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STATE OF THE UNION

FACT SHEET

SUPPLEMENTAL MATERIALS

Annex A -- Proposed Tax Rates for Married  
Taxpayers

Annex B -- Proposed Tax Rates for Single Taxpayers

Annex C -- Six-Point Electric Utility Proposal

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Proposal

Annex E -- Potentially Qualified Labor Market Areas

Tax Rate Schedule for President's  
Tax Reduction Proposals  
(Married Taxpayers Filing Jointly)

Taxable income : bracket		Present rates	Proposed rates : for 1976	Proposed rates : for 1977
\$ 0	\$ 1,000	14 %	13 %	12 %
1,000	2,000	15	14.5	14
2,000	3,000	16	15.5	15
3,000	4,000	17	16	15
4,000	6,000	19	17.5	16
6,000	8,000	19	18	17
8,000	10,000	22	21.5	21
10,000	12,000	22	22	22
12,000	16,000	25	25	25
16,000	20,000	28	28.5 <u>1/</u>	29 <u>1/</u>
20,000	24,000	32	33 <u>1/</u>	34 <u>1/</u>
24,000	28,000	36	36	36
28,000	32,000	39	39	39
32,000	36,000	42	42	42
36,000	40,000	45	45	45
40,000	44,000	48	48	48
44,000	52,000	50	50	50
52,000	64,000	53	53	53
64,000	76,000	55	55	55
76,000	88,000	58	58	58
88,000	100,000	60	60	60
100,000	120,000	62	62	62
120,000	140,000	64	64	64
140,000	160,000	66	66	66
160,000	180,000	68	68	68
180,000	200,000	69	69	69
200,000	---	70	70	70

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January 12, 1976

1/ While two rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets so that on balance the changes in rates reduce taxes even for those affected by the increased rates.



## Annex B

Tax Rate Schedule for President's  
Tax Reduction Proposals  
(Single Taxpayers)

Taxable income : bracket		Present rates	Proposed rates : for 1976	Proposed rates : for 1977
\$ 0	\$ 500	14 %	13 %	12 %
500	1,000	15	14	13
1,000	1,500	16	15.5	15
1,500	2,000	17	16	15
2,000	3,000	19	17.5	16
3,000	4,000	19	18	17
4,000	5,000	21	19.5	18
5,000	6,000	21	20	19
6,000	8,000	24	22.5	21
8,000	10,000	25	24.5	24
10,000	12,000	27	27	27
12,000	14,000	29	29	29
14,000	16,000	31	31	31
16,000	18,000	34	34	34
18,000	20,000	36	36	36
20,000	22,000	38	38	38
22,000	26,000	40	40	40
26,000	32,000	45	45	45
32,000	38,000	50	50	50
38,000	44,000	55	55	55
44,000	50,000	60	60	60
50,000	60,000	62	62	62
60,000	70,000	64	64	64
70,000	80,000	66	66	66
80,000	90,000	68	68	68
90,000	100,000	69	69	69
100,000	--	70	70	70

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## SIX POINT ELECTRIC UTILITY PROPOSAL

- increase the investment tax credit permanently to 12 percent;
- permit immediate investment tax credit on progress payments for construction;
- extend the five-year amortization provision for pollution control facilities;
- permit five-year amortization of the costs of converting or replacing petroleum-fueled facilities;
- permit a utility to elect to begin depreciation of accumulated construction progress expenditures during the construction period;
- permit shareholders to postpone tax on dividends paid by the utility by electing to take additional common stock in lieu of cash dividends.

The provisions regarding the investment tax credit and depreciation would apply only if the tax benefits are "normalized" for rate-making purposes.

## TABLES

1. Revenue Losses of Individual Income Tax Reduction Compared to 1974 Law
2. Total Tax Liability Under Various Tax Laws
3. Income Distribution of Liability Under President's Proposal for 1977 Compared with Revenue Adjustment Act Unextended
4. Distribution of Tax Liabilities Under President's Proposal for 1976 Compared with Revenue Adjustment Act Unextended by Size of Adjusted Gross Income
5. Distribution of Tax Liabilities Under President's Proposal for 1977 Compared with Revenue Adjustment Act Extended by Size of Adjusted Gross Income
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7. Comparison of Individual Income Tax Provisions
8. Tax Liabilities Under Various Tax Laws for Single Person Without Dependents, with Itemized Deduction of 16 Percent of Adjusted Gross Income
9. Tax Liabilities Under Various Tax Laws for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income
10. Tax Liabilities Under Various Tax Laws for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income
11. Tax Liabilities Under Various Tax Laws for Family with 2 Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income
12. Tax Liabilities Under Various Tax Laws for Family with 4 Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income
13. Projected Poverty Levels Compared to Tax-Free Income Levels

Note: In these tables "Revenue Adjustment Act Unextended" refers to the full-year tax liability change enacted by the Revenue Adjustment Act of 1975, and "Revenue Adjustment Act Extended" refers to a doubling of the Revenue Adjustment Act changes to permit continued use of present withholding tax tables through 1976.

Revenue Losses of Individual Income Tax Reduction Compared to 1974 Law  
(1976 Levels of Income)  
(\$ billions)

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2/ Revenue loss of tax liability changes that affect withholding tax tables.

Table 2

Total Tax Liability Under Various Tax Laws  
(1975 Levels of Income)

(\$ millions)						
Adjusted gross income class	: 1974 law	: 1975 law 1/	: Revenue Adjustment Act unextended	: Revenue Adjustment Act extended	: President's proposed 1976 law	: President's proposed 1977 law
(\$000)						
Up to 0	44	44	44	44	44	44
0 - 5	2,000	1,165	1,430	998	872	775
5 - 10	14,069	11,514	12,247	10,391	9,702	9,102
10 - 15	23,122	21,099	21,536	19,818	18,563	17,609
15 - 20	23,706	21,944	22,381	21,066	20,264	19,520
20 - 30	28,022	26,782	27,148	26,216	25,470	24,714
30 - 50	16,950	16,579	16,696	16,430	16,174	15,913
50 - 100	12,064	11,962	11,995	11,923	11,803	11,681
100 or over	<u>9,445</u>	<u>9,425</u>	<u>9,431</u>	<u>9,416</u>	<u>9,385</u>	<u>9,354</u>
TOTAL	129,422	120,514	122,906	116,303	112,366	108,711

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Note: Estimates exclude net refunds under E.I.C.; they are treated as expenditures.

1/ Includes effect of home purchase credit.

Table 3

Income Distribution of Liability Under President's Proposal  
for 1977 Compared with Revenue Adjustment Act Unextended

(1975 Levels of Income)

Adjusted gross income class	Total of tax liability		Tax cut caused by the President's proposal for 1977		
	Revenue Adjustment Act unextended	President's proposal for 1977	Amount	Percent distribution	As percent of tax under Revenue Adjustment Act unextended
(\$000)	(..... \$ billions .....		(.....percent.....)		
Up to 5	1.5	0.8	0.7	4.6%	44.4%
5 - 10	12.2	9.1	3.1	22.2	25.7
10 - 15	21.5	17.6	3.9	27.7	18.2
15 - 20	22.4	19.5	2.9	20.2	12.8
20 - 30	27.1	24.7	2.4	17.1	9.0
30 - 50	16.7	15.9	0.8	5.5	4.7
50 - 100	12.0	11.7	0.3	2.2	2.6
100 +	9.4	9.4	0.1	0.5	0.8
TOTAL	122.9	108.7	14.2	100.0	11.5

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January 12, 1976

Note: Estimates exclude net refunds under E.I.C.; they are treated as expenditures.

Table 4

Distribution of Tax Liabilities Under President's Proposal for 1976 Compared  
with Revenue Adjustment Act Unextended by Size of Adjusted Gross Income  
(1975 Levels of Income)

Adjusted gross income class (\$000)	Total tax liability		Tax cut caused by President's proposal for 1976		
	Revenue	Proposed	Amount	Percent distribution	As percent of tax under Revenue Ad- justment Act extende
	Adjustment Act- unextended	1976 law			
	(..... \$ billions .....		(..... percent .....		
Up to 5	1.5	0.9	0.6	5.3%	37.8%
5 - 10	12.2	9.7	2.5	24.1	20.8
10 - 15	21.5	18.7	2.9	27.3	13.4
15 - 20	22.4	20.3	2.1	20.1	9.5
20 - 30	27.1	25.5	1.7	15.9	6.2
30 - 50	16.7	16.2	0.5	5.0	3.1
50 - 100	12.0	11.8	0.2	1.8	1.6
100 +	9.4	9.4	*	0.4	0.5
TOTAL	122.9	112.4	10.5	100.0	8.6

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January 6, 1976

Note: Estimates exclude net refunds of E.I.C.; they are treated as expenditures.

Table 5

Distribution of Tax Liabilities Under President's Proposal  
for 1977 Compared with Revenue Adjustment Act Extended  
by Size of Adjusted Gross Income  
(1975 Level of Income)

Adjusted gross income class	Total tax liability		Tax cut caused by the President's proposal for 1977		
	Revenue	President's	Amount	Percent distribution	As percent of tax under Revenue Adjustment Act extended
	Adjustment Act extended	proposal for 1977			
(\$000)	(\$ billions)				
Up to 5	1.0	0.8	.2	2.9%	21.4%
5 - 10	10.4	9.1	1.3	17.0	12.4
10 - 15	19.8	17.6	2.2	29.1	11.1
15 - 20	21.1	19.5	1.5	20.4	7.3
20 - 30	26.2	24.7	1.5	19.8	5.7
30 - 50	16.4	15.9	0.5	6.8	3.1
50 - 100	11.9	11.7	0.2	3.2	2.0
100 +	9.4	9.4	0.1	0.8	0.7
TOTAL	116.3	108.7	7.6	100.0	6.5

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Office of Tax Analysis

January 12, 1976

Note: Estimates exclude net refunds under E.I.C.; they are treated as expenditures.

Table 6

Distribution of Tax Liabilities Under President's Proposal  
for 1976 Compared with Revenue Adjustment Act Extended  
by Size of Adjusted Gross Income  
(1975 Level of Income)

Adjusted gross income class  (\$000)	Total tax liability		Tax cut caused by the President's proposal for 1977		
	Revenue	President's	Amount	Percent	As percent of tax under Revenue Adjustment Act Extended
	Adjustment	proposal for			
	Act Extended:	1976			
	(..... \$ billions .....) (..... percent .....) (.....)				
Up to 5	1.0	0.9	0.1	3.2%	12.1%
5 - 10	10.4	9.7	0.7	17.5	6.6
10 - 15	19.8	18.7	1.2	29.6	5.9
15 - 20	21.1	20.3	0.8	20.4	3.8
20 - 30	26.2	25.5	0.7	18.9	2.8
30 - 50	16.4	16.2	0.3	6.5	1.6
50 - 100	11.9	11.8	0.1	3.0	1.0
100 +	9.4	<u>9.4</u>	<u>0.03</u>	<u>0.8</u>	<u>0.3</u>
TOTAL	116.3	112.4	3.9	100.0	3.4

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January 19, 1976

Note: Estimates exclude net refunds under E.I.C.; they are treated as expenditures.



Table 7

## Comparison of Individual Income Tax Provisions

	: : 1974 : Law :	: : 1975 : Law :	: Revenue : Adjustment : Act - : unextended 1/:	: : Revenue Adjustment : Act extended 2/:	: : President's : proposal : for 1976	: : President' : proposal : for 1977
1. Standard Deduction						
(a) Minimum standard						
Single returns	\$1,300	\$1,600	\$1,500	\$1,700	\$1,750	\$1,800
Joint returns	\$1,300	\$1,900	\$1,700	\$2,100	\$2,300	\$2,500
(b) Percentage standard	15%	16%	16%	16%	16%	-
(c) Maximum standard						
Single returns	\$2,000	\$2,300	\$2,200	\$2,400	\$2,100	\$1,800
Joint returns	\$2,000	\$2,600	\$2,400	\$2,800	\$2,650	\$2,500
2. Personal Exemption Deduction	\$750	\$750	\$750	\$750	\$875	\$1,000
3. Tax Credit						
(a) Per capita	None	\$30	\$17.50	\$35	\$17.50	None
			1% up to \$90	2% up to \$180	1% up to \$90	
(b) Percent of taxable income	None	None				None
4. Rate Reductions	None	None	None	None	See Annex	See Annex
5. Earned Income Credit	None	10% up to \$400	5% up to \$200	10% up to \$400	5% up to \$200	None
6. Home purchase credit	None	5% of value up to \$2,000	None	None	None	None

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1/ Full-year tax liability change enacted by Revenue Adjustment Act of 1975.

2/ Doubling of Revenue Adjustment Act changes to permit continued use or present withholding tax tables through 1976. These provisions are actually contained in the Act but will be inoperative without further legislation.

Table 8

Tax Liabilities Under Various Tax Laws for Single  
Person Without Dependents, With Itemized Deduction  
of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income class	Tax Liability					
	1972-74 law	1975 law <u>2/</u>	Revenue	Revenue Ad-	Proposed	Proposed
			Adjustment: Act	justment Act: extended	1976 law	1977 law
\$ 5,000	\$ 490	\$ 404	\$ 425	\$ 363	\$ 334	\$ 307
7,000	889	796	800	714	677	641
10,000	1,506	1,476	1,430	1,331	1,278	1,227
15,000	2,589	2,559	2,499	2,409	2,358	2,307
20,000	3,847	3,817	3,757	3,667	3,609	3,553
25,000	5,325	5,295	5,235	5,145	5,080	5,015
30,000	6,970	6,940	6,880	6,790	6,722	6,655
40,000	10,715	10,685	10,625	10,535	10,455	10,375
50,000	15,078	15,048	14,988	14,897	14,811	14,725

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January 13, 1973

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.



Table 9

Tax Liabilities Under Various Tax Laws for Family with  
No Dependents, Filing Jointly with Itemized Deductions  
of 16 Percent of Adjusted Gross Income 1/

Adjusted	:	:	Tax Liability				:	:	:	:		
gross	:	1972-74	:	1975	:	Revenue	:	Revenue Ad-	:	Proposed	:	Proposed
income	:	law	:	law 2/	:	Adjustment:	:	justment Act:	:	1976	:	1977
class	:	:	:	:	:	Act	:	extended	:	law	:	law
\$ 5,000	\$	322	\$	170	\$	225	\$	130	\$	88	\$	60
7,000		658		492		548		448		387		335
10,000		1,171		1,054		1,084		948		872		800
15,000		2,062		2,002		1,972		1,882		1,827		1,750
20,000		3,085		3,025		2,995		2,905		2,842		2,780
25,000		4,240		4,180		4,150		4,060		4,006		3,950
30,000		5,564		5,504		5,474		5,384		5,358		5,328
40,000		8,702		8,642		8,612		8,522		8,481		8,441
50,000		12,380		12,320		12,290		12,200		12,140		12,050

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January 13, 1976

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.



Table 10

Tax Liabilities Under Various Tax Laws for Family  
with 1 Dependent, Filing Jointly with Itemized Deductions  
of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income class	Tax Liability					
	1972-74 law	1975 law <u>2/</u>	Revenue Adjustment Act	Revenue Ad- justment Act: extended	Proposed 1976 law	Proposed 1977 law
\$ 5,000	\$ 207	\$ 29	\$ 95	\$ 0	\$ 0	\$ 0
7,000	526	336	406	289	234	190
10,000	1,028	882	949	820	726	640
15,000	1,897	1,807	1,807	1,717	1,635	1,535
20,000	2,897	2,807	2,807	2,717	2,624	2,530
25,000	4,030	3,940	3,940	3,850	3,757	3,660
30,000	5,324	5,234	5,234	5,144	5,070	4,988
40,000	8,406	8,316	8,316	8,226	8,140	8,054
50,000	12,028	11,938	11,937	11,847	11,739	11,630

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than \$8,000 and if their adjusted gross income is less than \$8,000. If the effects of the EIC were included, the table would have these entries (negative entries represent direct payments to the taxpayer):

AGI	1975 Law	Revenue Adjustment Act	Revenue Ad- justment Act Extended	Proposed 1976 Law
\$5,000	- \$271	-\$55	-\$300	- \$150
\$7,000	+ \$236	\$356	\$189	+ \$184



Table 11

Tax Liabilities Under Various Tax Laws for Family  
with 2 Dependents, Filing Jointly with Itemized Deductions  
of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income class	Tax Liability					
	1972-74	1975	Revenue	Revenue Ad-	Proposed	Proposed
	law	law <u>2/</u>	Adjustment: Act	justment Act: extended	1976 law	1977 law
\$ 5,000	\$ 98	\$ 0	0	0	\$ 0	\$ 0
7,000	402	186	\$ 268	\$ 135	89	60
10,000	886	709	797	651	555	485
15,000	1,732	1,612	1,642	1,552	1,446	1,325
20,000	2,710	2,590	2,620	2,530	2,405	2,280
25,000	3,820	3,700	3,730	3,640	3,507	3,370
30,000	5,084	4,964	4,994	4,904	4,781	4,648
40,000	8,114	7,994	8,024	7,934	7,799	7,664
50,000	11,690	11,570	11,600	11,510	11,345	11,180

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than \$8,000 and if their adjusted gross income is less than \$8,000. If the effects of the EIC were included, the table would have these entries (negative entries represent direct payments to the taxpayer):

AGI	1975 Law	Revenue Adjustment Act	Revenue Ad- justment Act Extended	Proposed 1976 Law
\$5,000	- \$300	-\$150	-\$300	- \$150
\$7,000	+ \$ 86	\$218	\$35	+ \$ 39



Table 12

Tax Liabilities Under Various Tax Laws for Family  
with 4 Dependents, Filing Jointly with Itemized Deductions  
of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income class	:	:	Tax Liability				:	:
			1972-74 law	1975 law <u>2/</u>	Revenue Adjustment Act	Revenue Ad- justment Act: extended	Proposed 1976 law	Proposed 1977 law
\$ 5,000	:	:	\$ 0	\$ 0	0	0	\$ 0	\$ 0
7,000	:	:	170	0	7	0	0	0
10,000	:	:	603	372	\$ 481	\$ 308	240	190
15,000	:	:	1,402	1,222	1,297	1,192	1,078	965
20,000	:	:	2,335	2,155	2,230	2,125	1,966	1,816
25,000	:	:	3,400	3,220	3,295	3,190	3,002	2,830
30,000	:	:	4,604	4,424	4,499	4,394	4,191	4,008
40,000	:	:	7,529	7,349	7,424	7,319	7,101	6,896
50,000	:	:	11,015	10,835	10,910	10,805	10,542	10,280

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than \$8,000 and if their adjusted gross income is less than \$8,000. If the effects of the EIC were included, the table would have these entries (negative entries represent direct payments to the taxpayer):

AGI	1975 Law	Revenue Adjustment Act	Revenue Ad- justment Act Extended	Proposed 1976 Law
\$5,000	- \$300	-\$150	-\$300	- \$150
\$7,000	- \$100	-\$43	-\$100	- \$ 50





Table 13

Projected Poverty Levels 1/ Compared to Tax-Free Income Levels 2/

	1975		1976				1977	
	Poverty level	Tax-free income	Poverty level	Revenue Ad-justment Act Extended	Tax-free income Revenue Ad-justment Act Unextended	President's proposal	Poverty level	Tax-free income President's proposal
Single person	\$2,790	\$ 2,560	\$2,970	\$2,380	\$2700	\$2,760	\$3,150	\$2,800
Married couple:								
No dependents	3,610	3,830	3,840	3,450	4100	4,320	4,080	4,500
1 dependent	4,300	4,790	4,570	4,320	5100	5,330	4,850	5,500
2 dependents	5,500	5,760	5,850	5,200	6100	6,340	6,200	6,500
3 dependents	6,490	6,720	6,900	6,080	7080	7,350	7,320	7,500
4 dependents	7,300	7,670	7,770	6,980	8070	8,360	8,240	8,500
Single person, over 65	2,580	3,310	2,740	3,120	3450	3,640	2,910	3,800
Couple, both over 65	3,260	5,330	3,460	4,950	5600	6,070	3,670	6,500

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1/ Assuming these annual values of the consumer price index (1967 equals 100):

1975 -- 161

1976 -- 172

1977 -- 182

2/ Taxpayers not eligible for earned income credit.

POTENTIALLY QUALIFIED LABOR MARKET AREAS

Labor Market	Unemployment Rate
<u>Alabama</u>	
Anniston	13.0
Birmingham	7.6
Florence	11.4
Gadsden	13.5
Huntsville	9.2
<u>Alaska</u>	
Anchorage*	7.0
<u>Arizona</u>	
Phoenix	10.9
Tucson	7.9
<u>Arkansas</u>	
Fayetteville-Springdale	8.3
Fort Smith	9.3
Pine Bluff	8.4
<u>California</u>	
Anaheim-Santa Ana-Garden Grove	8.3
Bakersfield	8.4
Fresno	9.1
Los Angeles-Long Beach	9.9
Modesto	13.6
Oxnard-Simi Valley-Ventura	8.6
Riverside-San Bernardino-Ontario	11.6
Sacramento	9.0
Salinas-Seaside-Monterey	8.4
San Diego	10.3
San Francisco-Oakland	9.9
San Jose	8.5
Santa Barbara-Santa Maria-Lompoc	7.4
Santa Cruz	11.3
Santa Rosa	12.1
Stockton	9.9
<u>Connecticut</u>	
Bridgeport	12.0
Bristol	14.7
Danbury	10.6
Hartford	8.4
Meriden	13.1
New Britain	12.9
New Haven-West Haven	9.7
New London-Norwich	7.7
Norwalk	8.5
Stamford	7.3
Waterbury	12.1

\*Eligibility in question pending release of December 1975 Labor Statistics





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Labor Market

Unemployment Rate

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Delaware

Wilmington 9.6

District of Columbia

8.1

Florida

Daytona Beach 11.5

Fort Lauderdale-Hollywood 15.4

Fort Myers 12.7

Jacksonville 7.4

Lakeland-Winter Haven 10.9

Melbourne-Titusville-Cocoa 14.5

Miami 10.9

Orlando 11.8

Pensacola 8.3

Sarasota 12.8

Tampa-St. Petersburg 11.3

West Palm Beach-Boca Raton 13.2

Georgia

Albany 8.7

Atlanta 9.6

Augusta 7.9

Columbus 7.5

Macon 8.4

Savannah 8.3

Illinois

Chicago 8.6

Decatur 9.5

Kankakee 9.7

Rockford 10.5

Indiana

Anderson 11.0

Bloomington 10.2

Evansville 7.8

Fort Wayne 9.8

Gary-Hammond-East Chicago 7.8

Indianapolis 7.4

Muncie 10.5

South Bend 7.5

Iowa

Dubuque 7.4

Kentucky

Louisville 8.1

Owensboro 8.8



Labor Market	Unemployment Rate
<u>Louisiana</u>	
Alexandria	11.2
Lake Charles	9.6
Monroe	9.5
New Orleans	8.2
Shreveport	9.2
<u>Maine</u>	
Lewiston-Auburn	10.3
Portland	8.2
<u>Maryland</u>	
Baltimore	8.5
<u>Massachusetts</u>	
Boston	12.0
Brockton	12.3
Fall River	13.3
Fitchburg-Leominster	11.7
Lawrence-Haverhill	14.0
Lowell	12.8
New Bedford	15.3
Pittsfield	11.5
Springfield-Chicopee-Holyoke	12.4
Worcester	12.3
<u>Michigan</u>	
Ann Arbor	12.3
Battle Creek	11.9
Bay City	13.3
Detroit	14.6
Flint	15.3
Grand Rapids	11.2
Jackson	11.3
Kalamazoo-Portage	10.1
Lansing-East Lansing	11.8
Muskegon-Norton Shores-Muskegon Heights	14.5
Saginaw	11.3
<u>Minnesota</u>	
Duluth-Superior	8.9
<u>Mississippi</u>	
Biloxi-Gulfport*	7.0
<u>Missouri</u>	
Kansas City	8.1
St. Louis	8.6
<u>Montana</u>	
Great Falls	7.9
<u>Nebraska</u>	
Omaha	7.7

\*Eligibility in question pending release of December 1975 Labor Statistics



Labor Market	Unemployment Rate
<u>Nevada</u>	
Las Vegas	10.7
Reno	8.2
<u>New Hampshire</u>	
Manchester	8.2
<u>New Jersey</u>	
Atlantic City	10.7
Jersey City	12.3
Long Branch-Asbury Park	8.6
Newark	10.3
New Brunswick-Perth Amboy-Sayreville	9.2
Paterson-Clifton-Passaic	11.7
Trenton	7.6
Vineland-Millville-Bridgeton	13.6
<u>New Mexico</u>	
Albuquerque	7.9
<u>New York</u>	
Albany-Troy-Schenectady	8.2
Binghamton	8.3
Buffalo	13.6
Elmira	10.1
Nassau-Suffolk	8.1
New York	11.2
Rochester	8.0
Syracuse	9.8
Utica-Rome	10.7
<u>North Carolina</u>	
Asheville	10.2
Burlington	9.4
Charlotte-Gastonia	9.0
Greensboro-Winston-Salem-High Point	8.4
Wilmington	8.9
<u>Ohio</u>	
Akron	8.8
Canton	8.6
Cincinnati	7.9
Cleveland	7.7
Dayton	7.1
Hamilton-Middletown	11.6
Lima	9.0
Lorain-Elyria	8.7
Mansfield	10.3
Springfield	8.6
Toledo	9.6
Youngstown-Warren	10.5
<u>Oregon</u>	
Eugene-Springfield	11.6
Portland	9.5
Salem	9.0



Labor Market	Unemployment Rate
<u>Pennsylvania</u>	
Allentown-Bethlehem-Easton	8.0
Altoona	9.2
Erie	8.7
Northeast Pennsylvania	10.4
Philadelphia	10.2
Pittsburgh	8.6
Williamsport	9.6
York	8.1
<u>Rhode Island</u>	
Providence-Warwick-Pawtucket	14.5
<u>South Carolina</u>	
Charleston	9.4
Columbia	8.0
Greenville-Spartanburg	10.1
<u>Tennessee</u>	
Clarksville-Hopkinsville	7.6
Memphis	7.6
Nashville-Davidson	7.3
<u>Texas</u>	
Beaumont-Port Arthur-Orange	8.6
Brownsville-Harlingen-San Benito	11.3
Corpus Christi	7.5
El Paso	10.2
Laredo	16.8
Longview	7.8
McAllen-Pharr-Edinburgh	10.6
San Antonio	8.8
Sherman-Denison	11.9
Texarkana	9.2
Tyler	7.9
Waco	8.1
<u>Utah</u>	
Provo-Orem	7.9
Salt Lake City-Ogden	7.4
<u>Vermont</u>	10.0
<u>Virginia</u>	
Lynchburg	7.5
<u>Washington</u>	
Seattle-Everett	9.2
Spokane	9.0
Tacoma	9.8
Yakima	9.9



Labor Market	Unemployment Rate
<u>West Virginia</u>	
Huntington-Ashland	7.5
Parkersburg-Marietta	10.3
Wheeling	7.9
<u>Wisconsin</u>	
Eau Claire	8.4
Milwaukee	8.1



## 1976 State of the Union: A Summary

In his State of the Union address Monday night, President Ford set forth his blueprint for America's future -- a blueprint that seeks to establish "a new balance" in our national life and to solve the Nation's problems with hardheaded common sense.

### Substantial Progress Already Made

The President pointed out that under his approach, substantial progress was made in 1975:

-- inflation was cut nearly in half -- down to about 7%.

-- the economy was brought out of recession and is now enjoying a healthy recovery.

-- two thirds of the jobs lost in the recession have been restored.

-- to those critics who were asking whether we had lost our nerve, the U.S. has shown that it remains a strong and reliable partner in the search for peace.

-- and through the President's efforts, much of the public's faith in the integrity of the White House has been restored.

### Programs to Build Upon Past Progress

The President is now seeking to build upon the foundations laid in 1975. Specifically:

#### 1. In the Economy

##### A. Curbing Inflation

-- The centerpiece of the President's economic policies to fight inflation and create jobs is his attempt to cut Federal spending and to cut Federal taxes.

-- The President's budget sets a limit of \$394.2 billion spending in fiscal year 1977 -- a substantial reduction under earlier projected spending for that year.

-- In the last two years, Federal spending has increased by a total of 40%. The Ford budget would limit the 1977 spending increases to 5.5% -- the smallest single increase since President Eisenhower was in office.

-- The President devoted more personal time to the preparation of the budget than any President in a quarter of a century; as a result, he was able to pare spending without cutting deeply into any programs essential for the health or safety of the Nation.

-- To accompany the spending cut, the President is calling for a permanent tax cut of \$28 billion -- \$10 billion more than what Congress has allowed.

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B. Creating New Jobs -- The President is seeking to create new jobs not through vast new public works programs -- programs that have been tried and failed -- but by creating conditions in the private sector that will stimulate economic growth. The tax cut/spending cut is a major part of this effort. In addition, he proposed in the State of the Union:

-- Accelerated depreciation for businesses constructing new plants, purchasing equipment, or expanding their plants in areas of 7% unemployment.

-- Broadened stock ownership so that moderate income Americans will be given tax deductions for investing in American owned companies.

-- Changes in tax laws that will prevent family farms and small businesses from being wiped out by estate taxes.

-- The President will ask for additional housing assistance for 500,000 families.

C. Regulatory Reform -- The President has asked that the regulatory burden be lightened in four industries -- banking, airlines, trucking and railroads -- so that competition can be fostered and consumer prices reduced. Other areas are still under study.

2. In Energy -- Last year's comprehensive energy bill was flawed but it does provide a base upon which to build. The President is asking for swift Congressional action that would deregulate the price of new natural gas, open up Federal reserves, stimulate greater conservation, develop synthetic fuels from coal, create the EIA, and accelerate technological advances.

3. In Health -- The President proposed catastrophic health insurance for all persons covered by Medicare (the elderly and disabled), so that none of them would be required to pay more than \$500 a year for covered hospital bills or more than \$250 a year for covered doctor's bills. Slightly higher costs would be imposed upon Medicare beneficiaries to pay for the insurance.

-- Veterans were assured of high quality medical care.

-- The President spoke of the eventual need for national health insurance plan but not one dictated by Washington; the private sector must be the basis of it.

4. In Social Security -- The President called for a full cost of living increase for the elderly receiving Social Security. At the same time, he urged we face reality: the Social Security Trust Fund is running out of money. To preserve the fund and thus to protect future beneficiaries, the President asked for a small increase in Social Security taxes, effective January 1, 1977. The additional cost would come to no more than \$1 a week for any employee.

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5. In Welfare -- The President said that current programs had to be overhauled, but that they shouldn't be dumped in the laps of State and local governments nor should we make massive changes in midst of recovery. Some reforms can be made now, the most prominent -- food stamp reform. The President called for limiting food stamps to those in true poverty.

6. In Crime -- Law enforcement remains primarily a local and State responsibility, but Washington can and must help. The President is proposing: mandatory sentencing laws, more Federal prosecutors, more Federal judges, and more Federal prisons so that judges will be willing to send more criminals to jail. The President also promised a further crackdown on drug pushers.

7. In Federal Program Consolidation -- The President proposed that some 59 Federal programs be collapsed into 4 block grants -- health, education, child nutrition and community services. The biggest block grant would be a \$10 billion health grant for medicaid and other purposes; money would be distributed on basis of which state has most low income families. Purpose of the consolidation would be to wipe out red tape, give those closest to the problems greater flexibility to solve them. They would be similar to revenue sharing, a program for which the President urged re-enactment.

8. In Defense and Foreign Policy -- The President called for a significant increase in defense spending to ensure that the U.S. never becomes second strongest power.

-- He pointed to numerous successes in foreign policy of keeping the country at peace, progress in Middle East, strengthening of relationships with Europe and Japan, progress on arms limitations.

-- But he warned against further internal attacks on foreign policy community, especially the CIA, and against further Congressional efforts to tie the hands of the President.

-- He promised action to strengthen the intelligence establishment.

# # #

"Government exists to create and preserve conditions in which people can translate their ideals into practical reality.

"And 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."

(From the President's 1976 State of the Union Message to the Congress.)



January 5, 1976

MEMORANDUM FOR:

JACK MARSH

FROM:

CHARLES LEPPERT, JR.

SUBJECT:

Rep. "Pete" McCloskey (R-Calif.)

On January 5, Rep. Pete McCloskey called with some recommendations for the message on the State of the Union as follows:

1. Some of his powerful Democratic friends associated with Democratic Presidential candidates tell him that on January 20, a Democratic Citizens Group will hit the news media with a call for the divestiture of all major oil companies including those integrated horizontally and vertically.

McCloskey feels that a sentence by the President in the State of the Union Message to the effect that he is directing the Attorney General to take a look at the "bigness of the corporate structure in the United States," would be sufficient.

McCloskey says that he feels strongly about his source of information being accurate and feels the President could take the initiative on this and diffuse the opposition by a simple one sentence reference to "a look at the corporate structure" in the SOTU.

2. McCloskey feels strongly that the President should make reference to the Vietnam MIA situation in the SOTU message. McCloskey says that the MIA issue is a strong issue for the liberals and that the President could diffuse this issue also by referring to it in the SOTU.

McCloskey states that the liberals are aware that the Vietnamese stated in their meeting with them that future information on MIA's would be forthcoming upon a recognition of the cooperative effort of the Vietnamese.

McCloskey suggests that the SOTU message could do this by a sentence "supporting the House Committee on MIA's and the action they have taken. The President could mention that the nightmare in Vietnam is over and through the efforts of the House Committee on MIA's and the Vietnamese the bodies of the two Marines killed during his Advent-

stration have been returned to the United States and their families, and that the President looks forward to working with the House Committee and the Vietnam government to obtain information on those Americans still missing in Southeast Asia.

3. McCloskey offers to help in any way he can for the election of President Ford and asks for suggestions on what he can do to be helpful.

cc: Max Friedersdorf  
Vern Loen



JANUARY 19, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S STATE OF THE UNION MESSAGE

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## I. ECONOMIC PROGRAM AND PROSPECTS

The President's economic policies outlined in his State of the Union Message are designed to keep the economy on an upward path toward two central long-term objectives:

- Sustained economic growth without inflation;
- Jobs for all who seek work.

### A. SUSTAINED ECONOMIC GROWTH WITHOUT INFLATION

#### BACKGROUND

At the beginning of 1976, the American economy is well on the way to recovery from the deepest recession since the 1930's. One year ago most economic indicators including unemployment, inflation and production were deteriorating. The most significant economic feature of 1975 was that the economy turned around and steadily grew healthier during the last half of the year. The double digit inflation of over 12 percent in 1974 was reduced in 1975 to an estimated 6.9 percent. Further progress is expected in 1976 when a rate of 5.9 percent is forecast. The further reduction in the anticipated rate of inflation is expected to coincide with a continuation of the recent healthy recovery in the standard of living. Real gross national product is expected to grow by 6.2 percent in 1976 and 5.7 percent in 1977.

#### DESCRIPTION OF PROGRAM

##### 1. Spending Restraint and a Balanced Federal Budget by 1979

The President's budget recommends \$394.2 billion in Federal outlays for FY 1977, a reduction of nearly \$29 billion in the projected growth of Federal Government spending. As a result of this spending restraint, the Federal deficit would be reduced from an estimated \$76 billion in FY 1976 to \$43 billion in FY 1977. By continuing to check the growth in Federal spending, the budget can be balanced in FY 1979. Significant spending restraint coupled with tax cuts will foster sustained economic growth without inflation.

##### 2. Tax Cuts

The President will seek further permanent tax cuts for the American people, effective July 1, 1976. In keeping with his budget to contain the growth of Federal spending, the President reaffirmed his proposal for a \$28 billion permanent tax reduction. The President's proposed permanent tax reduction is \$10 billion more than the temporary tax reduction (annualized) enacted in December.

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a. Calendar Year 1977 and Beyond

The President's permanent program has the following major features:

- an increase in the personal exemption from \$750 to \$1,000
- substitution of a single standard deduction --- \$2,500 for married couples filing jointly and \$1,800 for single taxpayers --- for the existing low income allowance and percentage standard deduction,
- a reduction in individual income tax rates (see Annexes A and B),
- a permanent 10 percent investment tax credit,
- a reduction in the maximum corporate income tax rate from 48 percent to 46 percent and making permanent the current temporary tax cuts on the first \$50,000 of corporate income,
- a program to stimulate construction of new electric utility facilities to insure that long-run economic growth is not limited by capacity shortages in the production of electricity (see Annex C).

b. Calendar Year 1976

Since taxpayers compute their taxes on a calendar year basis, the President is proposing tax liability changes for calendar year 1976 that mesh his permanent proposal with the Revenue Adjustment Act of 1975 and approximate the effect of applying in 1976 the current temporary tax cuts for six months and the President's permanent tax cuts for six months. The President's full proposed tax liability changes will apply for 1977 and subsequent years.

The President's proposals would result in lower withholding tax rates (and higher take-home pay) effective July 1, 1976. The lower withholding tax rates would reflect the full impact of the tax cuts proposed by the President last October and would remain constant in 1977.

The specific tax liability provisions that will apply in calendar year 1976 are:

Tax Cuts (Compared  
to 1974 law)

For individuals:

- a personal exemption of \$875                      \$ 5.4 billion
- a per capita exemption credit of \$17.50, with alternative taxable income credit equal to 1 percent of the first \$9,000 of taxable income (i.e., maximum credit equals \$90);      \$ 4.6 billion

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- standard deduction changes \$ 4.1 billion
  - . a low income allowance of \$2,300 for joint returns and \$1,750 for singles;
  - . a percentage standard deduction of 16 percent of Adjusted Gross Income with a maximum of \$2,650 for joint returns and \$2,100 for singles;
- an average of the rate structures under present law and the President's permanent tax cut program (see Annexes A & B); \$ 3.6 billion
- an earned income credit equal to 5 percent of earned income with a maximum of \$200, phasing out at \$8,000 of earned income or adjusted gross income, whichever is greater. \$ 0.7 billion
- TOTAL INDIVIDUAL CUTS \$18.5 billion

For business:

- a reduction in corporate rates \$ 3.2 billion
  - . the rates will be 20 percent for the first \$25,000 of taxable income, 22 percent for the second \$25,000 of taxable income, and 47 percent for taxable income above \$50,000.
- the program to stimulate construction of electric facilities, effective July 1, 1976. \$ 0.6 billion
- TOTAL INDIVIDUAL AND BUSINESS TAX CUTS \$22.2 billion

c. Comparative Tax Tables

The tables in Annex D illustrate the effect of the President's tax cut proposal when it is fully effective in 1977 on different individual taxpayers compared to 1) tax liabilities under 1972-74 law; 2) 1975 tax liabilities; 3) 1976 tax liabilities under the Revenue Adjustment Act, and 4) the President's transitional proposal for 1976.

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## B. JOB CREATION AND EMPLOYMENT

### BACKGROUND

Considerable progress has been achieved during the past year. There were 85.5 million Americans at work in December, 1.7 million more than at the low point in March 1975.

The President's approach to the unemployment problem has embraced three sets of policies:

1. Alleviating the economic hardship for those who are unemployed through temporarily extending unemployment insurance coverage to 12 million additional workers and temporarily extending the period of time individuals may receive unemployment insurance benefits from 39 to 65 weeks.
2. Providing increased funds for established and proven Federal programs including Comprehensive Employment Training Act (CETA), summer youth employment and public service employment.
3. Stimulating economic activity in the private sector through a reduction in individual and corporate income taxes and encouraging increased investment in America's economic future through a series of tax incentives.

To encourage investment, the President has already proposed a phased integration of the corporate and individual income tax which will eventually eliminate the double tax burden now imposed on corporate dividends. In addition, he has proposed a six-point plan to stimulate construction of new electric utility facilities to insure that long-run economic growth is not limited by capacity shortages in the production of electricity.

### DESCRIPTION OF PROGRAM

The President has proposed four new programs to promote additional investment and create new jobs:

#### 1. Tax Cuts

The President proposed permanent reductions in individual and corporate income taxes and a permanent increase in the investment tax credit. Details of these proposals are outlined above.

#### 2. Accelerated Depreciation for Construction of Plants and Equipment in High Unemployment Areas

To speed up plant expansion and the purchase of new equipment in high unemployment areas, the President proposed permitting very rapid depreciation for businesses constructing new plants, purchasing equipment, or expanding existing facilities in areas experiencing unemployment in excess of 7 percent. Construction of such facilities must begin within one year of today to be eligible.

The program would accelerate the construction of new industrial and commercial facilities in areas of high unemployment where new jobs are

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most needed. It would immediately benefit the construction industry -- one of the most depressed industries in the economy -- and would create productive, permanent, well-paying jobs in the private sector.

The incentives provided by this proposal are substantial. For example, in the case of a building with a 30-year useful life, the taxpayer would be able to write off one-third of the cost in the first 5 years as compared with 23 percent under the most accelerated method of depreciation now available. For equipment, the entire cost of equipment with a 12-year useful life could be written off in 5 years compared to 60 percent under the double declining balance method now available.

The program has the following provisions:

Qualifying Location: Any Labor Market Area (LMA) which had an average unemployment rate of 7 percent or more for calendar year 1975. If the unemployment rate for such year in any state, exclusive of the LMAs in such state, was 7 percent or more, all areas of such state outside the LMAs would also qualify. A list of potentially qualified Labor Market Areas is at Annex E.

Qualifying Real Estate: Any commercial or industrial facility located in a qualifying area, the construction of which is commenced on or after January 19, 1976, and before January 20, 1977, which is completed within 36 months. Commercial and industrial facilities include factories, warehouses, shopping centers and office buildings, but do not include residential real estate of any kind. Distinct additions to existing facilities will also qualify for these benefits.

Qualifying Equipment: Production equipment which is ordered during the year commencing January 19, 1976, and placed into service in a qualified facility or addition within 36 months thereafter. Equipment for existing facilities or equipment such as over-the-road equipment and rolling stock does not qualify.

Amortization of Qualified Real Estate: Amortization will be allowed over a period equal to one-half the shortest life which a taxpayer may now claim under any provision of the Internal Revenue Code and Regulations. The definition of real estate, as distinguished from equipment, for this purpose will be the same as is used in the investment credit code provisions.

Amortization of Equipment: Equipment can be amortized over sixty months by the straight-line method from the date the equipment is placed in service.

Investment Credit for Equipment: The full investment tax credit would still be allowed if the useful life of such equipment, under present tests, is 7 years or more. This is a most significant

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benefit which will make the election to amortize much more attractive than if the taxpayer were limited to two-thirds of the investment credit as is the case under current law with respect to property depreciated over a five-year period.

Application to Electric Utilities: This proposal would not apply to electric utilities if the Administration's program relating to the taxation of such utilities is implemented.

### 3. Broadening Stock Ownership

The President proposed tax incentives to encourage broadened stock ownership by low and middle income working Americans by allowing deferral of taxes on certain funds invested in common stocks. Widespread stock ownership will promote more stable financial markets; strengthen economic, social and political support for the free market system; and help employees build a reasonable estate. Details of the program will be worked out with the Congress.

The proposal has the following general features:

- A Broadened Stock Ownership Plan (BSOP) could be established by individuals or by employers for the voluntary participation of their employees.
- Contributions to BSOP would be deductible from taxable income.
- Participation would be restricted to individuals in the middle and low income ranges through a limit on the maximum amount of the annual contribution eligible for exclusion from income tax, with participation phased out at higher income levels.
- Funds in a BSOP would have to be invested in common stocks, which could take the form of an interest in a mutual fund.
- Funds in a BSOP would have to remain invested for at least 7 years and are subject to tax at the time of withdrawal.
- Income earned by the BSOP would be exempt from tax until withdrawn from the plan.
- The plan would go into effect July 1, 1976, and the full deduction would be allowed for calendar year 1976.

### 4. Estate Tax Proposal for Family Farms and Businesses

The President proposed a change in the Federal estate tax laws to make it easier to continue the family ownership of a small farm or business. The proposed changes would stretch out the estate tax payment period so that Federal estate taxes can be paid out of the income of the farm or business. No payment will be required for five years and 20 years will be allowed for full payment of estate taxes at a 4 percent interest rate. This reform will help ensure the survival of smaller farms and businesses for future generations and allow them to expand their current operations.

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The proposed change would liberalize the present rules under section 6166 of the Internal Revenue Code which permit the payment in 10 annual installments of estate taxes attributable to a family farm or other closely-held business constituting a substantial part of an estate (35 percent of the total estate or 50 percent of the taxable estate). Currently, interest on deferred estate tax payments is charged at the normal rate on overdue tax payments (currently 9 percent, but 7 percent effective February 1, 1976).

The proposal has the following features:

-- At the estate's option, a five-year moratorium will apply to payment of that portion of the tax liability attributable to an ownership interest in a family farm or other closely-held business qualifying for ten-year installment payments under present section 6166 of the Internal Revenue Code. No interest will accrue during the five-year moratorium period and no principal or interest payments will be required during that period.

-- At the end of the five-year period, the deferred tax will, at the estate's option, be payable in equal annual installments over the next 20 years.

-- Interest on the installments will be reduced to 4 percent per annum from the 7 percent rate generally applicable to deferred tax payments.

-- The five-year moratorium and twenty-year extended payment provisions will apply only to the estate tax liability attributable to the first \$300,000 in value of the family farm or business. Between \$300,000 and \$600,000 there will be a dollar for dollar reduction in the value of the farm or business qualifying for the moratorium and extended payment provisions. That portion of the tax not qualifying will continue to be subject to ten-year installment payments with the 7 percent interest rate.

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## II. HOUSING ASSISTANCE

The President announced additional housing assistance for 500,000 families.

### BACKGROUND

Federal housing programs administered by HUD play a significant role in increasing the Nation's supply of housing. Two programs, Section 8 and Section 235, will help spur the construction of new housing units and will provide housing assistance for low and moderate income families.

### DESCRIPTION OF PROGRAM

Subsidies will be provided for up to an additional 400,000 low income families under a rental housing program in fiscal year 1977. This includes 125,000 units of new construction or substantial rehabilitation. This program (commonly referred to as the "Section 8" program) pays the difference between a percentage of family income and the rent charged by the landlord.

During FY 1977, mortgage subsidies will be approved for an additional 100,000 families with moderate incomes to help them buy newly constructed or substantially rehabilitated homes, under the revised Section 235 homeownership assistance program.

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### III. REGULATORY REFORM

The President reemphasized his concern that government regulation be modernized to provide a rational and efficient regulatory system serving today's needs.

#### BACKGROUND

President Ford has adopted the reform of government regulation as a principal goal of his Administration. He has ordered a critical review of all Federal regulatory activities to eliminate regulations which are obsolete and inefficient in today's economic environment. Regulatory reform is an essential part of the President's effort to make government more responsive to current economic and social realities.

#### A. PRINCIPAL OBJECTIVES OF THE ADMINISTRATION'S PROGRAM

1. Benefit consumers by encouraging increased competition. Competition fosters innovation, encourages new businesses, creates new jobs, ensures a wide choice of goods and services, and helps to keep prices at reasonable levels. By eliminating arbitrary barriers to entry and by increasing pricing flexibility, the Administration hopes to restore competition in the regulated sectors of the economy.
2. Increase understanding of the costs of regulation. Often the real costs of regulatory activities are hidden from public view. Inefficient and outdated regulation costs consumers billions of dollars every year in unnecessarily high prices. The Administration believes that these costs should be subject to the same critical attention devoted to the Federal budget.
3. Improve methods of achieving the objectives of regulation. In many instances, regulation is necessary, particularly in the health, environment and safety areas. However, regulation can impose a considerable cost burden on the consuming public and on the economy. The Administration is concerned that public protection be achieved in the most efficient manner.
4. Substitute increased antitrust enforcement for administrative regulation. In the past, regulation has often been a substitute for competition. The Administration is seeking to reverse this pattern and believes that antitrust enforcement has an important role in keeping costs and prices down.

#### B. DESCRIPTION OF PROGRAM

In October, 1974, the President initiated the reform program by asking Congress to sponsor jointly a National Commission on Regulatory Reform to study the problems of Government regulation; but so far, Congress has taken no action. Accordingly, the Administration is pursuing the following specific reform initiatives:

1. Expanded Antitrust Activity. In addition to providing for increased antitrust enforcement resources, the Administration is questioning antitrust immunity now granted to numerous industries. Many of the Administration's legislative proposals will eliminate unnecessary antitrust exemptions which restrain competition.

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2. Independent Regulatory Commissions. The President has met with the Commissioners of the 10 independent Regulatory Agencies to emphasize the importance of regulatory reform. He has asked the Commissioners to: analyze the economic costs and benefits of their actions; reduce regulatory delays; better represent consumer interests; and eliminate outdated regulation.
3. Executive Branch Agencies. Departments and Agencies are now required to analyze the inflationary impact of major new legislative proposals, rules and regulations. This requirement is designed to measure the economic costs of Government regulation.
4. Commission of Federal Paperwork. The Commission has been established to study the impact of Government reporting requirements on businesses and individuals. To assure action in the short-run, the Administration is working now to eliminate unnecessary Government paperwork requirements.
5. Transportation Regulatory Reform. The Administration has developed specific legislative proposals to reform transportation economic regulation.

The Railroad Revitalization Act, introduced in May, 1975, seeks to rebuild a healthy, efficient rail system by eliminating outdated regulatory restrictions. It will enable the railroads to compete more effectively with other forms of transportation.

The Aviation Act of 1975, submitted in October, 1975, will improve the airline regulatory environment by fostering price competition and by allowing existing airlines to serve new markets and new carriers to enter the industry.

The Motor Carrier Reform Act, introduced in November, 1975, will increase competition in the motor carrier industry and provide shippers and consumers with a wider range of services and prices.

6. Financial Institutions Act. The Administration submitted last March the Financial Institutions Act which will enable small savers to earn higher interest on savings accounts and provide more diversified financial services to all customers.
7. Energy. To help assure adequate supplies of energy, the Administration has proposed legislation to de-regulate the price of new natural gas.

The following Administration legislative initiatives have been passed by the Congress and signed by the President:

8. Fair Trade Laws. The repeal of these laws, which allowed manufacturers to dictate the retail price for their products, can save consumers an estimated \$2 billion per year.
9. Securities. President Ford signed the Securities Act Amendments of 1975 last June, to promote competition among stockbrokers and to establish a national stock market system.

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## IV. ENERGY

The President's State of the Union Message reviewed the Nation's current energy situation and reiterated major policy objectives. With the legislative accomplishments to date and administrative actions taken by the President, the Nation will achieve more than 80 percent of the President's near-term goal for reducing vulnerability to another embargo.

BACKGROUND

In last year's State of the Union Message, the President announced a set of policy goals:

- In the near-term, 1975-1977, halt our growing import dependence by reducing oil imports by 2 million barrels per day (MMB/D) before the end of 1977.
- In the mid-term, 1975-1985, attain energy independence by achieving invulnerability to oil import disruption; this means a 1985 import range of 3-5 MMB/D, replaceable by stored supply and emergency measures.
- In the long-term, beyond 1985, mobilize U.S. technology and resources to supply a significant share of the Free World's energy needs.

In January, 1975, he also submitted to the Congress the Energy Independence Act. This Act contained a comprehensive set of measures to conserve energy, increase domestic energy production, and provide for strategic reserves and standby authorities in the event of another embargo. The President also took administrative action imposing an import fee on crude oil to reduce our dependency and submitted several additional legislative proposals to the Congress during last year.

In December, the President signed the Energy Policy and Conservation Act of 1975, which contains several of his proposals, including:

- A national strategic petroleum reserve to provide a stockpile for future embargoes.
- Standby allocation, rationing, and other authorities for use in the event of another embargo.
- An oil pricing formula that provides for decontrol.
- Conservation measures to improve energy efficiency by affixing energy labels on appliances and automobiles.
- Extension of the Federal Government's ability to mandate utility and industrial conversions to coal from oil and gas.

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## A. PENDING LEGISLATION

Other Administration proposals now before the Congress include:

- New natural gas price deregulation and emergency measures have passed the Senate and will soon come up in the House.
- Authorization for production of the Naval Petroleum Reserves is in Conference Committee.
- National thermal efficiency standards for new buildings have passed the House and will soon be considered by the full Senate.
- Weatherization assistance to help low income and elderly consumers save energy has passed the House and will soon be considered by the full Senate.
- Clean Air Act Amendments.
- Assurances for private competitive uranium enrichment industry.
- Improved nuclear licensing procedures.
- Energy Independence Authority, including commercialization of synthetic fuels.
- Tax credit for insulation.
- Electric utility regulatory reform.
- New energy facility siting authorities.

## B. CURRENT ENERGY SITUATION

- Domestic oil production continues to decline. Production in 1975 averaged about 8.4 MMB/D --- a decline of about 0.7 MMB/D from the time of the embargo and about 13 percent from peak production in 1970.
- The United States paid about 27 billion dollars for foreign oil last year -- over \$125 for every American.
- Imports averaged about 6 MMB/D in 1975, about the same as 1974.
- Natural gas production declined for the second straight year. About 20.1 trillion cubic feet (Tcf) were produced in 1975, as compared to 21.6 Tcf in 1974 and 22.6 Tcf in 1973.
- Coal production was about 640 million tons in 1975, an increase of about 6 percent from 1974.
- The contribution of nuclear power to the generation of electricity increased from 6 percent in 1974 to about 8.5 percent in 1975 and will continue to rise.

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C. FUTURE ENERGY OUTLOOK

1. Near-Term (1976-1978): In the next 2-3 years, imports will increase unless rapid action is taken on some conservation measures, Naval Petroleum Reserve legislation, Clean Air Act amendments, and domestic production incentives allowed under current price controls. Without legislative and administrative action, imports would have been about 8 MMB/D in 1978; with action imports can be held to less than 6.5 MMB/D and vulnerability to an embargo can be reduced by an additional 1.3 MMB/D.
2. Mid-Term (1976-1985): There is considerable flexibility to improve our energy situation in the next ten years. Under assumptions of continued high imported oil prices, the Nation's vulnerability to an embargo could be reduced to zero if the President's programs are enacted. Imports would rise to about 10-15 MMB/D if none of his proposals were enacted. Under the program already enacted and administrative actions being taken, about two-thirds of our potential vulnerability reductions will be achieved. Further, the role of coal and nuclear power will be significantly expanded in the next ten years.
3. Long-Term (beyond 1985): The results of the U.S. energy research and development program will have an important effect on our long-term supply and demand situation. Advanced technology is being developed for energy conservation and for using solar, fossil, nuclear, and geothermal energy sources. The President is asking the Congress to increase funding substantially in these areas.

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## V. HEALTH

### A. MEDICARE IMPROVEMENTS OF 1976

The President is proposing significant modifications in the Federal Medicare program to provide catastrophic health cost protection to Medicare beneficiaries, changes in cost sharing requirements, and limits on the annual cost increases which will be reimbursed by Medicare.

#### BACKGROUND

The Nation's health care system continues to be one of the most inflationary sectors of the economy. Hospital costs have risen by more than 200 percent since 1965 (from \$40/day to \$128/day), and physicians' fees have risen more than 85% in the same period. Both rates of increase are significantly higher than the corresponding increases in the consumer price index.

Medicare is a major component of Federal health spending. It provides protection to more than 24 million aged and disabled Americans, and is expected to pay out more than \$17 billion for health care in 1976. However, Medicare has several failings -- it does not provide protection against the catastrophic financial burden of extended illness; and it contributes to health cost inflation by its failure to discourage patients from seeking health care indiscriminately.

For hospital care, Medicare currently pays nothing for the first day, 100% of costs from the 2nd through the 60th day, a reduced percentage through the 150th day, and nothing at all after that. This pattern serves to lengthen short-term hospital stays, but can lead to financial ruin for persons suffering serious, extended illness. Medicare also requires a \$60 deductible and co-payments of 20% for physicians' services. Since there is no annual maximum, this provision contributes to the financial burden of catastrophic health costs.

An additional problem with Medicare is that it contains inadequate mechanisms to control health inflation. Like most health insurance plans, it reimburses largely on the basis of actual costs or customary charges giving providers insufficient cause to seek to limit cost increases.

#### DESCRIPTION OF PROGRAM

The proposed "Medicare Improvements of 1976" are the following:

##### 1. Catastrophic Cost Protection for Health Care

For the first time, Medicare beneficiaries would be provided protection against catastrophic health costs by limiting the amounts an individual must pay annually to \$500 for covered hospital care and \$250 for covered physicians' services.

##### 2. Cost Sharing Modifications

-- Hospital Costs. Under this proposal, beneficiaries would be required to pay a deductible for the first day of a hospital stay (as under current law), and 10% of additional charges up to an annual maximum of \$500.

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- Physicians' Services. This proposal would increase the current annual deductible of \$60 to \$77 and maintain the existing co-payment of 20% for physicians' services. However, it would institute an annual maximum of \$250. The deductible would increase with Social Security benefit increases.

### 3. Reimbursement Limits

Annual Medicare reimbursement increases would be limited to 7% for hospital costs and 4% for physicians' service charges in 1977 and 1978.

### B. FINANCIAL ASSISTANCE FOR HEALTH CARE

The President proposed to improve the efficiency and equity of health services to the poor by consolidating 16 Federal health programs, including Medicaid, into one \$10 billion block grant to States. No State will receive less in FY 1977 than its share of these program funds in FY 1976.

#### BACKGROUND

The existing array of Federal categorical health programs include varying eligibility requirements. This results in gaps in coverage for those who are needy but categorically ineligible, such as two-parent families, childless couples and single individuals. To receive Medicaid funds, States are currently required to provide matching funds. Under the existing structure of health programs, some of the States with the highest per capita income receive more than four times as much Federal money per low income recipient as do States with low per capita income. Also, the current system involves programs administered at the Federal level by six different HEW agencies. Under this proposal, one HEW health agency would be responsible.

#### DESCRIPTION OF PROGRAM

The "Financial Assistance for Health Care Act" is designed to improve access to quality health care at reasonable costs, to increase State and local control over health spending, to restrain the growth of Federal spending and the Federal bureaucracy, and to achieve a more equitable distribution of Federal health dollars among States. The President's proposal would consolidate 16 Federal health programs into one \$10 billion block grant to States. The programs include:

- Medicaid
- Community Mental Health Centers
- Alcohol Project and State Formula Grants
- Venereal Disease
- Immunization
- Rat Control
- Lead Paint Poisoning Prevention
- Developmental Disability
- Health Planning
- Medical Facilities Construction

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- Community Health Centers
- State Health Grants
- Maternal and Child Health
- Family Planning
- Migrant Health
- Emergency Medical Services

Funds will be distributed according to a formula based on the size of the States' low income population, per capita income and fiscal effort. No State match is required for the block grant. A phase-in of the distribution formula will avoid any reduction in FY 1977 below the amounts States are estimated to receive in FY 1976.

A State health care plan must be developed annually as a condition of receiving Federal funds. An open and public planning process is required in which broad input from health planning organizations, providers and consumers is assured. The plan must be available for public review and comment.

The State Health Care Plan should be directed, at a minimum, toward achieving the following goals:

- Assuring all citizens of the State, and particularly populations covered under the Financial Assistance for Health Care Act, access to needed health services of acceptable quality.
- Development and utilization of preventive health services.
- Prevention or reduction of inappropriate institutional care.
- Encouraging the use of ambulatory care in lieu of in-patient services.
- Provision of primary care services especially for those located in rural or medically underserved areas.
- Assurance of the most appropriate, effective, and efficient utilization of existing health care facilities and services.
- Promotion of community health.

States will define the specific health services to be provided. At least 90 percent of the Federal funds must be used for personal health care, at least 5 percent must be used for community and environmental health activities, and a maximum of 5 percent may be used for other activities including planning, rate regulation, and resource development. Eligibility criteria, including income and other standards, will be determined by the States in accordance with the public planning process.

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### C. VETERANS ADMINISTRATION MEDICAL CARE

The President's State of the Union Message discussed the importance of assuring the quality of the medical care which our Nation's veterans receive.

#### BACKGROUND

In 1974, at the request of the Administration, the Veterans Administration conducted a thorough review of quality of care throughout its hospital system. The Quality of Care Survey resulted in the recommendation that employees should be added to the VA medical care staff and that funds were needed to correct fire and safety hazards and do other needed construction work.

The Administration has been implementing the Report's recommendations and is taking other steps to improve the quality of VA medical care.

#### DESCRIPTION OF PROGRAM

The VA medical care system includes:

- 172 hospitals
- 229 out-patient clinics
- 89 nursing homes
- 18 domiciliary facilities

The hospitals serve 1.3 million veterans. 82,500 veterans are served by the nursing homes and domiciliary facilities. The out-patient clinics provide for 15.7 million visits a year.

The 1977 budget provides funds for all of the Quality Care medical staff not already hired -- an increase of over 1,700 full-time staff.

The 1977 budget includes over \$200 million for high priority construction projects, some of which are Quality Care projects which were not started in 1975 or 1976 when money for most of the recommended Quality Care construction work was appropriated.

On a space available basis, VA facilities are used to treat veterans with non-service connected disabilities. Many of these non-service connected veterans have health insurance coverage. The Administration proposes to require health insurers to reimburse the VA for the care provided to non-service connected veterans. At present, these insurance companies benefit when a veteran decides to seek care at a VA facility and they do not have to reimburse for expenditures for which they would otherwise be legally obligated.

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## VI. INCOME SECURITY

### A. SOCIAL SECURITY

To assist in protecting the financial integrity of the Social Security System, the President has proposed a slight increase in the payroll tax effective in January, 1977.

#### BACKGROUND

The Old Age, Survivors and Disability Insurance trust funds are paying out more in benefits than their current payroll tax receipts. This is largely due to increased benefits in the past few years and payroll tax receipts which have lagged because of unemployment and slowed wage growth. Unless action is taken to balance the income and outgo of Social Security, the trust funds will be exhausted in the early 1980's.

To prevent the rapid decline of the Social Security trust funds over the next few years, the choices are either to restrain increases in retirement and disability benefits or to increase revenues.

#### DESCRIPTION OF PROGRAM

The President has included a full cost of living increase in Social Security benefits in his FY 1977 budget. To assure the future financial stability of the Social Security system, the President proposed, effective January 1, 1977, a payroll tax increase of .3 percent each for employees and employers of covered wages.

The current Social Security tax rate is 5.35% for each employee and employer of covered wages. Under this proposal, in 1977 the tax rate would be 6.15% on a maximum wage base of \$16,500. This increase will cost workers with the maximum taxable income less than \$1 a week and will help stabilize the trust funds so that current and future recipients can be assured of the benefits that they have earned.

### B. AID TO THE UNEMPLOYED

In the State of the Union Address the President spoke of the importance of efforts to aid the unemployed. He referred to two measures previously enacted by the Congress in response to his request and to the Administration's continued commitment to support programs which help the unemployed and which provide training and employment opportunities.

#### BACKGROUND

A temporary extension of unemployment insurance benefits from a maximum of 39 weeks to a maximum of 52 weeks was enacted in December, 1974. This measure also created a special unemployment assistance program for workers not covered under the regular program to provide them a total of up to 26 weeks of benefits.

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The maximum for those in the regular program was subsequently extended to 65 weeks while benefits for those not covered by the regular program were extended to 39 weeks.

#### DESCRIPTION OF PROGRAM

The President has also proposed more permanent changes to the unemployment insurance system. In July, 1975, a bill was transmitted to the Congress which would:

- Expand coverage under the regular unemployment insurance (UI) program to include agricultural workers, domestic workers, State and local hospital employees and elementary and secondary school employees.
- Set a Federal minimum standard for benefit levels.
- Strengthen the financing of the UI system.
- Increase the responsiveness of the system to changes in the economy.
- Establish a National Commission on Unemployment Compensation to undertake a thorough examination of the unemployment compensation system.

In FY 1977, it is estimated that \$14.8 billion in unemployment insurance will be paid to approximately 8.9 million beneficiaries under the regular UI program, the temporary extension to 65 weeks and the proposed legislation.

The Federal Government also supports programs which provide employment and training opportunities for millions of Americans. These programs fall under the general headings of:

- On-the-job training.
- Institutional training.
- Public service employment.
- Work support/experience.
- Vocational rehabilitation.

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## VII. INCOME ASSISTANCE

### A. Income Assistance Simplification Act

The President announced that he would submit later this year legislation granting him authority to adjust various income assistance programs to make these programs more consistent, equitable and efficient. All changes proposed under this authority would be subject to review and disapproval by the Congress.

#### BACKGROUND

The current collection of income assistance programs constitute a complex, disjointed "system" of Federal, State, and local responsibilities. The programs which comprise the "system" are inefficient and costly to administer and confusing to both recipients and taxpayers. Under the existing system, some needy persons receive insufficient help, while others receive more assistance than they should have. In some situations the programs can have the undesirable effect of discouraging work and promoting a breakdown of the family unit.

Federal expenditures for means-tested income support programs have grown to more than \$26 billion annually. There is widespread agreement that these programs require administrative simplification, consistency among program requirements, greater equity among recipients, preserved and strengthened work incentives, and targeting on those with greatest need.

The President's proposal would provide authority to modify existing laws to make needed program and procedural changes with the consent of the Congress.

#### DESCRIPTION OF PROGRAM

The proposed Income Assistance Simplification Act will include the following major provisions:

- Program Coverage. Authority will be sought only for modifications to Federal and Federally assisted means-tested programs which provide benefits to individuals in cash or "in kind", e.g. Food Stamps, AFDC, and SSI.
- Scope of Authority. The Act would give the President authority to modify administrative procedures, eligibility requirements, benefit levels, and program administration authority.
- Congressional Control. The Act would preserve Congressional authority over all proposed modifications since the Congress would have an opportunity for review and disapproval.
- Duration of Authority. Five years.

### B. Food Stamp Reform

The President indicated his intention to renew the efforts he initiated last year to reform the Food Stamp Program.

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BACKGROUND

The President submitted to Congress on October 20, 1975, the National Food Stamp Reform Act of 1975 to correct serious problems in the current Food Stamp program. The program had become overly complex, expensive to administer and had been marred by abuses. This proposal would reduce program costs by approximately \$1.2 billion.

From total Federal outlays of \$30 million in fiscal year 1964 and 360,000 participants the Food Stamp Program grew to currently estimated costs of nearly \$6 billion and 19 million participants. Through an array of deductions, some families with incomes in excess of \$12,000 are currently receiving benefits.

DESCRIPTION OF PROGRAM

The key elements of the President's National Food Stamp Reform Act are:

- Limit eligibility for food stamps to those whose net income is below the poverty level. The current poverty level is \$5050 for a family of four.
- All families would receive a \$100 monthly deduction from gross income when computing net income. This would simplify the current system of itemized deductions and give additional aid to many low income families.
- Families with one or more members over 60 would receive an additional \$25 monthly deduction, making their standard deduction \$125 a month.
- All households eligible for food stamps would pay the same proportion of their net monthly income -- 30% -- when purchasing their food stamps.
- College students who are considered dependents by their families will only be eligible for food stamps if their families are eligible for food stamps.
- Measure actual income over the preceding 90 days for purposes of eligibility.

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# VIII. CONTROLLING CRIME

The President reaffirmed his commitment to reducing crime, eliminating the traffic in hard drugs and stopping criminals from selling and using handguns.

## BACKGROUND

On June 19, 1975, in a special message to the Congress on crime, President Ford set forth his program for dealing with this issue at the Federal level. While acknowledging that the Federal role in the fight against crime is a limited one, the President identified three important responsibilities of the Federal Government in this critical area:

- Providing leadership to State and local governments by improving the quality of Federal laws and the criminal justice system.
- Enacting and vigorously enforcing laws covering criminal conduct that cannot be adequately regulated at the State or local level.
- Providing financial and technical assistance to State and local governments and law enforcement agencies, and thereby enhancing their ability to enforce the law.

## DESCRIPTION OF PROGRAM

To enable the Federal Government to carry out these responsibilities more effectively the President has made, and submitted legislation to implement the following recommendations:

- A. Mandatory Minimum Sentences. The President has recommended that the Congress enact a comprehensive Federal criminal code and, more specifically, has recommended that the code provide for the imposition of mandatory minimum sentences of incarceration for:
  - Persons committing offenses under Federal jurisdiction involving the use of a dangerous weapon.
  - Persons committing such exceptionally serious crimes as trafficking in hard drugs, kidnapping and aircraft hijacking.
  - Repeat offenders committing Federal crimes --- with or without a weapon --- which cause or have a potential to cause personal injury.
- B. Increased Federal Criminal Justice Manpower and Resources. Mindful that his recommendations for mandatory incarceration will require an improved response by the Federal criminal justice establishment, the President has:
  - Provided in his FY 1977 budget recommendations for a 9% increase in the number of Federal prosecutors, to enable U.S. Attorneys' offices to keep up with expanding caseloads.
  - Called for the enactment of legislation creating 51 additional Federal District Court judgeships, as has been recommended by the Federal Judicial Conference.

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- Provided in his FY 1977 budget recommendations \$46 million for the construction of four new Federal correctional institutions to relieve existing overcrowding and provide humane places of incarceration for Federal offenders.
- C. Controlling Handgun Abuse. To help control criminal use of handguns, the President has recommended a four-part program consisting of:
- Legislation requiring the imposition of a mandatory minimum term of imprisonment for any person convicted of using or carrying a handgun in the commission of a Federal offense.
  - Legislation banning the importation, domestic manufacture and sale of cheap, highly concealable handguns -- known as "Saturday Night Specials" -- which have no apparent use other than against human beings.
  - Legislation strengthening current law to strike at the illegal commerce in handguns and to emphasize the responsibility of gun dealers to adhere to the law.
  - Expansion, by the Bureau of Alcohol, Tobacco and Firearms, of its enforcement efforts in the Nation's eleven largest metropolitan areas (Boston, Chicago, Detroit, Dallas-Fort Worth, Los Angeles, New York, Philadelphia, Pittsburgh, St. Louis, San Francisco and Washington, D.C.) through the employment of an additional 500 firearms investigators.
- D. Drug Abuse. Last spring the President directed the Domestic Council to review the entire Federal effort in drug law enforcement, treatment and prevention, and international control. The Domestic Council's Drug Abuse Task Force completed its review and reported to the President in October, 1975. That report, the White Paper on Drug Abuse, called for more selectivity and targeting of resources, better intra- and inter-agency management and coordination, recognition of the vital but limited role the Federal Government can play, and more visible Presidential leadership. President Ford has endorsed the White Paper and has provided funds in his FY 1977 budget recommendations to implement the recommendations. For example, the budget requests funds for:
- Additional intelligence analysis to help target law enforcement resources on high level drug traffickers.
  - 7,000 new community treatment slots to ensure adequate treatment capacity for those in need.
  - Strengthened regulatory and compliance activities to better control the diversion of dangerous drugs from legal production into the illicit market.
  - A joint HEW/Labor program to increase employment opportunities for ex-addicts.

In addition to directing implementation of the recommendations contained in the White Paper, the President has spoken personally to Presidents Echeverria of Mexico

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and Lopez of Colombia and to Prime Minister Demirel of Turkey in an effort to strengthen cooperation among all nations involved in the fight against illicit drug traffic. He recently directed Secretary of State Kissinger to express again to the Mexican Government his continuing personal concern about the amount of Mexican heroin entering the United States. Finally, he has directed the Domestic Council Drug Abuse Task Force to reconvene and make recommendations for improving our ability to control drug trafficking along the Southwest border.

- E. Assistance to State and Local Government. To enable the Federal Government to continue to help State and local governments carry out their law enforcement responsibilities, the President has submitted to the Congress a bill continuing the Law Enforcement Assistance Administration through 1981 and authorizing \$6.8 billion for LEAA to continue its work during this period. Under the provision of the President's bill, special emphasis is placed on programs aimed at reducing crime in heavily populated urban areas and on improving the operation of State and local court systems.

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## IX. GENERAL REVENUE SHARING

The President again called for the continuation of the program for sharing Federal revenues with State and local governments.

### BACKGROUND

The General Revenue Sharing program has been a highly successful and effective means for providing Federal assistance to State and local governments. General Revenue Sharing which was enacted in October, 1972, has to date made over \$22 billion available to the 50 States and over 38,000 local communities throughout the Nation.

Revenue sharing funds have been used by State and local governments as they determined necessary for a wide range of essential public purposes. In view of the current fiscal squeeze that State and local governments are now experiencing, further delay or the reduction and possible termination of revenue sharing payments could have a severe impact on State and local governments.

### DESCRIPTION OF PROGRAM

The President has proposed legislation to extend the General Revenue Sharing program until September, 1982, a period of 5-3/4 more years during which \$39.85 billion will be returned to State and local governments. The renewal legislation proposed by the President in a Special Message to Congress on April 25, 1975, would maintain the basic features of the existing revenue sharing program while proposing several improvements. The principal elements of the President's proposal are:

- The basic revenue sharing formula is retained, including the present 1/3 - 2/3 split of these funds between State and local governments.
- Funds will be authorized for five and three-quarters years. The effect of this provision is to conform the time period to the new Federal fiscal year.
- The current method of funding with annual increases of \$150 million will be retained to compensate, in part, for the impact of inflation.
- The proposal aids certain jurisdictions by increasing the amount of funds that may be received by local governments with unusually high tax effort or low per capita income or both. The original Act limits a local government to an amount which may not exceed on a per capita basis 145% of the average per capita amount for all local governments in a State. By gradually raising the 145% constraint to an upper limit of 175%, the bill will allow governments now constrained to receive all or a greater part of the shared revenues otherwise allocated to them by the formula.

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-- The civil rights provisions of the existing statute would be strengthened by authorizing the Secretary of the Treasury to invoke several remedies to enforce the nondiscrimination provisions of the Act. The Secretary will have authority to withhold all or a portion of entitlement funds due a State or unit of local government, to terminate one or more payments of entitlement funds, and to require repayment of entitlement funds previously expended in a program or activity found to have been discriminatory. This change will further enhance the Secretary's ability to ensure that none of our citizens is denied on grounds of race, color, sex or national origin the benefits of any program funded in whole or in part through revenue sharing.

-- To strengthen public participation in determining the use of shared revenues, the proposed legislation requires that recipient governments must provide a procedure for citizen participation in the allocation of revenue sharing monies.

-- The Administration proposal would also make reporting requirements more flexible to meet varying needs from community to community.

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## X. PROGRAM CONSOLIDATION

A. Financial Assistance for Elementary and Secondary Education

The President will propose the Financial Assistance for Elementary and Secondary Education Act to consolidate Federal programs and to minimize Federal regulation while continuing Federal support for education. Federal funds will continue to be targeted on populations having special needs.

BACKGROUND

By law and tradition, State and local governments have the responsibility for providing free and universal public education. Over time, the Federal Government has furnished increasing assistance to the State and local governments to support elementary and secondary education. The Federal effort helps assure that children are provided equal educational opportunity.

The increasing Federal effort, channeled into categorical programs, has been accompanied by a growing number of Federal rules and regulations. Although Federal, State and local efforts overlap, the rules often earmark Federal funds for specified purposes. As a result, the test becomes not whether children are helped but whether the State meets the rules.

DESCRIPTION OF PROGRAM

The Act will consolidate 27 distinct programs into one block grant to the States. These programs fall under four main headings:

- Elementary and Secondary Education
- Education for the Handicapped
- Occupational, Vocational and Adult Education
- Library Resources

The budget authority requested for the block grant will be \$3.3 billion. Funds will be allocated to States on a formula basis. Three-quarters of the Federal funds will have to be used to serve the disadvantaged and the handicapped. The remaining quarter may be spent on any program consistent with the purposes of the programs consolidated in the block grant.

Three-quarters of the Federal funds will pass through to Local Education Agencies (LEAs).

The Act will require State plans to be developed with full public participation. Each State will have to certify that funds have been used for purposes required by the law and consistent with the State plan. Actual use of funds will be verified by an independent audit to be conducted by the State.

The Act will also require that to receive funds the State may not discriminate against a participant on the basis of race, sex, national origin or handicapping conditions. In addition, non-public school children will continue to be served on an equitable basis as under the programs to be consolidated.

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## B. Child Nutrition Reform

The President announced that he will submit a Child Nutrition Reform Act to consolidate child nutrition programs into a single comprehensive grant to provide States with increased flexibility to feed needy children.

### BACKGROUND

The Federal Government now supports 15 child nutrition programs and provides subsidies for nearly 40 different mechanisms for delivering meals. In 1975 Federal outlays for child nutrition programs were \$2.2 billion. 1976 outlays are estimated to be \$2.8 billion. Under the existing programs, outlays next year are projected to be \$3.3 billion, a reflection of the fact that the size and number of child nutrition and school lunch programs continue to grow.

Children from all families, regardless of income, are now eligible to receive Federal subsidies for school lunches. There are, however, an estimated 700,000 children from poor families receiving no benefits whatsoever.

Due to changes in the programs made by the Congress last fall, the Federal Government will shortly be spending more money on non-needy children than needy children unless these programs are reformed.

### DESCRIPTION OF PROGRAM

The President proposed the Child Nutrition Reform Act to enable the States to feed needy children.

The main objectives of this program are:

- To consolidate the school lunch, school breakfast, special milk, and several other programs.
- To help feed more low-income children.
- To eliminate the existing Federal food subsidies to non-needy children.
- To eliminate the existing administratively complicated programs to give States more flexibility and responsibility in meeting the needs of its poor children.

By eliminating assistance to non-needy children, this proposal is expected to save almost \$900 million.

## C. Financial Assistance for Community Services

The President announced that he will submit the Financial Assistance for Community Services Act which will replace Title XX of the Social Security Act and will provide States with greater flexibility in delivering social services to low income families and individuals.

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BACKGROUND

The present social services program, Title XX of the Social Security Act, provides grants to the States on the basis of population for the delivery of a wide range of social services to individuals and families including day care, family planning, foster care and homemaker services. Funds are provided on a Federal/State matching basis (75% Federal/25% State). Since its passage and implementation, Title XX has begun to increase latitude to States to use this program to meet their greatest service needs. Yet Federal administrative and reporting requirements have continued to be extensive.

DESCRIPTION OF PROGRAM

The President is proposing new legislation for Financial Assistance for Community Services to enhance further the States' discretion in the provision of services, and eliminate undue Federal regulation and restrictions on providers. The main features of Financial Assistance for Community Services are.

- Elimination of the requirement of State matching funds.
- Distribution of \$2.5 billion as a block grant to the States based on population.
- Elimination of most Federal requirements and prohibitions on the use of Federal funds.
- Emphasis on providing services to low-income Americans; concentration of Federal funds on those whose incomes fall below the poverty income guidelines.
- Public review and comment on State planning, evaluation, and reporting processes.

The Federal Government would retain the role of evaluating the overall operation of this program and of providing a clearinghouse for the dissemination and exchange of information among the States on effective services.

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Office of the White House Press Secretary

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THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

As we begin our Bicentennial, America is still one of the youngest Nations in recorded history. Long before our forefathers came to these shores, men and women had been struggling on this planet to forge a better life for themselves and their families.

In man's long upward march from savagery and slavery -- throughout the nearly 2000 years of the Christian calendar, the nearly 6000 years of Jewish reckoning -- there have been many deep, terrifying valleys, but also many bright and towering peaks.

One peak stands highest in the ranges of human history. One example shines forth of a people uniting to produce abundance and to share the good life fairly and in freedom. One Union holds out the promise of justice and opportunity for every citizen.

That Union is the United States of America.

We have not remade paradise on earth. We know perfection will not be found here. But think for a minute how far we have come in 200 years.

We came from many roots and have many branches. Yet all Americans across the eight generations that separate us from the stirring deeds of 1776, those who know no other homeland and those who just found refuge on our shores, say in unison:

I am proud of America and proud to be an American. Life will be better here for my children than for me.

I believe this not because I am told to believe it, but because life has been better for me than it was for my father and my mother.

I know it will be better for my children because my hands, my brain, my voice and my vote, can help make it happen.

And it has happened here in America.

It happened to you and to me.

Government exists to create and preserve conditions in which people can translate their ideals into practical reality. In the best of times, much is lost in translation. But we try.

Sometimes we have tried and failed.

Always we have had the best of intentions. But in the recent past we sometimes forgot the sound principles that had guided us through most of our history. We wanted to accomplish great things and solve age-old problems. And we became overconfident of our own abilities. We tried to be a policeman abroad and an indulgent parent here at home. We thought we could transform the country through massive national programs;

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-- But often the programs did not work; too often, they only made things worse.

-- In our rush to accomplish great deeds quickly, we trampled on sound principles of restraint, and endangered the rights of individuals.

-- We unbalanced our economic system by the huge and unprecedented growth of Federal expenditures and borrowing. And we were not totally honest with ourselves about how much these programs would cost and how we would pay for them.

-- Finally, we shifted our emphasis from defense to domestic problems while our adversaries continued a massive buildup of arms.

The time has now come for a fundamentally different approach -- for a new realism that is true to the great principles upon which this nation was founded.

We must introduce a new balance to our economy -- a balance that favors not only sound, active government but also a much more vigorous, healthier economy that can create new jobs and hold down prices.

We must introduce a new balance in the relationship between the individual and the Government -- a balance that favors greater individual freedom and self-reliance.

We must strike a new balance in our system of Federalism -- a balance that favors greater responsibility and freedom for the leaders of our State and local governments.

We must introduce a new balance between spending on domestic programs and spending on defense -- a balance that ensures we fully meet our obligations to the needy while also protecting our security in a world that is still hostile to freedom.

And 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.

The genius of America has been its incredible ability to improve the lives of its citizens through a unique combination of governmental and free citizen activity.

History and experience tell us that moral progress comes not in comfortable and complacent times, but out of trial and confusion. Tom Paine aroused the troubled Americans of 1776 to stand up to the times that try men's souls, because the harder the conflict the more glorious the triumph.

Just a year ago I reported that the State of the Union was not good.

Tonight I report that the State of our Union is better -- in many ways a lot better -- but still not good enough.

To paraphrase Tom Paine, 1975 was not a year for summer soldiers and sunshine patriots. It was a year of fears and alarms and of dire forecasts -- most of which never happened and won't happen.

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As you recall, the year 1975 opened with rancor and bitterness. Political misdeeds of the past had neither been forgotten nor forgiven.

The longest, most divisive war in our history was winding toward an unhappy conclusion. Many feared that the end of that foreign war of men and machines meant the beginning of a domestic war of recrimination and reprisal.

Friends and adversaries abroad were asking whether America had lost its nerve.

Finally, our economy was ravaged by inflation -- inflation that was plunging us into the worst recession in four decades.

At the same time, Americans became increasingly alienated from all big institutions. They were steadily losing confidence not just in big government, but in big business, big labor and big education, among others.

Ours was a troubled land.

And so, 1975 was a year of hard decisions, difficult compromises, and a new realism that taught us something important about America.

It brought back a needed measure of common sense, steadfastness and self-discipline. Americans did not panic or demand instant but useless cures. In all sectors people met their difficult problems with restraint and responsibility worthy of their great heritage.

Add up the separate pieces of progress in 1975, subtract the setbacks, and the sum total shows that we are not only headed in the new direction I proposed 12 months ago, but that it turned out to be the right direction.

It is the right direction because it follows the truly revolutionary American concept of 1776 which holds that in a free society, the making of public policy and successful problem-solving involves much more than government. It involves a full partnership among all branches and levels of government, private institutions and individual citizens.

Common sense tells me to stick to that steady course.

Take the state of our economy.

Last January most things were rapidly getting worse.

This January most things are slowly but surely getting better.

The worst recession since World War II turned around in April. The best cost of living news of the past year is that double digit inflation of 12% or higher was cut almost in half. The worst -- unemployment remains too high.

Today nearly 1.7 million more Americans are working than at the bottom of the recession. At year's end people were again being hired much faster than they were being laid off.

Yet let us be honest: many Americans have not yet felt these changes in their daily lives. They still see prices going up too fast, and they still know the fear of unemployment.

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And we are a growing Nation. We need more and more jobs every year. Today's economy has produced over 85 million jobs for Americans, but we need a lot more jobs, especially for the young.

My first objective is to have sound economic growth without inflation.

We all know from recent experience what runaway inflation does to ruin every other worthy purpose. We are slowing it; we must stop it cold.

For many Americans the way to a healthy non-inflationary economy has become increasingly apparent; the government must stop spending so much and borrowing so much of our money; more money must remain in private hands where it will do the most good. To hold down the cost of living, we must hold down the cost of government.

In the past decade, the Federal budget has been growing at an average rate of over 10 percent every year. The budget I am submitting Wednesday cuts this rate of growth in half. I have kept my promise to submit a budget for the next fiscal year of \$395 billion. In fact, it is \$394.2 billion.

By holding down the growth in Federal spending, we can afford additional tax cuts and return to the people who pay taxes more decision-making power over their own lives.

Last month I signed legislation to extend the 1975 tax reductions for the first six months of this year. I now propose that effective July 1, 1976, we give our taxpayers a tax cut of approximately \$10 billion more than Congress agreed to in December.

My broader tax reduction would mean that for a family of four making \$15,000 a year there will be \$227 more in take home pay annually. Hard-working Americans caught in the middle can really use that kind of extra cash.

My recommendations for a firm restraint on the growth of Federal spending and for greater tax reduction are simple and straightforward. For every dollar saved in cutting the growth in the Federal budget we can have an added dollar of Federal tax reduction.

We can achieve a balanced budget by 1979 if we have the courage and wisdom to continue to reduce the growth of Federal spending.

One test of a healthy economy is a job for every American who wants to work.

Government -- our kind of government -- cannot create that many jobs. But the Federal Government can create conditions and incentives for private business and industry to make more and more jobs.

Five out of six jobs in this country are in private business and industry. Common sense tells us this is the place to look for more jobs and to find them faster.

I mean real, rewarding, permanent jobs.

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To achieve this we must offer the American people greater incentives to invest in the future. My tax proposals are a major step in that direction.

-- To supplement these proposals, I ask that Congress enact changes in Federal tax laws that will speed up plant expansion and the purchase of new equipment. My recommendation will concentrate this job-creation tax incentive in areas where the unemployment rate now runs over 7 percent. Legislation to get this started must be approved at the earliest possible date.

Within the strict budget total I will recommend for the coming year, I will ask for additional housing assistance for 500,000 families. These programs will expand housing opportunities, spur construction and help to house moderate and low income families.

We had a disappointing year in the housing industry in 1975 but it is improving. With lower interest rates and available mortgage money, we can have a healthy recovery in 1976.

A necessary condition of a healthy economy is freedom from the petty tyranny of massive government regulation. We are wasting literally millions of working hours costing billions of consumers' dollars because of bureaucratic red tape. The American farmer, who not only feeds 215 million Americans but also millions worldwide, has shown how much more he can produce without the shackles of government control.

Now, we need reforms in other key areas in our economy -- the airlines, trucking, railroads, and financial institutions. I have concrete plans in each of these areas, not to help this or that industry, but to foster competition and to bring prices down for the consumer.

This Administration will strictly enforce the Federal antitrust laws for the same purpose.

Taking a longer look at America's future there can be neither sustained growth nor more jobs unless we continue to have an assured supply of energy to run our economy. Domestic production of oil and gas is still declining. Our dependence on foreign oil at high prices is still too great, draining jobs and dollars away from our own economy at the rate of \$125 per year for every American.

Last month I signed a compromise national energy bill which enacts a part of my comprehensive energy independence program. This legislation was late in coming, not the complete answer to energy independence, but still a start in the right direction.

I again urge the Congress to move ahead immediately on the remainder of my energy proposals to make America invulnerable to the foreign oil cartel. My proposals would:

Reduce domestic natural gas shortages;

Allow production from national petroleum reserves;

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Stimulate effective conservation, including revitalization of our railroads and the expansion of our urban transportation systems;

Develop more and cleaner energy from our vast coal resources;

Expedite clean and safe nuclear power production;

Create a new national Energy Independence Authority to stimulate vital energy investment;

And accelerate development of technology to capture energy from the sun and the earth for this and future generations.

Also for the sake of future generations we must preserve the family farm and family-owned small businesses. Both strengthen America and give stability to our economy.

I will propose estate tax changes so that family businesses and family farms can be handed down from generation to generation without having to be sold to pay taxes.

I propose tax changes to encourage people to invest in America's future, and their own, through a plan that gives moderate income families income tax benefits if they make long-term investments in common stock in American companies.

The Federal Government must and will respond to clear-cut national needs — for this and future generations.

Hospital and medical services in America are among the world's best but the cost of a serious and extended illness can quickly wipe out a family's lifetime savings. Increasing health costs are of deep concern to all and a powerful force pushing up the cost of living.

The burden of a catastrophic illness can be borne by very few in our society. We must eliminate this fear from every family.

I propose catastrophic health insurance for everybody covered by Medicare. To finance this added protection, fees for short-term care will go up somewhat, but nobody after reaching age 65 will have to pay more than \$500 a year for covered hospital or nursing home care nor more than \$250 for one year's doctors' bills.

We cannot realistically afford Federally dictated national health insurance providing full coverage for all 215 million Americans. The experience of other countries raises questions about the quality as well as the cost of such plans. But I do envision the day when we may use the private health insurance system to offer more middle income families high quality health services at prices they can afford and shield them also from catastrophic illnesses.

Using the resources now available, I propose improving the Medicare and other Federal health programs to help those who really need more protection: older people and the poor.

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To help States and local governments give better health care to the poor I propose that we combine 16 existing Federal programs including Medicaid into a single \$10 billion Federal grant.

Funds would be divided among the States under a new formula which provides a larger share of Federal money to those states that have a larger share of low income families.

I will take further steps to improve the quality of medical and hospital care for those who have served in our armed forces.

Now let me speak about Social Security.

Our Federal Social Security system for people who have worked hard and contributed to it all their lives is a vital part of our economic system. Its value is no longer debatable. In my budget for fiscal year 1977 I am recommending that the full cost of living increase in Social Security benefits be paid during the coming year.

But I am concerned about the integrity of our Social Security Trust Fund that enables people -- those retired and those still working who will retire -- to count on this source of retirement income. Younger workers watch their deductions rise and wonder if they will be adequately protected in the future.

We must meet this challenge head-on.

Simple arithmetic warns all of us that the Social Security Trust Fund is headed for trouble. Unless we act soon to make sure the fund takes in as much as it pays out, there will be no security for old or young.

I must therefore recommend a 3/10 of one percent increase in both employer and employee Social Security taxes effective January 1, 1977. This will cost each covered employee less than one extra dollar a week and will ensure the integrity of the trust fund.

As we rebuild our economy, we have a continuing responsibility to provide a temporary cushion to the unemployed. At my request the Congress enacted two extensions and expansions in unemployment insurance which helped those who were jobless during 1975. These programs will continue in 1976.

In my fiscal 1977 budget, I am also requesting funds to continue proven job training and employment opportunity programs for millions of other Americans.

Compassion and a sense of community -- two of America's greatest strengths throughout our history -- tell us we must take care of our neighbors who cannot take care of themselves. The host of federal programs in this field reflect our generosity as a people.

But everyone realizes that when it comes to welfare, government at all levels is not doing the job well. Too many of our welfare programs are inequitable and invite abuse. Worse, we are wasting badly needed resources without reaching many of the truly needy.

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Complex welfare programs cannot be reformed overnight. Surely we cannot simply dump welfare into the laps of the 50 States, their local taxpayers or private charities, and just walk away from it. Nor is it the right time for massive and sweeping changes while we are still recovering from a recession.

Nevertheless, there are still plenty of improvements we can make. I will ask Congress for Presidential authority to tighten up rules for eligibility and benefits.

Last year I twice sought long overdue reform of the scandal riddled Food Stamp program. This year I say again: Let's give Food Stamps to those most in need. Let's not give any to those who don't need them.

Protecting the life and property of the citizen at home is the responsibility of all public officials but is primarily the job of local and State law enforcement authorities.

Americans have always found the very thought of a Federal police force repugnant and so do I. But there are proper ways in which we can help to ensure domestic tranquility as the Constitution charges us.

My recommendations on how to control violent crime were submitted to the Congress last June with strong emphasis on protecting the innocent victims of crime.

To keep a convicted criminal from committing more crimes we must put him in prison so he cannot harm more law-abiding citizens. To be effective, this punishment must be swift and certain.

Too often criminals are not sent to prison after conviction but are allowed to return to the streets.

Some judges are reluctant to send convicted criminals to prison because of inadequate facilities. To alleviate this problem at the Federal level, my new budget proposes the construction of four new Federal facilities.

To speed Federal justice, I propose an increase this year in U.S. Attorneys prosecuting Federal crimes and reinforcement of the number of U.S. Marshals.

Additional Federal judges are needed, as recommended by me and the Judicial Conference.

Another major threat to every American's person and property is the criminal carrying a handgun. The way to cut down on the criminal use of guns is not to take guns away from the law-abiding citizen, but to impose mandatory sentences for crimes in which a gun is used, make it harder to obtain cheap guns for criminal purposes, and concentrate gun control enforcement in high crime areas.

My budget recommends 500 additional Federal agents in the 11 largest metropolitan high crime areas to help local authorities stop criminals from selling and using handguns.

The sale of hard drugs is on the increase again. I have directed all agencies of the Federal Government to step up enforcement efforts against those who deal in drugs. In 1975, Federal agents seized substantially more heroin coming into our country than in 1974.

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As President, I have talked personally with the leaders of Mexico, Colombia and Turkey to urge greater efforts by their Governments to control effectively the production and shipment of hard drugs.

I recommended months ago that the Congress enact mandatory fixed sentences for persons convicted of Federal crimes involving the sale of hard drugs. Hard drugs degrade the spirit as they destroy the body of their users.

It is unrealistic and misleading to hold out the hope that the Federal Government can move in to every neighborhood and clean up crime. Under the Constitution, the greatest responsibility for curbing crime lies with State and local authorities. They are the frontline fighters in the war against crime.

There are definite ways in which the Federal Government can help them. I will propose in the new budget that the Congress authorize almost \$7 billion over the next five years to assist State and local governments to protect the safety and property of all citizens.

As President I pledge the strict enforcement of Federal laws and -- by example, support, and leadership -- to help State and local authorities enforce their laws. Together we must protect the victims of crime and ensure domestic tranquility.

Last year I strongly recommended a five-year extension of the existing revenue sharing legislation which thus far has provided \$19 billion to help State and local units of government solve problems at home. This program has been effective with decisionmaking transferred from the Federal Government to locally elected officials. Congress must act this year or State and local units of government will have to drop programs or raise local taxes.

Including my health care reforms, I propose to consolidate some 59 separate Federal programs and provide flexible Federal dollar grants to help States, cities and local agencies in such important areas as education, child nutrition, and social services. This flexible system will do the job better and do it closer to home.

The protection of the lives and property of Americans from foreign enemies is one of my primary responsibilities as President.

In a world of instant communications and intercontinental missiles, in a world economy that is global and interdependent, our relations with other nations become more, not less, important to the lives of Americans.

America has had a unique role in the world since the day of our independence 200 years ago. And ever since the end of World War II, we have borne -- successfully -- a heavy responsibility for ensuring a stable world order and hope for human progress.

Today, the state of our foreign policy is sound and strong.

-- We are at peace -- and I will do all in my power to keep it that way.

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-- Our military forces are capable and ready; our military power is without equal. And I intend to keep it that way.

Our principal alliances, with the industrial democracies of the Atlantic Community and Japan, have never been more solid.

-- A further agreement to limit the strategic arms race may be achieved.

-- We have an improving relationship with China, the world's most populous nation.

-- The key elements for peace among the nations of the Middle East now exist.

-- Our traditional friendships in Latin America, Africa, and Asia, continue.

-- We have taken the role of leadership in launching a serious and hopeful dialogue between the industrial world and the developing world.

-- We have achieved significant reform of the international monetary system.

We should be proud of what the United States has accomplished.

The American people have heard too much about how terrible our mistakes, how evil our deeds, and how misguided our purposes. The American people know better.

The truth is we are the world's greatest democracy. We remain the symbol of man's aspirations for liberty and well-being. We are the embodiment of hope for progress.

I say it is time we quit downgrading ourselves as a nation. Of course it is our responsibility to learn the right lessons from past mistakes. It is our duty to see that they never happen again. But our greater duty is to look to the future. The world's troubles will not go away.

The American people want strong and effective international and defense policies.

In our Constitutional system, these policies should reflect consultation and accommodation between the President and Congress. But in the final analysis, as the framers of our Constitution knew from hard experience, the foreign relations of the United States can be conducted effectively only if there is strong central direction that allows flexibility of action. That responsibility clearly rests with the President.

I pledge to the American people policies which seek a secure, just, and peaceful world. I pledge to the Congress to work with you to that end.

We must not face a future in which we can no longer help our friends, such as in Angola -- even in limited and carefully controlled ways. We must not lose all capacity to respond short of military intervention. Some hasty actions of the Congress during the past year -- most recently in respect to Angola -- were in my view very short-sighted. Unfortunately, they are still very much on the minds of our allies and our adversaries.

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A strong defense posture gives weight to our values and our views in international negotiations; it assures the vigor of our alliances; and it sustains our efforts to promote settlements of international conflicts. Only from a position of strength can we negotiate a balanced agreement to limit the growth of nuclear arms. Only a balanced agreement will serve our interest and minimize the threat of nuclear confrontation.

The Defense Budget I will submit to the Congress for fiscal 1977 will show an essential increase over last year. It provides for a real growth in purchasing power over last year's Defense Budget, which includes the costs of our All-Volunteer Force.

We are continuing to make economies to enhance the efficiency of our military forces. But the budget I will submit represents the necessity of American strength for the real world in which we live.

As conflict and rivalries persist in the world, our United States intelligence capabilities must be the best in the world.

The crippling of our foreign intelligence services increases the danger of American involvement in direct armed conflict. Our adversaries are encouraged to attempt new adventures, while our own ability to monitor events, and to influence events short of military action -- is undermined.

Without effective intelligence capability, the United States stands blindfolded and hobbled.

In the near future, I will take actions to reform and strengthen our intelligence community. I ask for your positive cooperation. It is time to go beyond sensationalism and ensure an effective, responsible, and responsive intelligence capability.

Tonight I have spoken of our problems at home and abroad. I have recommended policies that will meet the challenge of our third century.

I have no doubt that our Union will endure -- better, stronger and with more individual freedom.

We can see forward only dimly -- one year, five years, a generation perhaps. Like our forefathers, we know that if we meet the challenges of our own time with a common sense of purpose and conviction -- if we remain true to our Constitution and our ideals -- then we can know that the future will be better than the past.

I see America today crossing a threshold, not just because it is our Bicentennial, but because we have been tested in adversity. We have taken a new look at what we want to be and what we want our nation to become.

I see America resurgent, certain once again that life will be better for our children than it is for us, seeking strength that cannot be counted in megatons and riches that cannot be eroded by inflation.

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I see these United States of America moving forward as before toward a more perfect Union where the government serves and the people rule.

We will not make this happen simply by making speeches, good or bad, yours, or mine, but by hard work and hard decisions made with courage and common sense.

I have heard many inspiring Presidential speeches, but the words I remember best were spoken by Dwight D. Eisenhower.

"America is not good because it is great," the President said. "America is great because it is good."

President Eisenhower was raised in a poor but religious home in the heart of America. His simple words echoed President Lincoln's eloquent testament that "right makes might." And Lincoln in turn evoked the silent image of George Washington kneeling in prayer at Valley Forge.

So all these magic memories, which link eight generations of Americans are summed up in the inscription just above me.

How many times have we seen it? -- "In God We Trust."

Let us engrave it now in each of our hearts as we begin our Bicentennial.

GERALD R. FORD

THE WHITE HOUSE,

January 19, 1976.

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