing their efforts in this connection.

MR. CANNON: Peter, the fact is a larger share of these medical funds will go to States with a larger share of poor. Many of those States now don't have the money to match, and this is a part of the President's plan to provide more funds for those States with larger shares of poor.

Q Why can't a State, though, just cut its Medicaid spending in half because it no longer has to provide its share?

MR. CANNON: Because for all practical purposes political realities won't let them.

Q The figure for the cost of the catastrophic insurance, could I get the figure first?

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MR. CANNON: I don't have figures. Jim will have to give you figures.

MR. LYNN: In answer to this gentleman's question, the figure for Medicaid alone for 1976 was $8.2 billion. I think we have given you the other figures you need. What was the question you had, Jim.

Q The cost of the catastrophic illness insurance, is that $578?

MR. LYNN: $568.

Q On page 18 you express some concern about the rapid increase in the cost of Social Security benefits. I read it hastily, but I don't see any mention here about the much greater increase in cost of the Federal pension benefits. There is practically a runaway cost there. Federal pensions, I believe, are taxed according to the cost of living automatically where Social Security requires an act of Congress.

MR. LYNN: Here I get in a little trouble. Perhaps what I should say in this regard is "tune in tomorrow." We have, of course, a number of restraints that are reflected in the 1977 budget, as well as initiatives and reforms, and I think without signaling one way or another I better just say we are having an embargoed briefing tomorrow morning at 9:30. I will be happy to have you repeat that question there.

Q Can you give me some ballpark figure on what the increase in the defense budget will be?

MR. LYNN: I don't think I should go into that.

Q Percentage?

MR. LYNN: I think we should do that when we can have a full briefing, which will be tomorrow.

Q These 500 Federal agents do nothing but help local authorities stop criminals from selling and using handguns. Is that going to be their sole responsibility?

MR. CANNON: Correct.

Q What kind of Federal agents will these be?

MR. CANNON: Treasury.

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Q Why can't local Governments do this by themselves?

MR. LYNN: One thing is we have Federal laws, if my recollection is right, in this area. Jim, do you want to elaborate on that?

MR. CANNON: It doesn't require much elaboration. The President does say, I believe in the State of the Union address, that he accepts that the interstate trafficking in hard drugs is a Federal responsibility. That is why he addresses that.

Q Will you explain to us why this address is so totally wrapped up in the budget? It is almost all budget, and yet you are not giving us the budget until tomorrow.

MR. LYNN: I would dare say, reading it, that it is solely budget. It has budgetary aspects, but it is a document that goes far beyond the budget. I think that it says a lot of things quite beyond the budget. As I say, in the particular areas that the President has addressed, we are trying to be helpful to you on the specific numbers. Do you have other ones you need?

Q Yes, you have one here where you are addressing 59 programs. It includes the 16 you talk about in health and a whole bunch of others. Will you elaborate on what 59 programs in child care and everything else you include in here? That is on page 9.

MR. CANNON: I think we can get those for you, Carol.

MR. LYNN: Which programs do you want? Education?

Q Yes, how about education? What are you going to do with Title I? Is that any part of this?

MR. LYNN: Yes.

Q Would you repeat the question, please?

MR. CANNON: The question is, what are the specific programs that are being consolidated, starting with education.

MR. LYNN: They fall under four main headings: Elementary and secondary education; education for the handicapped; occupational, vocational, and adult education; and library resources. As I say, there are a heck of a lot of programs here. If you want me to list them all, I will, but we can provide you afterwards with a list.

MORE

Q You say you are going to combine all of those into one?

MR. LYNN: Yes, into a block grant.

Q Is that similar to the proposal that was made a year or two ago when the Elementary-Secondary Education Act was up for renewal?

MR. CANNON: One dissimilar thing is those were cuts. These are not cuts.

Q On the social service, child nutrition and social services--

Q May I just follow on that a minute, Carol? The ESEA is mandated for poor children, is it not? How can you lump it in with these other things?

MR. O'NEILL: 75 percent of the funds would be mandated, half through to the local school districts for focus on low-income children,just as they are under the disadvantaged Title I authority.

MR. LYNN: Each of these programs does have a focus of that kind to it. You just don't send it out by the basic label that is on it. There are objectives of the legislation, and therefore the legislaton defines a charter of activities and within that charter provides, in most cases at least, as to who is the group that you spend the money or most of the money on, and the State has to live within those particular rules that are set forth in the grant.

For example, in the child nutrition block grant, it says it must be spent on providing meals to the poor children. As we say, that is a program that does reach 700,000 children that are not reached now, but in each one of these programs there are focuses of that kind.

The community development block grant, for example, has focus language in it. Now, each act varies one to the other as to how that focus is worked out to allow some flexibility on the part of the State, but on the other hand be sure that the needs that were intended to be addressed by the categoricals are also met.

Q I did not understand this one thing on the consolidation of the 27 programs, the educational programs, and it says the budget authority request for block grants will be $2.2 billion. Did you say this was the same as fiscal 1976 or more or what?

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MR. LYNN: It gets a little complicated in the explanation. Paul, why don't you try it at least. There is new budget authority, though, that is being requested.

Q Question?

MR. LYNN: The question was just how does the funding level for the new education block grant program relate to what there has been in the past.

MR. O'NEILL: The $3.3 billion level is $300 million above the amount that we have requested for fiscal year 1976, and I say requested for this reason. You will remember that the Congress sent the President an education bill that was significantly above what he asked for, and he vetoed it, and they returned it to him.

Under the new Congressional Budget Reform Act procedures, there is a requirement that if he does not wish to spend particular amounts of money, that he ask for recissions or deferrals. We now have pending before the Congress recission requests of $300 milli n, and if the Congress goes along with us, this $3.3 billion request for fiscal year 1977 will therefore be $300 million above the final level for 1976.

If the Congress chooses not to go along with those recission proposals, the 1977 level will in effect be the same as the 1976 level.

MR. LYNN: So, it is not lower than the 1976 level, even if Congress should choose to reject the moderation that we have asked for in sending back our requests after their appropriation action.

Q What is the comparison figure if the same programs were projected in FY 1977?

MR. LYNN: The same programs we have.

Q The 3.3 If the same programs are projected in 1977.

MR. LYNN: That depends on 1977 appropriation action because we are talking about categoricals here mainly, aren't we? In other words, you are asking if the new program were not enacted and they continued to do business as usual, and if you took the action they have taken for appropriations for 1976, what would they do with regard to it in 1977. I think on that you would have to ask the Congress what they would do.

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MR. O'NEILL: In the education level, you can't give a straight answer because, as Jim says, it depends on what the Congress does.

MR. LYNN: In other words, it is not an entitlement kind of program. It depends on decision-making in their appropriation process.

Q I don't want to belabor this, but if this is going to poor kids anyway, and there is already, as I understand it, a bit of latitude for localities and States to spend this ESEA money, what is the difference if it is ending up with the same kids?

MR. LYNN: There is a great difference. When you take a look at these programs one by one and look at the duplication and look at the overlap and look at the administrative expense of running that many separate programs, when you look at the lack of flexibility that it gives people at home with respect to how to best utilize that money back home, when you look at the inequities that come from a project grant being given this town when there are four or five other towns that at least arguably have every bit as many problems to address, I think it becomes very clear that this is a substantial improvement.

Q Referring to the bottom of page 10 on the speech, how much does the President want to spend in Angola? Is that a smile?

MR. LYNN: Yes. I don't think it is appropriate for me to respond to that question.

Q You had a point about the cut-off here, the Senate cut-off.

MR. LYNN: Yes, but I think the point stands on its own.

Q On page 10, the President refers to "the American people having heard too much about how terrible are our mistakes, how evil our deeds, how misguided our purposes." From whom have they heard this? Is it a rap at the Congress or the press or whom?

MR. CANNON: I don't think it is a rap at anybody, Peter. I think he is expressing his feeling about what he feels has been in a great deal of the public comment and criticism, but I don't think it is addressed at anyone in particular.

MORE

I think it is the obverse of what he feels. He feels the country should be confident and hopeful for the future, and that we have perhaps invested too much time in pessimistic talk about ourselves.

Q Isn't the $10 billion consolidation and passing it on -- on the medical,on the health programs -- consolidating and giving them to the States and localities, isn't that adopting part of Reagan's proposal?

MR. CANNON: There is a vast difference, and the real difference is, it is as though each of them had a bag. If you open Reagan's bag, it is empty. If you open Ford's bag, it is full of answers.

Q That was not exactly full of answers. Be specific.

MR. CANNON: It is a 180 degree difference. Reagan, if I understand his program, says, "You take the problem and you raise the taxes." Ford is saying, "The Federal Government is spending so much money on this. We believe you are competent to handle this problem. Here is what we have given you. Here is no less than we have given any State. Here for poor States is more. We are confident that you can take this Federal money and handle the problem."

I think that is the difference between an empty bag and a full bag.

Q You say it helps the poor States. Does it tend to penalize the high income, urbanized States?

MR. CANNON: No, because there is a hold harmless in there. At least for fiscal 1977 no State will receive less.

MR. LYNN: Let me add to that. Again, bear in mind there are a number of the large States that under the existing programs are cutting back as a matter of their own budgetary restraint problems, and as they cut back now on their Medicaid program, in view of the matching requirement, they are actually going to lose dollars, Federal dollars,in 1977 under the matching program unless the law is changed.

Under this proposal, no State would receive less than they received in 1976.

Q On that issue, Jim, if I could follow it up, if they are not receiving any less money -- I don't know if I understood you -- you said of the 16 programs in the health area that are consolidated, they will be getting, except for Medicaid, as much money in 1977 as they got in 1976?

MORE

MR. LYNN: Right.

Q If inflation continues to go up, as is being projected, doesn't that mean a cut in real services?

MR. CANNON: No. Many of these Governors have told us they would gladly accept a 10 percent cut if we would take off some of the restrictions which cost them more than that to administer the programs.

Q You are asking for public hearings, in effect, a public process here in compliance on this program of financial assistance. What is your timetable for getting it into effect at State level if the public has to participate and it has to be approved by the Federal Government?

MR. LYNN: Don't forget we are talking about a fiscal year here that begins eight months from now.

MR. O'NEILL: I think you are misreading. What the paper says I think is that there will be a requirement in the use of this money by the State, that they have a sunshine process; that is to say, the public be involved in the preparation of that plan.

We are not now calling for hearings on this idea. We are asking the Congress to take it up in their appropriate committees.

MR. LYNN: Again, by way of an analogy there, the Community Development Act of 1974 has a process whereby before the city or the State -- in that case, the cities -- make up their minds and make a decision, it must be put through a process that satisfies the need to know of the people and their opportunity to make suggestions, criticisms and their own proposals, and what we are providing here is the same kind of process.

Q Are you saying the savings in administrative costs for consolidation would more than offset the rise in inflation first?

MR. LYNN: This is what we are told by most Governors.

Q Have you done the calculations yourself?

MR. LYNN: I have not done the calculations. I don't believe we have.

MORE

MR. CANNON: The Governors have told us -- bipartisan. They have been completely supportive of the block grant idea, and they have said to us and the White House public forums that we have had throughout the year, starting from last February -- indeed, going all the way back to at least the 1968 platform, that I can remember -- that there has been a firm stand for block grants as the best way to handle these problems.

That is what this is, and that is the real difference between this and the Reagan program.

Q But you have not calculated that?

MR. LYNN: Of what that particular cost savings would be? No, we have not, but I can say that in a meeting I have had that the idea was that the recipients said look, sure, we have had expenses for health care that have been going up.

If we have the flexibility on these funds, if we have the Federal funds for these programs, it is right that we accept that responsibility.

MR. NESSEN: We have been going almost an hour. Bill Seidman feels somewhat rejected since nobody has asked him a question. He has a couple of thoughts you might want to hear on the tax cut provisions of this, and then let's knock it off because we will be right up around an hour.

I want to say one thing before we break up, though. I have to mention one thing that is in the speech copy.

MR. SEIDMAN: There are three new tax proposals in the speech not treated in any detail, but they are treated in the fact sheet, and let me just take a couple of minutes to review the three proposals.

One is a proposal to begin to broaden the ownership of American enterprise by allowing all citizens to have special tax deductions if they invest in American companies. This is a proposal for any taxpayer, and he will get a tax deduction for an amount of $1,000 or $1,500, which he may put into a fund for investment in American enterprises and he will get a tax deduction for it. While it is in the fund, it will.

The dividend will not be taxed, and if the stocks are sold and others are invested in, there will be no tax, and then at the end of a fixed period -- seven years, perhaps -- if he wants to take the funds out, there will be a tax at that time only.

MORE

Q Isn't that the same as IRA?

MR. SEIDMAN: No, this is very much different than IRA. IRA is a retirement program. This is an investment program which you could invest in today to have the funds to put your children through college. It is a program that applies to all Americans, whether they have any other kind of plan, so it applies across the board.

It is for stock and equities only. We look for it to increase the amount of capital for American industry, a problem which has much been discussed, and to broaden the ownership of American equities.

Q How much of an increase do you expect?

MR. SEIDMAN: We estimate, although it is very hard, two million new stockholders in the first year of operation.

Q What is the income lid ceiling?

MR. SEIDMAN: The income lid, which again is not fixed -- we have proposed to work out all these various numbers with the Congress. We have proposed for our computations starting at 20,000 and topping out at 40. That means that anybody up to 20 gets the full deduction and beyond that it starts to phase down.

Q Is there a limit on the amount of investment?

MR. SEIDMAN: The amount, again, we have not specifically decided because we want to work with the Congress on it, but it has been suggested between $1,000 and $1,500 per taxpayer per year.

Q Isn't American enterprise also a multi-national?

MR. SEIDMAN: Yes, the fact that the corporation -- I would think that would be it, although those kinds of details we will be working on with the Congress.

Q What will the revenue loss be?

MR. SEIDMAN: It is about $500 million in the first year.

Q Is it taxed as ordinary income at the end of seven years?

MORE

MR. SEIDMAN: That is another area that we have not concluded our discussions with the Congress, and we will be talking about them. We believe that at least the capital gains in the funds should be taxed at capital gain, and perhaps we ought to give middle America a chance to get some capital gains and tax all of it at a capital gains rate.

That is the first one. The second one is accelerated depreciation for new plant and equipment in high unemployment areas. This is a special one-year provision. It starts as of today and will go for one year. If a business or a shopping center or any other commercial enterprise starts an enterprise within a year and completes it within three years, they will have the right to use the depreciation rate on the building twice as fast as normal, and they will have a right to use a five-year life for equipment.

The average life of the equipment is about 12 years, so this would be a five-year life. In addition, they will get the investment credit for any other rights which they have under the statute. This is limited to areas that had an average unemployment rate of 7 percent during 1975 and a list of those areas, as estimated now, is in the supplemental fact sheet, which you have, so you can look and see.

Q The 20,000 to 40,000 -- I ask this question because I have forgotten how lids work -- the 20,000 to 40,000, is that gross or net?

MR. SEIDMAN: That is on earned income, and it merely means that if the amount decided upon is the full amount, it is $1,500 let's say. Then, if it were between 20 and 40, when you got to 30 you would only be able to put in $750. In other words, the amount that you could put in would phase down as you got to higher income brackets.

Q Gross income or taxable income?

MR. SEIDMAN: This is going to be earned income, which is the concept in the statute now.

Q It is a shelter, is that right? You are sheltering $1,000 or $1,500?

MR. SEIDMAN: You are giving them the right to have a tax deduction for investing in America, that is right.

Q You are sheltering that $1,000 or $1,500 from taxes?

MORE

MR. SEIDMAN: Well, I don't know how you phase it. I would just simply say you are --

Q When you were still a private accountant, Bill, did you call it a shelter?

MR. SEIDMAN: I never dealt with anything this small. (Laughter)

Q Bill, since there is a good deal of unused capacity in the country and the general belief is that it is a lack of consumer spending, which seems to be recovering at a rather slow rate, how does this second tax proposal do anything to stimulate the economy?

MR. SEIDMAN: There are a great many manufacturers who have new plants on the drawing boards, who have ideas of where they want to put those plants, and if they see that by starting them, let's say, a year earlier than they might have originally planned they can get this additional incentive, they may well start them a year early.

The whole hope here is to try to move and accelerate the construction from what might take place a year or two later.

Q Even though they have unused capacity, they might start construction now with anticipation of greater demand a year or two down the line?

MR. GREENSPAN: Irving, first of all, I think we ought to question the premise of your question; namely, that it is a deficiency of consumer buying which is a problem. I think it is precisely the opposite. Consumer markets have been moving ahead very rapidly in the last numbers of weeks -- in the last month or so -- and there has been, as you know, very considerable unused capacity in the construction industry and in the capital goods industry.

This proposal is positioned to give incentives to accelerate construction on new plant and equipment, or, I should say, new plants and equipment in the new plants, and that this particular type of thing really does not necessarily relate to whether or not manufacturers or other businesses have unused capacity.

They are always building at any rate of operations and all this will do, if one takes a look at what this does to cash flow rates of return and the like, is to very markedly improve the incentives to move on these types of projects in areas where the unemployment rate is abnormally high.

MORE

Q Are you saying there is not low utilization rates on other industries?

MR. GREENSPAN: I am basically saying that the whole capital goods markets have lagged, as they ordinarily would expect to do, during this particular period and it is that, not the consumer markets, which have got the major potential expansion in front of us.

MR. SEIDMAN: Most people are predicting there is going to be a shortage in a great many of those areas sometime in the not-too-distant future, and what we are trying to do is move the construction ahead of when it might normally take place.

Let me just say on the last thing that the President has proposed an estate tax change in order to help small businesses and small farms continue to be retained in a family. This is similar to the thing -- the suggestion that he made in his recent speech to the Farm Bureau, which basically provides that, instead of paying the tax in nine months, as is now required, you get five years before you have to pay anything, and then you pay the rest over a 20-year period with a 4 percent interest rate.

It is limited to those farms or businesses with a value of $300,000, and then above that, it phases out so that you get no benefit if they are in excess of $600,000.

Q You said business is also the same?

MR. GREENSPAN: Farms and businesses in that they qualify as family --

Q What is the limit on shareholders, Bill? How do you define the small business for the purpose of the act?

MR. SEIDMAN: It is defined in the same way that it is now in the statute, which is 50 percent of the gross estate or 35 percent of the net estate. It is the same provision that is already in Section 6116.

MR. NESSEN: There is one mistake in the speech, and let me correct that and then we can go. It is on page 9. $22.5 billion has been already given in revenue sharing instead of $19 billion.

Q We were told $23 billion.

MR. NESSEN: $22.5 is the correct number. The fact sheet shows also $22.5.

THE PRESS: Thank you.

END (AT 7:35 P.M. EST)

487