

The original documents are located in Box 11, folder “Tax Cut / Spending Limitation Proposal” of the Richard B. Cheney Files at the Gerald R. Ford Presidential Library.

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THE WHITE HOUSE

WASHINGTON

December 13, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

LWS

SUBJECT: Tax Cut/Spending Limitation Strategy Considerations

The team responsible for carrying out your strategy is as follows:

Prime Responsibility:	Bill Seidman (Deputy)	Bill Gorog
Team Members:	Legislative Liaison	- Bill Kendall
	OMB	- Paul O'Neill
	Treasury	- Charles Walker

The initial question which must be determined is whether you are willing to signal that we would accept a "modified Long" strategy as shown in the sample Resolution in TAB A. This would provide for a six-month tax cut with a determination on 1 July as to whether the cut would be continued or added to dependent on dollar-for-dollar cuts from a \$423 billion spending ceiling estimate.

There are three times when we could either accept or offer such a compromise:

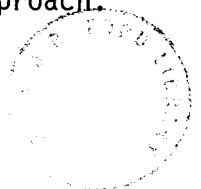
- (1) Now - with Senator Long
- (2) After VETO to accompany the veto message
- (3) After the VETO - if sustained.

DECISION

_____ Signal that we would accept a "modified Long" strategy

_____ Defer decision

Our plan is as follows, if we do not take the "modified Long" approach:



- I. Have a Floor Amendment offered (by Hansen, Fannin, or Brock) providing for a \$28 billion tax cut with a \$395 billion spending limitation. If this amendment fails, then
- II. Have a Floor Amendment offered providing for the six-month tax cut (the Senate Bill), with a \$395 billion spending limitation. If this amendment fails, and a Bill is delivered to you from Conference, then
- III. VETO the Bill and immediately submit new legislation in accordance with the detail in the attached suggested outline of the Veto Speech. This legislation would include:
 - a. A tax cut of \$6.4 billion to June 30;
 - b. A tax cut at the \$28 billion annual rate effective July 1976 IF Congress has passed the spending limitation of \$395 billion;
 - c. A provision that if the spending ceiling has not been passed, tax rates revert to the 1974 levels.

If a veto is sustained, but the new legislation fails, then

- IV. Submit compromise legislation which proposes the "modified Long" strategy.

There will not be a vote in the Senate on this issue until Tuesday.



A

1. WHEREAS the Senate has established Budget Resolutions for 1976 providing spending ceilings,

2. WHEREAS this Resolution provides for a tax reduction for the first six-month period of 1976,

3. WHEREAS pursuant to the Budget Act, Congress will establish new limits for spending for Fiscal Year 1977 in May of 1976,

4. WHEREAS Congress believes that final policy requires simultaneously control over receipts and expenditures and a limit to Federal spending,

NOW, THEREFORE, BE IT RESOLVED that the Congress commits that any continuation of tax cuts beyond 1 July 1976, or additional tax cuts in Fiscal Year 1976 or Fiscal Year 1977, will be accompanied by dollar for dollar Federal spending reductions from an estimated level of 1977 expenditures of \$423 billion.

OUTLINE OF VETO MESSAGE OF TAX CUT BILL

- I. This Tax Cut Bill is unsatisfactory because:
 1. It does not tie a cut in spending growth with a cut in revenues.
 2. It does not give a large enough tax cut.
 3. It does not give mid-income America its fair share of tax relief.

- II. I want a tax cut and I propose that the Congress substitute for this Bill, a Bill that provides for:
 1. A tax cut of \$6.4 billion to June 30, as provided in Ways and Means Bill.
 2. A tax cut of \$28 billion annual rate effective July 1976 if Congress has passed a spending ceiling of \$395 billion.
 3. If no spending ceiling has been passed, tax rates will automatically revert to the 1974 levels.

This plan will allow Congress to:

- a. Follow its budgetary procedures in setting a spending limit at May 15, 1976.
- b. Accept the principle of tying the growth of Federal spending to a tax reduction on a dollar-for-dollar basis.
- c. Provide an automatically larger tax cut based on appropriate budgetary action.

THE WHITE HOUSE

WASHINGTON

June 3, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: ROGER B. PORTER *RBP*

SUBJECT: Statement on Tax Legislation

As you requested at our meeting this morning, attached is a draft statement on congressional inaction on your tax reduction and spending restraint proposal.

This statement has been approved by Secretary Simon and Paul O'Neill and copies have been sent to Alan Greenspan and Jim Cannon for their review.

Attachment

PRESIDENTIAL STATEMENT

Last October, three months before the tax cuts which had been temporarily enacted for 1975 were due to expire, I urged an extension and an expansion of these cuts for 1976 and subsequent years, coupled with a spending plan which would achieve a balanced budget in three years. The essence of my proposal was to permit you, the people, to decide how your money should be spent rather than having the Federal government make these decisions for you.

Last fall, the Congress fussed and fumed about tax cuts and spending and delayed any action until the last days of their session in December. They then submitted to me an unacceptable bill, which I vetoed.

Following the veto, the Congress responded with a bill which provided for a six-month extension of the 1975 tax cut and the Congress adopted the principle that any extended or expanded future tax cuts should be coupled with cuts in Federal spending.

Now it is five months later and Congress is once again getting around to considering what to do about your taxes which will automatically increase on July 1 unless they act before that date. This is an unfortunate repeat performance of the brinkmanship approach which Congress has been taking to tax legislation.

This is not to say that Congress has been idle with respect to the subject of tax legislation during the past five months. Indeed, they have labored long and hard on a tax reform bill which will be the subject of considerable debate and negotiation before it reaches my desk.

With regard to the most basic issue of tax cuts, however, Congress has tentatively decided not to provide the additional \$10 billion in annual tax cuts which I have recommended. Instead, they have decided that they would rather spend this money themselves and have, accordingly, tentatively adopted a spending target for the next fiscal year of \$413.3 billion, which is \$17 billion more than I recommended in my budget for that fiscal year.

As I did last October, I urge you to support my clearly stated positions on increasing the tax cuts, effective July 1, and on curbing spending so that these cuts will not further increase the Federal deficit. It is not too late to accomplish these important tasks.

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16

Good Evening:

I have asked for this opportunity to talk with you tonight because it is important that all of us begin facing up to a fundamental decision about our ^{nations} future.

Each of you can speak from experience about ^{your} the economic ^{problems} ~~struggles~~ of recent months. You know what it means to pay more and more of your income just to feed and clothe your family, to get to work, and to maintain a decent home. You know the fear that strikes the human heart when a friend or member of your family is laid off work. And you know the anxiety that comes when these forces seem beyond your own control.

None of us wants to repeat the experiences of the past year. We want steady prices. We want steady jobs. And above all, we want to have a chance to get ahead again, to know that our ^{nations} ~~destiny~~ lies in our own hands and not in

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[Washington or] some ~~other~~ far away place.

Fortunately, there are encouraging signs that we have weathered the worst of this ^{economic} storm. The recovery that began ¹ this spring is now gathering momentum. If we act wisely, it will continue on an upward path.

Yet we should not be deceived. All of us must recognize that just beneath the surface there are still deep-seated problems in our economy -- problems that have been building up over the years and will not quickly ^{or easily} disappear. ¹

If you had a car that needed major repairs and you asked the local garage to make only minor adjustments, the car might run better for a while but eventually it could give you serious trouble. The same ~~thing~~ is true of our economy. If we make only minor repairs now but fail to attack the underlying causes of our economic problems, we may seem better off ^{temporarily} ~~for a while~~, but we will be risking far

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more trouble down the road.

We must find answers that serve us not only this year but in the years to come. *I propose a stiff restraint on federal spending and a corresponding federal tax cut on a permanent basis.*

Here in Washington, we have the power to help. I know The President + the Congress working together
that because ~~[it is here]~~ in Washington ~~[that]~~ much of America's vitality and prosperity have been drained away. It is here that one big spending program after another has been piled on the Federal pyramid, taking a larger share of your personal income and creating record budget deficits. Here the printing presses have churned out more and more money that is worth less and less. Here a massive, overzealous bureaucracy has been erected that has become too involved in trying to run too much of your daily life.

Over the years, these excesses have played a major role in driving up prices, driving up interest rates, and holding down jobs. We do not have to look far for our underlying

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problems. ~~It can fairly be said that~~ Much of our inflation

[~~as well as our unemployment~~ [?]] should bear a label: "Made in Washington, D.C."

As we emerge from this recession, our nation faces a basic choice. We can continue in the direction of recent years -- a path that is certain to lead to more inflation, to more unemployment, and to more governmental domination over our personal lives. Or we can take a new direction -- bringing a halt to the momentous growth of government, allowing each of you a greater voice in determining your own future, and returning the nation to the high road of freedom and economic growth. We cannot do both; we cannot go down both roads at the same time. To put it simply, we must decide now whether we shall surrender more and more of our freedom and our earnings to the government, or whether we shall keep more of our freedom and our earnings in our own hands. That is the choice.

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Tonight I ~~want to~~ ^{will} set forth two major proposals that represent ^{a sound solution to our problems} [the answer I believe we must make]. Taken together, these proposals represent one central idea: that America belongs to you, the people, ^{and} not to your government.

And let me be clear from the outset: as your President, I want these proposals acted ^{simultaneously} [upon together] in the Congress.

It would be dangerous and irresponsible to adopt one without the other, and I will not accept ^{separate action} [that] as an answer ^{to the basic} [for our ^{problem we face} future].

First, I propose that we enact into permanent law tax reductions totaling \$ _____ billion -- the biggest single tax cut in our history. Earlier this year the Congress passed and I signed a temporary tax cut covering calendar year 1975. That temporary law will expire at the end of this year and unless we act now, your taxes will go up again in January. I am proposing that we sweep away that temporary law and replace it, effective January 1, with a permanent Federal

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income tax cut that will be both larger and more equitable.

Three quarters of this permanent reduction will be for individual taxpayers. And the chief benefits will be concentrated where they belong: among middle and lower income Americans.

The average families in this country are hard-working and industrious -- the backbone of the nation -- but we cannot ^{continuously ask} [continue asking] them to bear too much of the tax burden.

Under my proposal, a family of four earning a total of \$_____ a year -- now the average income in the United States -- would be entitled to a permanent tax reduction of \$_____ a year below the rate otherwise scheduled to take effect this

January. *My proposal increases the personal exemption from \$750.00 to \$1,000 + the standard deduction from \$2,200 to \$2,500 for*

Amplification every family.

The other quarter of the reduction will be directed at business in a way that creates more jobs. If companies and plants are to regain their footing and to hire more employees in the future, they must have greater incentives for investment.

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[and] they must be allowed to retain more of their earnings.

The tax cuts that I am ^{proposing} ~~proposing~~ -- including ^a ~~a~~ permanent increase in the investment tax credit and a two percent reduction in the corporate tax rate -- are specifically designed for that purpose.

^{We must} ~~But let us~~ recognize that cutting taxes ^{is} ~~can be~~ only half the answer. If we cut only taxes but do not restrain the growth of government spending, our budget deficits will continue to mushroom, we will have more inflation, and ultimately we will have more unemployment. Substantial cuts in our taxes must be tied to substantial cuts in the growth of government spending.

Anyone who has followed the upward leap in Federal spending can only shake his head in astonishment. Back in 1962, the Federal budget for the first time in our history ran over \$100 billion. In only eight years, [however,] the budget doubled in size. [And now] in the coming fiscal year,

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unless we act, it will double again.

One of the reasons for this horrendous ^{spending} growth is that much of the increase in each year's budget is required by ~~laws~~ ^{PROGRAMS} ^{statute} already on the books. Many of these programs were first enacted years ago, and while they might have been manageable then, they are ^{now} almost out of control ~~now~~. They are like a freight train whose lights were first seen far off in the night. That train has been coming closer and closer, and now it is roaring down upon us. If we don't slow it down, Federal spending next year could easily jump to \$_____ billion -- and that is without a single new Federal program.

Therefore, I propose tonight that we halt this alarming growth by holding spending in the coming year to \$_____ billion. That means a cut of \$_____ billion below what we will spend if we just stand still and let the train run over

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us. More importantly, it means a dollar-for-dollar cut in taxes and spending: for every dollar that we return to the American taxpayer, we must also cut our projected spending by the same amount. By taking this step now, we can bring the overall Federal budget into balance within three years.

If we allow "politics as usual" to prevail in Washington, there will be a temptation to take the easy way out, approving the tax cuts and taking no action on the spending cuts.

That must not happen, ~~[and I intend to stop it.] [I want to make it clear that]~~ I will go forward with the tax cuts that I am proposing only if there is a clear, affirmative signal from your representatives in the House and the Senate that they will also hold spending next year to \$ ___ billion. I will not hesitate to veto any ^{legislation} ~~measure~~ passed by the Congress which violates the spirit of that understanding.

In January, I will ~~present to the Congress a request~~ ^{propose to the Congress that many of}

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our current spending programs be revised, consolidated
that no new spending programs ~~be enacted~~ and that many of
~~our current programs~~ ^{and} be held below their projected ^{spending} levels.

When I do, you will hear immediate protests from one group or another contending that Washington should keep up an endless flow of benefits and subsidies. But we have to face hard realities: ^{financial} our resources are limited. We must learn to live within our means.

Spending discipline by the Federal Government must be applied across the board. It cannot be isolated to one area such as social programs nor can we completely insulate any area such as defense. All must be restrained. I believe that your Congressmen should stop trying so hard to find new ways of spending your money, and get to work figuring out how to make the old ways work better. ^{at least} ~~And~~ In the process, we can begin cutting back the Federal bureaucracy; I firmly believe that we do not need almost 3 million people on the Federal payroll to deliver better services to you, the

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taxpayer.

~~Let me emphasize that my budget requests will not lead to widespread cutbacks in social security, welfare or veterans benefits.~~ We do not intend to cure the ills of this economy at the expense of the elderly, the poor, or the men and women who have borne our nation's arms. ^{Also,} [Similarly,] I will not permit reductions in [any part of] our ^{military} [defense] budget that would jeopardize our national security. We must maintain a strong national defense and a strong economy.

Sometimes when fancy new spending programs reach my desk, promising something for almost nothing and carrying appealing ~~[and often deceptive labels]~~, I wonder who the supporters think they're kidding. From my visits with the American people, I find ^{many} most of them believe that what the government puts in your front pocket, it slips out of your back pocket through taxes and inflation. They are figuring

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2
out that they are not getting their money's worth from their taxes. They believe that the politics of Federal spending has become too much of a shell game. And to be honest, I agree with them.

America's greatness was not built by taxing people to their limits but by letting ^{our people} ~~them~~ exercise their freedom and their ingenuity to their limits. Freedom and prosperity go hand in hand. The proof is there to see ^{around the world} [across the globe.]
Only by releasing the full energies of our people -- only by getting the government off your back and out of your pocket -- will we achieve our goals of stable prices and more jobs.

It has been apparent for years that America was nearing a crossroads. Today we are there.

3
Down one fork lies the wreckage of many great nations of the past. Indeed, the biggest city in our own country is dangerously close to a financial precipice. None of us

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wants to see it go over the edge; all of us care deeply about the people of that city. But as they work to get back on the right path, let us never forget what led them to the brink; and let us vow that these United States will never reach the same predicament.

Let us choose instead the other fork -- the road that we know to be tested, the road that will work.

As your President, I cannot take this journey alone. I need the help of you, the American people, to persuade your Congressmen and your Senators that you want your taxes cut and the growth in spending cut. I need the help of the farmer in Iowa, the housewife in California, the retired couple in Florida, the small businessman in New Jersey, the student in Texas -- all of you. This must be a national effort. I deeply believe that America should not belong to the politicians but to the people; and now you must help in deciding upon your future.

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Thank you and good evening.