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Good Evening:

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

For several years, it has been apparent that America was nearing a crossroads in our history. Today we are there.

To put it simply, we must decide whether we shall continue in the direction of recent years -- the path toward bigger Government, higher taxes, and higher inflation -- or whether we shall now take a new direction -- bringing a halt to the momentous growth of Government, restoring our prosperity, and allowing each of you a greater voice in your own future.

If we are to be true to our ideals and our heritage, there can be only one answer.

Tonight I want to set forth two proposals that taken together -- as they must be -- represent the answer I believe we must choose.

60 Billion

-- First, I propose that we make a substantial and permanent reduction in our Federal taxes; and,

-- Second, I propose that we make a substantial reduction in the growth of Federal spending.

Let me emphasize at the outset that these proposals must be tied together in one package. It would be dangerous and irresponsible to adopt one without the other, and I will not accept that as an answer for our future. As your President, I want these proposals acted upon together in the Congress. Together, they represent one central and fundamental decision: that America belongs to you, the people, and not to your government.

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

None of us wants to repeat the experiences of the past year. We want steady prices. We want steady jobs. And above all, we want to have a chance to get ahead again, to know that our destiny lies in our own hands and not in Washington or some other far away place.

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

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

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

We must find answers that serve us not only this year but for years to come.

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

Over the years, these excesses have played a major role in driving up prices, driving up interest rates, and holding down jobs. We do not have to look far for our underlying problems. It can fairly be said that much of our inflation as well as our unemployment should bear a label: "Made in Washington, D.C."

As we emerge from this recession, we thus face the basic choice: Shall we continue these patterns in Washington or shall we set off in a new direction? We cannot do both;

we cannot go down both roads at the same time. We must choose.

Tonight, I propose that we enact into permanent law tax reductions totaling $27.7 billion -- the biggest single tax cut in our history. Earlier this year the Congress passed and I signed a temporary tax cut covering calendar year 1975. That temporary law will expire at the end of this year and unless we act now, your taxes will go up again in January. I am proposing that we sweep away that temporary law and replace it, effective January 1, with a permanent Federal income tax cut that will be both larger and more equitable.

Three quarters of this permanent reduction will be for individual taxpayers. And the chief benefits will be concentrated where they belong: among working people. The working men and women of this country are the backbone of America --

sturdy and industrious -- but we cannot continue asking them to bear an unfair portion of the tax burden. I propose that we lighten the tax load for them and for all other Americans in three ways:

-- By raising everyone's personal tax exemption from $750 to $1000;

-- By raising the minimum standard deduction for single people to $1800 and for married couples to $2500; and

-- By lowering our basic personal income tax rates.

Together, these measures will not only decrease everyone's taxes but they will also help to make up for the ravages of inflation and they will simplify the tax returns for millions of Americans. The total package represents a substantial reduction below the rates that will otherwise take effect this January. Under my proposal, a family of four earning a total of $14,000 a year -- now the average income in the

United States -- would be entitled to a permanent tax reduction of $412 a year -- a 27 percent reduction.

The other quarter of the tax reduction will be directed at business in a way that creates more jobs. If companies and plants are to regain their footing and to hire more employees in the future, they must have greater incentives for investment and they must be allowed some reduction in their tax rates. In order to create jobs -- good jobs -- this country must build new plants and new equipment and we must have a growing economy. The tax cuts that I am proposing -- including a permanent increase in the investment tax credit and a two percent reduction in the corporate tax rate -- are specifically designed for that purpose.

But let us recognize that cutting taxes can be only half the answer. If we cut only taxes but do not cut the growth of government spending, budget deficits will continue to mushroom, the Federal Government will continue to borrow too much money from the private sector, we will have more inflation, and ultimately we will have more unemployment. Substantial cuts in your taxes must be tied to substantial cuts in the growth of government spending.

Anyone who has followed the upward leap in Federal spending can only shake his head in astonishment. Back in 1962, the Federal budget for the first time in our history ran over $100 billion. In only eight years, however, the budget doubled in size. And now in the coming fiscal year, unless we act, it will double again to over $400 billion.

One of the reasons for this horrendous growth is that much of the increase in each year's budget is required by programs already on the books. Many of these programs were first enacted years ago, and while individually they might have seemed manageable then, today -- taken together --

they are out of control. They are like a freight train whose lights were first seen far off in the night. That train has been coming closer and closer, and now it is roaring down upon us. If we don't slow it down, Federal spending next year could easily jump to $420 billion or more -- and that is without a single new Federal program.

Therefore, I propose tonight that we halt this alarming growth by holding spending in the coming year to $395 billion. That means a cut of $25 billion below what we will spend if we just stand still and let the train run over us. More importantly, it means almost a dollar-for-dollar cut in taxes and spending: for every dollar that we return to the American taxpayer, we must also cut our projected spending by the same amount.

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

That must not happen, and I intend to stop it. I want to make it clear that I will go forward with the tax cuts that I am proposing only if there is a clear, affirmative decision by your representatives in the House and the Senate that they will also hold spending next year to $395 billion. I will not hesitate to veto any measure passed by the Congress which violates the spirit of that understanding. I want these actions to be a first step -- and they are a crucial step -- toward balancing the Federal budget within three years.

This programme

In January, I will present to the Congress a request that no new spending programs be enacted and that many of our current programs be held below their projected levels. When I do, you will hear immediate protests from one group or another contending that Washington should keep up an endless flow of benefits and subsidies. But we have to face hard realities: our resources are limited. We must learn to live within our means.

Spending discipline by the Federal Government must be applied across the board. It cannot be isolated to one area such as social programs nor can we completely insulate any area such as defense. All must be restrained. I believe that your Congressmen should stop trying so hard to find new programs that spend your money, and get to work figuring out how to make the old programs work better. We should get rid of the programs that don't work in order to make room for those that do. And in the process, we can begin cutting back the swollen Federal bureaucracy.

Let me emphasize that what I am proposing is not a reduction in current spending but in the gigantic increases that will take place next year unless we act decisively. I want to work with the Congress and with you, the people, to insure that those who deserve the help of our nation continue receiving that help. We do not intend to cure the ills of this economy at the expense of the elderly, the poor, or the men and women who have borne our nation's arms. There will be no cutbacks in social security. Similarly, I will not permit reductions in any part of our defense budget that would jeopardize our national security. We must maintain a strong national defense and a strong economy.

Sometimes when fancy new spending programs reach my desk, promising something for almost nothing and carrying appealing and often deceptive labels, I wonder who the supporters think they're kidding. From my visits with the American people, I find most of them believe that what the government puts in your front pocket, it slips out of your back pocket through taxes and inflation. They are figuring out that they are not getting their money's worth from their taxes. They believe that the politics of Federal spending has become too much of a shell game. And I must say that I agree with them.

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

My Fellow Americans, I deeply believe that our nation must not continue down the road we have been traveling.

Down this road lies the wreckage of many great nations of the past. Indeed, we see today in our own land that our biggest city -- a great city -- has now reached a day of reckoning. None of us wants to see that city fail; all of us care especially about the people of that city. But as they work to get back on the right path, let us never forget what led that city to the brink; and let us vow that these United States will never reach that same predicament.

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

As your President, I cannot take this journey alone. I need the help of you, the American people, to persuade your Congressmen and your Senators that you want your taxes cut and that you want the growth in spending cut -- now. I need the help of the farmer in Iowa, the housewife in California, the retired couple in Florida, the small businessman in New Jersey, the student in Texas -- all of you. This must be a national effort. America should not belong to the government but to the people; and now you must serve the Nation by helping us to make the right choice for the future.

Thank you and good evening.

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OCTOBER 6, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM E. SIMON
SECRETARY OF THE DEPARTMENT OF TREASURY
JAMES T. LYNN
DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET
ALAN GREENSPAN
CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
AND
CHARLES WALKER
ASSISTANT SECRETARY OF THE TREASURY

ROOM 450
EXECUTIVE OFFICE BUILDING

5:44 P.M. EDT

MR. NESSEN: I don't know who the leader of this group is.

SECRETARY SIMON: I will start.

You know the President has been working for several weeks on questions relating to Federal taxes and spending. Tonight, he has asked for television time, which Ron just spoke to.

First, as you can see from the fact sheets, the President is going to propose a substantial and permanent reduction in Federal taxes, going far beyond the temporary tax cut that expires at the end of this year. The total cut will be approximately $28 billion, approximately three-quarters for individuals and one-quarter for business.

Secondly, he is going to propose a substantial reduction in Federal spending, below those levels that are projected for fiscal year 1977. Jim Lynn is going to elaborate in a second, before your questions.

Federal spending will, in fiscal 1977, easily surpass $420 billion unless affirmative action is taken, and taken right now. The President is asking that the spending be held in fiscal 1977 to $395 billion, a reduction of an equivalent amount of $28 billion.

MORE (OVER)

I want to emphasize how important it is that everyone understand that these two proposals are regarded as one package. The President is going to ask Congress to act on them both now, and he is insisting that only if Congress is willing to adopt a spending ceiling for fiscal 1977 will he go forward with these major taxcuts.

It would be dangerous and irresponsible to cut taxes and not cut the growth in Federal spending. That would only leave us with huge deficits, higher interest rates and more inflation and eventually more unemployment.

So, the two proposals are inextricably tied together, and we are presenting them as one single package. Together, they are designed to return more economic decision-making to our private sector.

The President is going to address more fully tonight why it is important to halt the trend toward big Government in this country. In this session, I want to talk more specifically about three particular advantages of this, what we consider balanced fiscal package: the economic advantages, the financial advantages and the psychological advantages.

First of all, on the economic side, in the short-term this package will provide us with a stronger foundation to sustain the momentum of our current recovery. In the long-term, the discipline imposed upon the growth in the budget will reduce the inflationary pressure generated by Federal spending.

There can be no question that curbing the explosive growth is an essential weapon in the long-term fight against inflation. Furthermore, by reducing taxes, as well as spending, we will also encourage greater savings and investment, a process that is imperative if we are to create jobs and increase productivity and increase real earnings in this country.

In short, it is going to provide a higher standard of living for all of us.

Second, this program will improve conditions in the financial markets. By tying spending cuts to tax cuts, the President is insuring that during the next few years our budget deficits will be progressively smaller and the Federal Government will not soak up as much money through borrowing in our private capital markets.

For all practical purposes, too many small- and medium-sized businesses are crowded out of our capital markets today. By reducing Federal borrowing, the Government will reduce the upward pressure it places on interest rates. Lenders are going to be more willing to lend long-term and more private borrowers are going to gain access to the credit markets.

Again, this process is essential for assuring long-term economic growth. As the President will say tonight, our ultimate objective is to bring the budget into balance within three years.

Psychological: Finally we have to take into account the public's perception of Government itself. Clearly, public confidence in the Government's ability to reduce inflation has been eroded by the last decade of huge increases in Federal spending, along with the huge increases in our budget deficits.

Over time, that process has built inflationary expectations into all of our society. The President is intent upon changing those expectations through this porgram and further efforts in the future.

Let me re-emphasize the determination of the President and the full Administration to stop the uncontrolled growth of Government outlays and to return to the American people more of the decision-making on how their incomes are going to be spent.

Unless action is taken, Federal Government spending can be expected to increase by approximately $53 billion in fiscal 1977. Outlays as a share of GNP will continue to rise. Outlays in fiscal 1977 would reach $423 billion. Roughly, four and a quarter times higher than outlays just 15 years ago.

The President's program is designed to restrain this growth and to reduce the share of GNP going into the Federal Government. This plunging process is vital to the economic and financial well being of our people.

I might add that in my recent testimony before the Congress, I have been heartened by the desire expressed by both budget committees to work with us in holding down spending and holding down the attendant deficits.

We hope that the full Congress is now going to join with us in adopting this very important package that the President is submitting.

Now Jimmy would like to, I am sure, address the expenditure side.

MR. LYNN: Bill, I think you have covered it sufficiently for openers. I would, kind of reversing the roles a little bit, draw your attention specifically to the tables that are included in the fact sheet showing the impact on the various families.

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What we have here is a situation where practically dollar for dollar, if you compare the 1974 law before the 1975 temporary cuts were put in, of a dollar for dollar reduction in the expenditures from where they would have gone without restraing for a comparable amount of benefit on the side of tax reductions.

I think at this point, unless Alan, you have something to add, why don't we let these ladies and gentlemen ask their questions. That is the most important thing.

Q On those very tables you mentioned, can we have some figures below $5,000 of income, and why weren't they supplied in the first place?

MR. WALKER: I think we have them not below $5,000 because of the non-change that is involved there.

Q Not for single people. There are changes, some of whom are tax exempt now, and I am wondering if they would still be tax exempt under this proposal?

MR. WALKER: I can see that.

SECRETARY SIMON: I can show you that, Eileen, because I have a table that shows you the new tax exempt income for singles and marrieds.

Q Mr. Secretary, you say these proposals of tax and spending ceilings are linked. Are they going to be linked in their presentation to the Hill, and is there any way that this can be done through the statutory provisions?

SECRETARY SIMON: What the President is going to do is urge the Congress to adopt a spending ceiling for fiscal year 1977 of $395 billion. At that point, he would accept the tax reduction as outlined here on the tax side.

Q Is the President going to save $28 billion?

Q Will it be something informal? You are not going to propose a tax bill to Ways and Means that would have a spending ceiling tied into it?

SECRETARY SIMON: The Ways and Means Committee will be told the conditions under which we would accept this type of a tax proposal, that is correct.

Q Does that mean that if the Congress will not vote your ceiling that the President will oppose and perhaps veto tax cuts in the coming election year?

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SECRETARY SIMON: If the Congress rejected the notion of putting a $395 billion spending limit on the fiscal 1977 budget and sent down a tax bill here, in this regard this President would veto it.

Q Can I follow that? From a practical standpoint, however, isn't it likely that we would act on the tax cut this fall? They don't have to take up the question of the ceiling until next year.

SECRETARY SIMON: I want Jimmy to talk to this, too. We think they have got plenty of time in the three months that are remaining. They have been working for several months, the budget committees, on fiscal 1976. They have the figures for 1977. We are going to be delighted to work with them on processes.

MR. LYNN: I suppose they could do almost anything, you are right. They could delay, but it seems to me the delay will cost the taxpayers money. What our hope would be is that they take action on both sides of this equation now so that the taxes can take effect -- the cuts could take effect -- as of January 1.

Q The question did not suggest that they would delay on voting the tax cut, but after all, they, just within the last few weeks, set the ceiling on fiscal 1976, didn't they? So, is it reasonable to expect them to set a ceiling on fiscal 1977 this fall?

MR. LYNN: I most certainly think it is. First, let me say I have been testifying before the Congress that one of the things that have disturbed me so much is that I see consideration of various programs before the Congress, including consideration of extension of the tax cut without any figures being explored with respect to what the effects are in fiscal year 1977.

Just to give you an example, the President vetoed the education bill. The effect of that override of his veto is to add almost $1 billion to expenditures in fiscal year 1977.

We don't see, frankly, how they can take action with respect to the taxes without setting for themselves now a target, as we have done.

Q Mr. Lynn, you have got $53 billion worth of expenditures detailed here. Are you now, or is the President later, going to send up a list of specific cuts of the total $28 billion, or are you leaving that all to the Congress?

MR. LYNN: Oh, no. Of course we will. We are doing that in the budget process. What we are doing now is our usual budget review that occurs this time of year. This budget will be presented to the President, he will make his changes in it, and all of those cuts will be expressly set forth in his January budget for fiscal year 1977.

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Q In order for Congress to take action now, don't you have to provide a list of where you want the $28 billion cut?

MR. LYNN: No, I don't think so. My own feeling about that is that Congress can adopt an overall ceiling to show their concurrence with this approach of trying to moderate the growth of Government and give the American taxpayers a break without having their detailed make-up. We have done enough work in the course of the last months to see that it can be done. Now, very frankly, the exact ways that it should be done should be to determine in concert with the departments and agencies

They have a principal role here and we want to see that they play those roles and will develop that budget just like the budget committees will be working on details of their budget when they see the President's budget.

All we are asking at this point is that they adopt an overall ceiling, not the make-up of that ceiling.

Q Mr. Lynn, as you know, many previous Administrations have been frustrated by trying to impose a firm ceiling on Congressional spending and I suppose one reason for that is that many of these spending programs are open-ended in their appropriations impact. How do you specifically plan to deal with such problems where Congress authorizes spending under a program and sets no ceiling as long as people qualify?

MR. LYNN: You mean so-called entitlement programs where anybody that qualifies can come in.

I think what it takes in that area is legislative action. It takes affirmative legislative action. You are absolutely right, that does not lie within the control of the President. That is why he is calling on the Congress to join him in this effort.

This cannot be done by the President acting alone, it does require the cooperation of the Congress.

Q Mr. Simon, glancing quickly at the figures here, it does seem that the higher the income, the larger the tax reduction, and it also seems that a special provision, such low income allowance from the 1975 laws, is now being eliminated. Is that the general thrust of this proposal by the President?

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SECRETARY SIMON: In general. You have to go through and take a look at the singles and the marrieds and how the various dependents are affected. Basically, the maximum benefit does not come at the maximum income. With the cut-off the maximum benefit is approximately the $25,000 income level and, naturally, there is some flow-throu effect from (A) a combination of the 1975 tax reduction, plus the magnification.

Now, let me explain to you what magnification is. The 1975 tax reduction was for an 8-month period; that was $8 billion for individuals. In order to annualize it for a 12-month period we had to make it $12 million so that is 50 percent larger. We then added, of course, the $8.6 billion more and provided this restructuring, removing, as you said, Phil, that to simplify, just have a single standard deduction.

Q Mr. Simon, does this package have your full support?

SECRETARY SIMON: Wait a minute. Alan wants to add something to that.

MR. GREENSPAN: I think if you will take the percentage changes in tax liability, they start the highest at the lowest level and they proceed downward thereafter throughout the whole tax schedule so that I would say the actual percentage change in taxes is very small at the bottom end of the scale.

SECRETARY SIMON: Let me give it to you in the zero to $5,000 area, the percentage reduction in tax liability is 61.3 percent.

Q Compared to which year?

SECRETARY SIMON: That is with the tax reduction proposals at 1975 levels of income, Eileen.

Q But compared to 1975 law or --

SECRETARY SIMON: That is compared to the 1972-4 law before the 1975 change.

$5,000 to $10,000 the tax reduction in tax liability, 35 percent; 23 percent in the $10,000 to $15,000; 17.7 in the $15,000 to $20,000; and 11.7 in the $20,000 to $30,000 so that you can see --

Q Let's have that compared to the 1975 law.

Q Are you talking about the dependents now or single?

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SECRETARY SIMON: That is the income distribution of the President's tax reduction proposal. That is overall.

Q What was the last figure?

SECRETARY SIMON: 11.7 in the $20,000 to $30,000.

Q Can we have those compared to present law; that is, 1975 law?

MR. GREENSPAN: It will show the same.

Q Let's have the numbers.

SECRETARY SIMON: We don't have the numbers compared to the 1975 law. We have it magnified but that would not show the same as the 1975 laws that exist today. We have it magnified to the -- you know, adding the $4 billion, the 50 percent on and the percentages change at that point but still heavily weighted and we only have it on the percentage reduction -- no we don't have the specific one you say to the existing 1975 tax law.

Q Are all these cuts permanent or only some of them permanent and some of them temporary?

SECRETARY SIMON: No, this is a permanent tax reduction recommendation by the President.

Q Mr. Secretary, what is the economic situation that has caused you to decide not only to continue the 1975 tax reductions but to increase them substantially?

SECRETARY SIMON: When we talk about the economic situation, what we are trying to do,as I say, is control the explosive growth,as I said in my opening comments,and in Federal spending.

Q That is nine months after the start of the calendar year.

SECRETARY SIMON: We are talking about fiscal year 1977 as well and I, myself, have always personally favored tax reductions to return the decision-making back to the American people if at the same time we can have a simultaneous reduction in expenditures, permanent reduction.

Q But the permanent reduction, as I understand the program, does not apply to the months immediately ahead. It only applies to fiscal 1977.

SECRETARY SIMON: No. Obviously the six months immediately ahead for the half a year would be a continuation. No, until July 1.

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Q Don't you have a transition quarter?

SECRETARY SIMON: Well, the investment tax credit of course is 1977.

Q Doesn't fiscal 1977 start October 1?

MR. LYNN: October 1 of next year.

Q So it is nine months.

Mr. Simon, could you tell us then what the economic factors are that would make you decide to do this?

SECRETARY SIMON: Well, I tried to outline it-- that there were economic and psychological and, of course, financial market-related reasons why we should reduce this growth in spending and reduce the deficit,as I said in my opening remarks.

Q Well, does the recovery seem inadequate?

SECRETARY SIMON: No, it most certainly does not. As I believe Alan's last report, the third quarter growth will be reported in the next couple of weeks and is going to show strong real growth -- I think stronger than anyone had originally predicted, and that real growth is projected.

The average real GNP growth through June 30, 1976, we can say is still roughly 7 percent.

Q Mr. Secretary, did I understand you correctly earlier that you said the President would veto a tax cut if it were not accompanied by the other?

SECRETARY SIMON: That is correct. If the Congress sent down a tax reduction for a year or permanently in the absence of adopting a spending ceiling for fiscal 1977 of $395 billion, he would veto it.

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Q Aren't you almost certainly getting into a situation, given the way the whole tax thing has gone so far, the way the whole energy thing goes, that you will get a proposal from the Congress for a tax cut of at least as large as yours, possibly larger, and heavily weighted to the bottom of the scale, and you will get the other deferred completely from consideration until some later date so you won't have a yes or no and you will sit in this limbo and then the President has to make a decision?

SECRETARY SIMON: I would certainly hope you are wrong, and as I say, the President has made a decision as far as what he would do, if indeed that happened, and a tax bill came down. I think that (a) the way this tax proposal has been structured, and (b) the need for a curb in Federal spending is well recognized on Capitol Hill, as it is in the Executive Branch of Government, so I am optomistic that we are going to get some action on a $395 billion spending ceiling.

Q What form would the spending ceiling take? Would it be a budget resolution to the procedures that are now in place?

SECRETARY SIMON: Yes, it would be what, the second current --

MR. LYNN: I would think they could do it any number of ways. One way would be by a resolution of the Congress. Another way would be in the preamble to the tax legislation. I would not purport to tell or even suggest the manner in which Congress can do it, but I am certain there are a number of ways that they can do it.

Now, it is the matter of their will to do it if they decide to do it. If a majority of both Houses decide to do it, they will find a way to do it, and there are ways available.

Q The Budget Reform Act reserves jurisdiction in the Senate and House budget committees. The Ways and Means Committee does not have anything to do with spending.

MR. LYNN: Again, I would hope that what we will see in the Congress is a coordination of those efforts. As I have said, even in testimony I believe it was before the House side that one of the things that bothered me was that we were seeing a mark up with regard to a tax extension at a time prior to even the mark up for fiscal year 1976 on the budget side and on the second concurrent resolution.

I happen to feel you have got to look at 1977 numbers every bit as much as you have to look at 1976 numbers when you are deciding what the taxation structure ought to be from here on out, and that decision is before Congress because the old temporary cut runs out December 31.

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Q Would you buy a sense of the Congress resolution, or would it have to be binding law?

MR. LYNN: Look, after all, the budget resolution, for example, is a sense of the Congress in the sense that they are setting their preliminary target for the existing year. I would suggest they can use the same procedure that they have used for their budget resolution process, if that is the way they care to do it, but we certainly would not want to suggest that one way or another is absolutely essential.

So long as that signal comes through strongly from the Congress to the American people and to the President that they are willing also to work to keep that $395 billion ceiling, that will do the trick.

Q Mr. Secretary, could I come back to Joe Slevin's question?

Q Mr. Secretary, the ceiling you are recommending does not become effective until the fiscal year beginning October 1, 1976. What effect, if any, do you suggest this should have on appropriations matters before the Congress for this fiscal year current and for the interim period between July 1 and October 1? Wouldn't that require some cutback so you have an estimate?

MR. LYNN: As you know, we already still have before the Congress requests for reductions from what a current services path would take you or even more from the path Congress seems to be on on both the authorization bill and appropriation bills. I would hope that at the same time -- or I should say in keeping with their agreement to also work with us on the $395 billion ceiling -- they would start looking very hard and adopt the kind of proposals for moderation for 1976 that we have proposed.

As you know, now that we are well into the fiscal year, a number of those can't be recaptured for the period of time that has already elapsed, but there is still plenty of room for them to exercise budget restraint for the rest of the year, and we would urge them to do so.

Q Secretary Lynn, getting back to Joe Slevin's question about economic rationale for the program and can either you or Mr. Greenspan elaborate on that; specifically, is this program supposed to have a net fiscal stimulus?

Q Question?

MORE

SECRETARY SIMON: Is this program supposed to have a net fiscal stimulus?

This program has, as I said, three parts to it: One, to help sustain the current economic advance. I think everyone is pretty generally agreed right now -- that private as well as the Government forecasters -- that the economic recovery is well underway and it is going to be strong and indeed vigorous here in the early months of the recovery and into the next year.

The questions that seem to be raised right now are what indeed is the third quarter? Some are even questioning the second quarter of the calendar year 1976.

Also, a program like this helps to lessen the strain on the financial system by reducing the inflation itself over the long-run and,more importantly, the inflationary expectations as people begin to realize that we are getting a handle on this budget deficit problem, that we are not going to allow this explosive growth in Federal expenditures to continue at the very larger percentages that they have, and, finally, and just as importantly, to slow the secular Federal Government inroads into the lives by returning the money to the American people that is now being presently spent by the Government.

Alan, would you like to add to that?

Q Before you go, Mr. Secretary, on your point that they helped to sustain the economic advance, how do you help sustain the economic advance when you cut expenditures by the same amount that you reduce taxes?

SECRETARY SIMON: Well, on a simple accounting basis one might say that that has, as I say on a simple accounting basis, a neutral effect but I am afraid that ignores the incentive gain of what happens when this amount of money or any amount of money is pumped into the private sector and into business creating all of the capital formation which is so terribly needed, as you have heard me say quite often, and I believe it has very definitely a net positive effect.

Al, do you want to add to that?

MR. GREENSPAN: We have taken the specific proposals on a quarter-by-quarter basis and got some of them through by various numbers of techniques including the regular macro-econometric types of procedures.

MORE

Statistically, what we get is slightly larger deficits in the next two to three quarters of 1976 calendar year and then somewhat lesser thereafter.

The amounts involved are not large and, in any event, I would scarcely describe the effects as being clearly affecting the economy one way or the other. This particular program has not been constructive for the purposes of affecting the short-run economic recovery in the usual classic sense of the word. The major problem which it has attempted to confront is something which anybody who has looked at the extraordinarily burgeoning effect of the rise of Federal expenditures as you get into fiscal 1977, 1978, 1979 -- what you begin to basically recognize is that at some point some basic decision must be made.

Either we are going to decide to continuously increase the size of Government and ultimately increase taxes in the whole control of the Federal Government of the economy as a whole, or we decide that is the way in which we do not wish to go. The essential thrust of this program I would describe, while certainly having short-term effects, as any program must, was not constructed in that light and its basic thrust is longer term.

It's short-term economic effects, as the Secretary has just said, are roughly neutral. The reason I say roughly is the fact that some people are going to evaluate part of it as positive and part of it as negative and I think others will do precisely the reverse. There is no major impact so far as I can see from anybody's evaluation.

Q Mr. Greenspan, could you, if you have these numbers, tell us what the net effect would be for the first, second and third quarters in terms of adding to expendable income? I guess we don't have to do anything on the Government spending side since there will not be any reductions during those first three quarters.

Secondly, isn't that in fact the stimulus?

MR. GREENSPAN: Well, the problem that you have got is that at this particular point it is not clear to what extent you in fact create stimulus from increasing deficits. Let me suggest to you that we have the conventional wisdom which always says that the greater the deficit, the greater the stimulus, the greater the level of employment. That is true only in the very restricted confines of our econometric models which, of necessity, is a very extraordinary abstraction from reality.

We have found, as you are no doubt well aware, that these models have not captured many of the things that have gone on in our economy in recent years and most specifically in the financial area.

As best we try, and we tried extraordinarily hard, to capture these very subtle financial impacts as they affect the levels of production and employment. To the extent that we have failed to do that, it is clear that what we have done is underestimated the negative impacts of the so-called expansionary policies on interest rates, on inflation and, therefore, on real growth.

So what I am suggesting is that while we do have these various sorts of figures which you discuss, I would not, by any means, describe simply the fact that we do have somewhat higher deficits in fiscal year 1976, specifically the first three calendar quarters, as being ipso facto stimulus.

MORE

MR. LYNN: If I might just add one thing to that, if I can, when you look at the figures we have here with regard to fiscal year 1976 expenditures, we are making some guesses, some estimates as to where Congress is moving.

With the kind of restraint I talked about a little bit earlier, that amount of expenditures for fiscal year 1976 could be kept lower than that, and I would hope also get the difference I cite lower than the number we show there.

Q Just one more question. We are going to have $21 billion of $28 billion tax cut effective by October 1 so you have a net increase of money in the spending stream of $21 billion. You are not having any reduction in spending during that same period so, in effect, don't we have a $21 billion stimulus for the first three quarters? That is the question I have.

MR. GREENSPAN: No, I am not sure those numbers are correct.

Q Excuse me. I think to answer that question we have to be given the numbers. This table that adds up to $27.20, $.7 billion you talk not in terms of the comparison with 1974, but in terms of present law. Can we have those numbers, just that little five or six item breakdown on page two here?

SECRETARY SIMON: We can get those numbers for you. The reason that we didn't do it on the figures that you wish is because the 1975 tax laws are temporary law.

Q Just a second.

Mr. Greenspan, is it reasonable or even rational to compare what you are proposing for the year ahead with two years ago in terms of assessing the economic impact? Can we really balance a two-year change on the tax side with a one-year change on the spending side, and you are trying to say they are the same thing?

MR. GREENSPAN: No, no. Let me tell you what the comparisons are. We have ongoing forecasts of the economy and what we tend to do is to reflect various different options that are involved in them. The latest forecasts that we have set up are not reflective of obviously 1972 or 1974, but essentially what has been going on within the tax structure as it stands now.

What we have done is superimposed upon them, starting off with expenditure expectations of no actions of any sort and running our best estimates that we can, we came up, as I indicated several weeks ago, with a real growth rate approximating 7 percent to mid-1975 to mid-1976.

MORE

What I am suggesting to you is this: We have reinstituted new estimates based on this program, and it does not significantly alter those numbers.

Q Okay. I wondered, however, if we can't have a figure to compare existing 1975 law to see what these tax changes really are.

MR. GREENSPAN: I agree with you. I think that is correct and those data should be made available shortly.

Q Now, the second question on the same subject of these numbers, differently. I assume that everything, Mr. Simon, that you have told us about the percentage tax increases by tax bracket eliminates, leaves out of consideration the fact that you are asking that the work bonus, the earned income credit, be eliminated, and you are now calling it an expenditure.

Therefore, this thing which is for the low income is nowhere in any of these figures, percentage change or otherwise, that you have given us, is that correct?

SECRETARY SIMON: The earned income credit is not in the President's tax proposals, that is correct.

Q Or in any of these comparison numbers?

SECRETARY SIMON: That is correct.

Q Including the tables that show by income bracket and so forth?

SECRETARY SIMON: That is correct.

Q Mr. Simon, as I see this, the tax reductions that are in effect may begin at the first part of the calendar year, but the spending reductions do not go into effect until the third quarter, and so your proposition is to cut taxes for the first three quarters for no spending and then what happens in November of 1976 is that there is an election.

Now, was that taken into consideration in deciding on the timing?

SECRETARY SIMON: It most certainly was not taken into consideration. The consideration was that we wanted a determination by the Congress that fiscal 1977 budget expenditures would be held to $395 billion, which from today's estimates mean that the proposed cut in the future would be equivalent to the amount of the tax cut that the President is proposing today, and it had nothing to do with the election in November 1976.

MORE

Q Did you seriously discuss any of these proposals with Congressional leaders before making them public?

SECRETARY SIMON: The President is discussing these right at this very moment with Congressional leaders.

Q But since your Administration, as I understand it, has a minority in both Houses of Congress and since this will require legislative action, it seems to me that you could be accused here of presenting a political ploy to the Democratic Congress.

SECRETARY SIMON: I would assume that you can always be accused of presenting a political ploy to Congress, but that does not concern us. We believe that this proposal makes good long run sense to the American people, that they begin to reverse this trend that has been going on in Government, especially in the last ten years.

If they want to attach certain slogans to it, some people, well, so be it. That was not the intent of the proposal.

Q The long-term effect you say is this reduction of Federal spending.

SECRETARY SIMON: The growth in Federal spending.

Q The short-term effect is to increase the Federal deficit and increase the Treasury's borrowing on the market, I believe was the question. Correct me if I am wrong.

Why is that a good idea now, and why don't they have all the dire consequences that you have been warning about for many months?

SECRETARY SIMON: The near term effect is slightly raising the President's ceiling that he put on at $60 billion. That is a fact. The point is that for the longer run considerations they outweigh these shorter run considerations, and I think that if this program were enacted in this fashion, the expectations of the marketplace would be that the Federal Government is finally getting their spending under control and we begin to work away at the important inflationary expectations that are so deeply ingrained, plus the loss of confidence the American people obviously had based on every policy that is taken in the ability of Government to manage their economy and, more importantly, to get their spending and inflation under control.

MORE

I think on the whole the positives far outweigh the negatives of a short-term, as I say, slight increase in the deficit.

Q How much will the deficit go up?

MR. LYNN: It depends on an awful lot of factors. As you have heard me testify on the Hill, we have a good deal of uncertainties right now, ranging all the way from just trying to get a good handle on estimating entitlement programs, whether we are talking about food stamps or supplemental unemployment benefits and so on.

Quite apart from that, we have to engage in a guessing game as to what Congress will do from here on out by way of the kind of salami tactics that we have had up to now, where we propose "X" and Congress always feels disposed to add "X plus Y" to the particular program.

My hope would be that Congress, in the spirit of this proposal, will now make a genuine effort to go along with the proposals that are still before the Congress that the President has made. I would think, to give you a rough estimate, that we would be able to have a deficit somewhere in the middle 60's before we are done.

We had to look at the reality that if Congress does not show that kind of restraint and looking at the total estimating that is involved, you can have a deficit of about $70 billion. But, I have to urge you once again this early in the fiscal year -- and also given all of the uncertainties with respect to the estimate -- you can't give a positive single figure at this point and feel confident that it is so.

Q Just this itself, how much would this add to the deficit?

Q What year?

MR. LYNN: What are you talking about? Fiscal 1976?

Q Fiscal 1976.

MR. LYNN: The effect of this proposal by way of receipts lost over and above, let's say, the magnified extension is what? Do we have that? It is what? Five?

Q All by itself?

MR. LYNN: All by itself.

MORE

Q It is 11.

MR. LYNN: It is 11 by itself for what, on a full year basis?

Q It is 28.

MR. LYNN: The 28 again, in answer to Miss Shanahan's question, the 28 is from the 1972-1974 kind of package, so what I was giving you was a figure of the net additional amount if you were to assume things continued the way Miss Shanahan talked about it.

Q What is that total figure from 1975 to 1976? These tax cuts are what?

MR. LYNN: Say that again.

Q From present law --

MR. LYNN: From present law?

Q From present law the total tax cut herein proposed is $11 billion, is that right?

MR. LYNN: About 11, that is right. On an annualized basis?

Q No.

MR. LYNN: On an annualized basis?

Q She asked how much the increase is from 1975.

SECRETARY SIMON: Break it down. First we had the rebates in there, and they are out, so we forgot these. Right? Then, we take the individual reductions, which were $12 billion in 1974 and now they are $20.6, so we are up $8 billion for the individuals, 1975 over 1976. Then the business cuts.

In 1976, the investment tax credit does not expire until January 1977, so the impact is not felt until fiscal 1977. So, leave out the 2 percent reduction.

Q Leave that out?

SECRETARY SIMON: Yes, the 2 percent reduction in corporate tax rates, the impact is on there, so that is roughly it.

Q Let's get clear. This proposal is that you are proposing tax law changes which would reduce taxes in 1976 by $11 billion compared to tax liabilities under present law?

MORE

MR. LYNN: You are talking about calendar year 1976?

Q Yes.

MR. LYNN: See, that is where our confusion was coming. I was talking fiscal year. You are talking calendar year. As far as receipts, it lost about $11 billion.

Isn't that right, Bill?

Q Where does that put you?

Q In comparison with present law.

MR. LYNN: In comparison with present law?

Q That is not my question.

MR. LYNN: That answers one question. Let's take another one. You go ahead.

Q My question is, how much will be added to the deficit by proposing by this tax proposal, and that is assuming that the 1975 tax cut would have expired.

MR. LYNN: Totally?

Q Period.

MR. LYNN: I suppose the way you would estimate that is, first, to take a half of a full year's effect. The full effect of the tax package is roughly $28 billion, right? So, you take a half year's effect of that, and I am being very rough in that.

My real expert, Bill Macomber, please feel free to correct me. Take roughly half of that and that would be the additional receipts lost for the period. But, what the economists also do is take a look at all of the factors that enter into the economy, and what you think that kind of tax cut will do by way of signals -- more importantly, what the restraint provision you are trying to get for 1977 will do to the business community and to the individuals and, therefore, some part of that receipts loss will build into the deficit.

Q Sure you figured it out. I am just asking for the figure. I know what the process is, but what is the figure? Is it $11 billion?

MORE

MR. LYNN: It would not be the total $11 billion by any means.

Q It is not the total $14 billion.

MR. LYNN: All right, the total $14 billion.

Q What is it?

MR. LYNN: It would be something less than that.

Alan, would you care to comment on that?

MR. GREENSPAN: One of the problems he has got is the fact that when taxes are received -- and I think that unless you can go through a simulation of the specific tax receipts differences, that is not a number you can get that simply.

Do you have that?

Q You cannot say how much this will add to the deficit?

MR. GREENSPAN: No.

MR. LYNN: We have said that. We have said it in the fact sheet.

What we said at the end of the fact sheet was that taking into account the factors that we know of now, and that includes putting in somewhat of a cushion for Congressional reluctance in the future, as they have in the past, to adopt the kinds of restraints that we have proposed, that the deficit for fiscal year 1976 would be about $70 billion.

Q Dropping the 40 to 44 in following fiscal year?

MR. LYNN: Yes.

Q Can we have the breakdown again of that $11 billion on the 1975 comparison of the tax cut? In calendar 1975, compared to the temporary 1975 law, you said earlier, how do you break that down?

MR. LYNN: The way I got to that in my head was-- and again, Dale, the way we calculated it was--that if you take the 1975 law, the way it is being applied now and with withholding rates, as you have it now, the effect on a full year basis on whether you take fiscal or otherwise, but once it is in effect is about $17 billion -- $17 billion, $18 billion, somewhere in there.

So, therefore, if you look at your $28 billion, that is what your differential is.

MORE

Q $17 billion revenue loss?

MR. LYNN: Yes. That is revenue loss again. That does not necessarily mean your deficit loss.

Q Can we get a breakdown of numbers parallel to the 1972-1974 numbers?

SECRETARY SIMON: We can pass out what the 1975 tax act was in the old sheet that gives you the revenue impacts on the 1975 tax act. You have the 1976 act here proposed with the revenue impacts and a good many of the business tax cuts are the same.

The investment tax credit, as I say, does not expire until 1977. Your major difference is in your individual tax cut. Of course, that is offset by the rebate, which the $8 billion is off already.

Q What you are saying now is the $28 billion is made up of the $17 billion worth of cuts this year in calendar 1976 and 11. Is that the 28? There was 17.

MR. LYNN: Try it again.

Q The 28 is a combination of $17 billion worth of tax revenue loss in this calendar year. What you are proposing is 11 for calendar 1976, and that is how you get your 28.

MR. LYNN: It is not quite that because you have to distinguish between what the total amount of tax deduction is locked into, not individual taxpayers or the like, and that gets you to an annualized amount of about $14 billion, I think it is. Is it 14? No, 12 plus. It is somewhere between $12 billion and $13 billion.

If you assume the taxpayers continue to get the same take-home pay, in other words you try to get an annualized base so that they keep the same withholding that they have now, you have to add another $4 billion plus to that, and that is what gives you the $17 to $18 billion.

If you were to have taxes just continue now the way our American taxpayers are paying them, with their take-home pay as they get it every month, it would cost you on an annual rate about $17 billion, somewhere between $17 and $18 billion. What this does is add about another $11 on top of that.

Q Yes, but if we get to the end of 1976 --

MR. LYNN: Are you talking calendar?

MORE

Q Calendar.

MR. LYNN: Okay, I just wanted to know.

Q If we ever get to the end of calendar year 1976 --

MR. LYNN: I hope we do.

Q Then what you will be saying is that $11 billion will be lopped off in 1976, isn't that right?

MR. LYNN: In one way, I see what you are saying. If you were to assume that the temporary tax cut were there forever, if that is the way you looked at it, and we looked upon it as a new ball game that we have to decide now what is the best tax policy for the United States effective January 1 -- but if you looked at it your way, you are absolutely right.

It was decided in the old law to add at the rate of $17 billion a year and under this new change you are adding another $11 billion a year. We prefer not to look at it that way. We prefer to look at it overall as to what does this mean by way of a tax program that makes sense for this country for a longer term direction.

One thing I will urge you to look at is that in the President's statement--and it should have been reflected in the fact sheet, and I am sorry it is not there, it should be there -- the President says that this ceiling is the first step moving toward a balanced budget within three years.

Now we think the net effect of all of these actions that the President is proposing will be to, one, get a much healthier economy; two, return some freedom of our taxpayers to spend the money they are earning that they have rapidly been losing over many years in the past.

MR. NESSEN: There is a Cabinet meeting that these three gentlemen need to go to. It started a couple minutes ago, so we probably should knock this off.

Q Does this program mean you will initiate no new programs next year?

MR. LYNN: Yes, no new spending.

THE PRESS: Thank you.

END (AT 6:24 P.M. EDT)

EMBARGOED FOR RELEASE
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OCTOBER 6, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S PROPOSAL FOR TAX CUTS AND FEDERAL SPENDING RESTRAINT

President Ford is proposing that permanent large tax cuts be made possible for American taxpayers by Congress joining with him in limiting the growth of federal expenditures. The tax reductions proposed by the President total about $28 billion compared to 1974 law. This proposal is linked to the adoption by the Congress now of a spending ceiling of $395 billion for FY 1977. This represents a reduction of about $28 billion from projected levels for that year unless action to limit federal spending is taken.

The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning $14,000 a year would receive a reduction in their tax liability of $412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

- $8 billion in cuts to replace the temporary 1975 tax reductions.
- $4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a $4 billion extra cut is provided to keep withholding constant.)
- $8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

(OVER)

C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	Individual Tax Cuts
Increase personal exemption from $750 to $1,000.	$10.1 billion
Replace $1,300 low income allowance and $2,000 maximum standard deduction with flat amount standard deduction of $2,500 for married couples ($1,800 for a single person)	$ 4.0 billion
Reduce tax rates	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
Extension of 1975 corporate rate and surtax exemption changes	$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	$ 2.5 billion
2% corporate rate reduction (48-46%)	$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

The effects on individual taxpayers of the President's tax proposals are shown in the following tables:

Tax Liabilities for Family with 2 Dependents, Filing Joint with Itemized Deductions of 16 Percent of Adjusted Gross Income
(If standard deduction exceeds itemized deduction, family uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	Tax Liability 1975 law	Tax Liability Proposed 1976 law	Reduction from 1972-74 law	Reduction from 1975 law
$ 5,000	98	0	0	98	0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	287
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

Office of the Secretary of the Treasury
Office of Tax Analysis

Tax Liabilities for Single Person with Itemized Deductions of 16 Percent of Adjusted Gross Income
(If standard deduction exceeds itemized deduction, individual uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	Tax Liability 1975 law	Tax Liability Proposed 1976 law	Reduction from 1972-74 law	Reduction from 1975 law
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3.817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

Office of the Secretary of the Treasury
Office of Tax Analysis

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II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the $30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

-- Increase the personal exemption from $750 to $1,000.

-- Replace the present minimum standard deduction (low income allowance) of $1,300 and maximum standard deduction of $2,000 by a single standard deduction in a flat amount of $1,800 for a single taxpayer and $2,500 for a married couple ($1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of $1,625 by married couples and $1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)

-- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

-- Reduce the maximum corporate tax rate from 48 percent to 46 percent.

-- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from $25,000 to $50,000 of taxable income.

-- Continue the 1975 Act reduction in the rate on the first $25,000 of taxable income from 22 percent to 20 percent (the second $25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).

-- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.

-- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

more

III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around $53 billion in a single year. Budget outlays are approaching $370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach $423 billion or more. The main elements of an increase of $53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	+9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	+7
TOTAL	53

B. Decisions have not yet been made on which programs will be restrained or curtailed.

- -- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.

- -- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of $395 billion on FY 1977 expenditures now.

- -- A $395 billion ceiling is $25 billion above the currently estimated spending level this fiscal year and $28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach $370 billion, the FY 1976 budget deficit would be about $70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of $40-44 billion.

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EMBARGOED FOR RELEASE
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THE WHITE HOUSE

FACT SHEET

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The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning $14,000 a year would receive a reduction in their tax liability of $412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

- $8 billion in cuts to replace the temporary 1975 tax reductions.
- $4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a $4 billion extra cut is provided to keep withholding constant.)
- $8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	Individual Tax Cuts
Increase personal exemption from $750 to $1,000.	$10.1 billion
Replace $1,300 low income allowance and $2,000 maximum standard deduction with flat amount standard deduction of $2,500 for married couples ($1,800 for a single person)	$ 4.0 billion
Reduce tax rates	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
Extension of 1975 corporate rate and surtax exemption changes	$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	$ 2.5 billion
2% corporate rate reduction (48-46%)	$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

The effects on individual taxpayers of the President's tax proposals are shown in the following tables:

Tax Liabilities for Family with 2 Dependents, Filing Joint with Itemized Deductions of 16 Percent of Adjusted Gross Income
(If standard deduction exceeds itemized deduction, family uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	98	0	0	98	0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	287
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

Office of the Secretary of the Treasury
Office of Tax Analysis

Tax Liabilities for Single Person with Itemized Deductions of 16 Percent of Adjusted Gross Income
(If standard deduction exceeds itemized deduction, individual uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3.817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

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Office of Tax Analysis

# #

II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the $30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

-- Increase the personal exemption from $750 to $1,000.

-- Replace the present minimum standard deduction (low income allowance) of $1,300 and maximum standard deduction of $2,000 by a single standard deduction in a flat amount of $1,800 for a single taxpayer and $2,500 for a married couple ($1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of $1,625 by married couples and $1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)

-- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

-- Reduce the maximum corporate tax rate from 48 percent to 46 percent.

-- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from $25,000 to $50,000 of taxable income.

-- Continue the 1975 Act reduction in the rate on the first $25,000 of taxable income from 22 percent to 20 percent (the second $25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).

-- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.

-- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

more

III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around $53 billion in a single year. Budget outlays are approaching $370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach $423 billion or more. The main elements of an increase of $53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	$9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	+7
TOTAL	53

B. Decisions have not yet been made on which programs will be restrained or curtailed.

- -- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.

- -- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of $395 billion on FY 1977 expenditures now.

- -- A $395 billion ceiling is $25 billion above the currently estimated spending level this fiscal year and $28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach $370 billion, the FY 1976 budget deficit would be about $70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of $40-44 billion.

# # # # #

ANNEX A (*)

Tax Rate Schedule for President's October 6, 1975 Tax Reduction Proposals (Married Taxpayers Filing Jointly)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
$ 0	$1,000	14	12
1,000	2,000	15	14
2,000	3,000	16	15
3,000	4,000	17	15
4,000	6,000	19	16
6,000	8,000	19	17
8,000	10,000	22	21
10,000	12,000	22	22
12,000	16,000	25	25
16,000	20,000	28	29
20,000	24,000	32	34
24,000	28,000	36	Same as present law
28,000	32,000	39	
32,000	36,000	42	
36,000	40,000	45	
40,000	44,000	48	
44,000	52,000	50	
52,000	64,000	53	
64,000	76,000	55	
76,000	88,000	58	
88,000	100,000	60	
100,000	120,000	62	
120,000	140,000	64	
140,000	160,000	66	
160,000	180,000	68	
180,000	200,000	69	
200,000	--	70	

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

NOTE: While some rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets and the increase in the personal exemption so that on balance the tax cut proposals will reduce taxes even for those affected by the increased rates.

(*) ANNEXES PREPARED BY TREASURY DEPARTMENT OFFICE OF TAX POLICY

ANNEX B

Tax Rate Schedule for President's October 6, 1975 Tax Reduction Proposals (Single Taxpayers)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
$ 0	$ 500	14	12
500	1,000	15	13
1,000	1,500	16	15
1,500	2,000	17	15
2,000	3,000	19	16
3,000	4,000	19	17
4,000	5,000	21	18
5,000	6,000	21	19
6,000	8,000	24	21
8,000	10,000	25	24
10,000	12,000	27	27
12,000	14,000	29	29
14,000	16,000	31	31
16,000	18,000	34	Same as present law
18,000	20,000	36	
20,000	22,000	38	
22,000	26,000	40	
26,000	32,000	45	
32,000	38,000	50	
38,000	44,000	55	
44,000	50,000	60	
50,000	60,000	62	
60,000	70,000	64	
70,000	80,000	66	
80,000	90,000	68	
90,000	100,000	69	
100,000	--	70	

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

NOTE: While some rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets and the increase in the personal exemption so that on balance the tax cut proposals will reduce taxes even for those affected by the increased rates.

SIX-POINT UTILITIES PACKAGE

-- Increase the investment tax credit permanently to 12 percent on all electric utility property except generating facilities fueled by petroleum products. No change of the percent-of-tax limitation is involved. The increase in the credit is allowable only if construction work in progress is included in the utility's rate base and the benefit of the increase is "normalized" for ratemaking purposes. "Normalized" in this sense means reflecting the tax benefit for ratemaking purposes pro rata over the life of the asset which generates the benefit instead of recognizing the entire tax benefit in the year the utility's taxes are actually reduced. In the absence of normalization, the entire tax benefit would flow through immediately in the form of reduced utility rates for consumers, and no real economic benefit would result for the utility.

-- Give electric utilities full, immediate investment tax credit on progress payments for construction of property that takes two years or more to build, except generating facilities fueled by petroleum products, without regard to the five-year phase-in required by the Tax Reduction Act of 1975. This new provision applies only if the regulatory agency includes construction work in progress in the utility's rate base for ratemaking purposes.

-- Extend to January 1, 1981, the period during which pollution control facilities installed in a pre-1969 plant or facility may qualify for rapid five-year straight-line amortization in lieu of normal depreciation and the investment credit.

-- Permit rapid five-year amortization of the costs of either converting a generating facility fueled by petroleum products into a facility not fueled by petroleum products or replacing a petroleum-fueled facility with one not fueled by petroleum. This amortization is in lieu of normal depreciation and the investment credit, and is available only if (i) its benefits are "normalized" for ratemaking purposes, and (ii) construction work in progress is included in the utility's rate base for ratemaking purposes.

-- Permit a utility to elect to begin depreciation, during the construction period, of accumulated construction progress expenditures, generally the same expenditures as those which qualify for the investment credit construction progress payments under the Tax Reduction Act of 1975. Any depreciation taken during the construction period will reduce the depreciation deductions available after the property is completed. This early depreciation will be available only if the ratemaking commission includes construction work in progress in the utility's rate base and "normalizes" the tax benefits for ratemaking purposes. Construction of generating facilities which will be fueled by petroleum products will not qualify for such depreciation.

-- Permit a shareholder of a regulated public electric utility to postpone tax on dividends paid by the utility on its common stock by electing to take additional common stock of the utility in lieu of cash dividends. The receipt of the stock dividend will not be taxed. The amount of the dividend will be taxed as ordinary income when the shareholder sells the dividend stock and the amount of capital gain realized on the sale will be decreased (or the amount of capital loss increased) accordingly. Dividend stock is deemed sold before other stock.

FY 1976 COST = $600 million

MAJOR 1975 INDIVIDUAL TAX REDUCTIONS

The Tax Reduction Act of 1975 contains three temporary general individual tax cut provisions affecting most taxpayers. The first was the temporary one-shot rebate of a portion of 1974 tax liabilities, which was implemented through special rebate checks or larger refund checks last spring (cost: \$8.1 billion). Two other temporary structural changes enacted in 1975 may be summarized as follows:

Standard deduction liberalization

-- minimum standard deduction (low income allowance) increased from \$1,300 per return (\$650 for married persons filing separately) to \$1,900 for a joint return or surviving spouse, \$1,600 for single persons, and \$950 for married persons filing separately,

-- maximum standard deduction increased from 15 percent of AGI (with a maximum of \$2,000 or \$1,000 for a married person filing separately) to 16 percent of AGI (with a maximum of \$2,600 for a joint return or surviving spouse, \$2,300 for a single person, and \$1,300 for married persons filing separately,

-- effective for one year (generally 1975 calendar year)

COST: \$2.5 billion

Personal exemption tax credit

-- new $30 per exemption tax credit (except blind and aged exemptions) in addition to present law personal exemptions

-- effective for one year (generally 1975 calendar year)

COST: $5.3 billion

The approximate $8 billion of tax reductions effected by the standard deduction liberalization and the personal exemption tax cut were reflected in withholding tax reduction over a eight-month period. Thus, the amount of tax cuts necessary to annualize the 1975 Act withholding tax reductions over a 12-month period would be approximately $12 billion.

ANNEX E

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income
(billions of dollars)

Adjusted gross income class	Tax liability based on 1972-74 law	Proposed 1976 tax liability	Tax reduction	Percentage distribution of tax reduction	Percentage reduction in tax liability 1/
$ 0 - $5,000	2.0	0.8	1.2	5.8	61.3
5,000 - 10,000	14.1	9.1	5.0	24.2	35.3
10,000 - 15,000	23.1	17.6	5.5	26.6	23.8
15,000 - 20,000	23.7	19.5	4.2	20.3	17.7
20,000 - 30,000	28.0	24.7	3.3	15.9	11.7
30,000 - 50,000	16.9	15.9	1.0	4.8	5.8
50,000 - 100,000	12.1	11.7	0.4	1.8	3.2
100,000 +	9.4	9.3	0.1	0.5	0.8
TOTAL	129.4	108.7	20.7	100.0	15.9

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October 6, 1975

1/ Based on unrounded liability figures.

NOTE: Detail may not add to totals due to rounding.

ANNEX F

Maximum Levels of Tax-free Earned Income for 1976
Under the President's Tax Reduction Proposal

(rounded to nearest $10)

Filing status	Maximum tax-free earned income 1/		Poverty income levels 2/	
	1975	1976	1975	1976
Single				
no dependents	2,560	2,800	2,790	2,970
Married, joint return				
no dependents	3,830	4,500	3,610	3,850
1 dependent	4,790	5,500	4,300	4,570
2 dependents	5,760	6,500	5,500	5,850
3 dependents	6,720	7,500	6,490	6,900
4 dependents	7,670	8,500	7,300	7,770
Single, over 65,				
no dependents	3,310	3,800	2,580	2,750
Married, joint return, both over 65				
no dependents	5,330	6,500	3,260	3,460

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ For taxpayers not eligible for the earned income credit.

2/ Underlying Consumer Price Index: for 1975, 161.2; for 1976, 171.5.

FOR IMMEDIATE RELEASE OCTOBER 6, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
ON HIS RECOMMENDATIONS
FOR REDUCTIONS IN TAXES AND SPENDING

THE OVAL OFFICE

8:00 P.M. EDT

Good evening. I have asked for this opportunity to talk with you tonight because it is important that all of us begin facing up to a fundamental decision about our Nation's future.

For several years America has been approaching a crossroads in our history. Today we are there.

To put it simply, we must decide whether we shall continue in the direction of recent years the path toward bigger Government, higher taxes and higher inflation or whether we shall now take a new direction bringing to a halt the momentous growth of Government,restoring our prosperity and allowing each of you a greater voice in your own future.

Tonight I will set forth two proposals that, taken together, as they must be, represent the answer I believe we must choose.

First, I propose that we make a substantial and permanent reduction in our Federal taxes, and, second, I propose that we make a substantial reduction in the growth of Federal spending.

Let me emphasize at the outset that these proposals must be tied together in one package. It would be dangerous and irresponsible to adopt one without the other. I will not accept that as an answer for our future.

I want these proposals acted upon together by the Congress. Together they represent one central and fundamental decision that America belongs to you, the people, and not to the Government.

MORE

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

None of us wants to repeat the experiences of the past year. We want steady prices, we want steady jobs and, above all, we want a chance to get ahead again,to know that our destiny lies in our own hands and not in Washington or some other far away place.

Fortunately, there are encouraging signs that we have weathered the worst of this economic storm. The recovery that began this spring is now gathering momentum. If we act wisely, it will continue on an upward path with more jobs and more stable prices.

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

We must attack the underlying causes of our economic problems. We must get at the roots of our difficulties. We must find answers that serve us not only this year but for the years to come.

The President and the Congress working together have the power to help. I know that because in Washington much of America's vitality and prosperity have been drained away. It is here that one big spending program after another has been piled on the Federal pyramid taking a larger share of your personal income and creating record budget deficits and inflation. Here a massive, often too zealous bureaucracy has been erected that has become too involved in trying to run too much of your daily life.

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

Much of our inflation should bear a label "Made in Washington, D.C."

As we emerge from this recession,we face the basic choice: Shall we continue these patterns in Washington or shall we set off in a new direction? We cannot do both. We cannot go down both roads at the same time. We must choose.

Tonight, I propose permanent tax reductions totaling $28 billion-- the biggest single tax cut in our history. Earlier this year the Congress passed, and I signed, a temporary tax cut covering calendar year 1975. That temporary law will expire at the end of this year and,unless we act now, your taxes will go up again in January. I am proposing that we sweep away that temporary law and replace it, effective January 1, with a permanent Federal income tax cut that will be both larger and more equitable.

Three quarters of this permanent reduction will be for individual taxpayers and the chief benefits will be concentrated where they belong, among working people. The industrious working men and women of this country are the backbone of America. We cannot continuously ask them to bear an unfair tax burden. I propose that we lighten the tax load for them and for all other Americans in three ways: by raising everyone's personal tax exemption from $750 to $1000; by making the standard deduction for single taxpayers a flat $1800 and for every married couple $2500, and by lowering our basic personal income tax rates.

Together these measures will not only decrease everyone's taxes but they will aslo help to make up for the ravages of inflation. They will simplify the tax returns for millions of Americans. The total package represents a substantial reduction below the rates that will otherwise take effect this January. Under my proposal, a typical family of four earning a total of $14,000 a year would get a permanent tax cut of $412 a year, a 27 percent reduction.

The other quarter of the tax reduction will be directed at business in a way that creates more jobs. If companies and plants are to regain their footing and to hire more employees in the future, they must have greater incentives for investment.In order to create jobs,and good jobs, this country must build new plants and new equipment and we must have a growing economy. The tax cuts that I propose, including a permanent increase in the investment tax credit and a two percent reduction in the corporate tax rate, are specifically designed to increase employment. We must recognize that cutting taxes is only half the answer.

If we cut only taxes but do not cut the growth of Government spending, budget deficits will continue to climb,the Federal Government will continue to borrow too much money from the private sector. We will have more inflation, and ultimately we will have more unemployment.

Substantial cuts in your taxes must be tied to substantial cuts in the growth of Government spending. Anyone who has followed the upward leap in Federal spending can only shake his head in astonishment.

MORE

Back in 1962, the Federal budget for the first time in our history ran over $100 billion. In only eight years the budget doubled in size. In the coming fiscal year unless we act it will double again to over $400 billion.

One of the reasons for this horrendous spending growth is that much of the increase in each year's budget is required by programs already on the statute books. Many of these increased programs were first enacted years ago, and while individually they might have appeared manageable then, today -- taken together -- they are out of control. They are like a freight train whose lights were first seen far off in the night. That train has been coming closer and closer and now it is roaring down upon us. If we don't slow it down, Federal spending next year could easily jump to more than $420 billion without a single new Federal program.

Therefore, I propose that we halt this alarming growth by holding spending in the coming year to $395 billion. That means a cut of $28 billion below what we will spend if we just stand still and let the train run over us.

More importantly, it means almost a dollar-for-dollar cut in taxes and spending. For every dollar that we return to the American taxpayer, we must also cut our projected spending by the same amount. If we allow politics as usual to prevail in the Congress, there will be a temptation to overwhelmingly approve the tax cuts and do nothing on the spending cuts. That must not happen.

I will go forward with the tax cuts that I am proposing only if there is a clear, affirmative decision by your representatives in the House and the Senate that they will hold spending next year to $395 billion. I will not hesitate to veto any legislation passed by the Congress which violates the spirit of that understanding.

I want these actions to be a first step, and they are a crucial step, toward balancing the Federal budget within three years.

In January,I will propose to the Congress that many of our current spending programs be revised, consolidated and held below their projected levels. When I do, you will hear loud protests from one group after another contending that Washington should keep up an endless flow of subsidies. But we have to face hard reality: our financial resources are limited. We must learn to live within our means.

MORE

Spending discipline by the Federal Government must be applied across the board. It cannot be isolated to one area such as social programs nor can we completely insulate any area such as defense. All must be restrained. I believe that your Congressmen should stop trying so hard to find new programs that spend your money and get to work figuring out how to make the Government work better for you. They should get rid of the programs that don't work in order to make room for those that do.And,in the process,we can begin cutting back the swollen Federal bureaucracy.

I want to work with the Congress and with you, the people, to insure that those who deserve the help of our Nation continue receiving that help. The elderly, the poor and the men and women who have borne our Nation's arms. Also, I will not permit reductions in our military budget that would jeopardize our national security. We must maintain a strong economy and a strong national defense.

Sometimes when fancy new spending programs reach this desk,promising something for almost nothing and carrying appealing labels, I wonder who the supporters think they're kidding. From my visits with the American people, I find many of them believe that what the Government puts in your front pocket, it slips out of your back pocket through taxes and inflation. They are figuring out that they are not getting their money's worth from their taxes. They believe that the politics of Federal spending has become too much of a shell game. And I must say that I agree with them.

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

I deeply believe that our Nation must not continue down the road we have been traveling. Down that road lies the wreckage of many great nations of the past. Let us choose instead the other road, the road that we know to be tested, the road that will work.

As your President, I cannot take this journey alone. I need the help of you, the American people, to persuade your Congressmen and your Senators that you want the growth in Government spending cut so that your taxes can be cut now. I need the help of the farmer in Iowa, the housewife in California, the retired couple in Florida, the small business-man in New Jersey, the student in Texas -- all of you. This must be a national effort. America should not belong to the Government,but to the people. You can serve the Nation by helping us make the right choice for the future.

Thank you, and good evening.

END (AT 8:20 P.M. EDT)

EMBARGOED FOR RELEASE
UNTIL 8:00 P.M. EDT

OCTOBER 6, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S PROPOSAL FOR TAX CUTS AND FEDERAL SPENDING RESTRAINT

President Ford is proposing that permanent large tax cuts be made possible for American taxpayers by Congress joining with him in limiting the growth of federal expenditures. The tax reductions proposed by the President total about $28 billion compared to 1974 law. This proposal is linked to the adoption by the Congress now of a spending ceiling of $395 billion for FY 1977. This represents a reduction of about $28 billion from projected levels for that year unless action to limit federal spending is taken.

The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning $14,000 a year would receive a reduction in their tax liability of $412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

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- $4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a $4 billion extra cut is provided to keep withholding constant.)

- $8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	Individual Tax Cuts
Increase personal exemption from $750 to $1,000.	$10.1 billion
Replace $1,300 low income allowance and $2,000 maximum standard deduction with flat amount standard deduction of $2,500 for married couples ($1,800 for a single person)	$ 4.0 billion
Reduce tax rates	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
Extension of 1975 corporate rate and surtax exemption changes	$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	$ 2.5 billion
2% corporate rate reduction (48-46%)	$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

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Office of the Secretary of the Treasury
Office of Tax Analysis

Tax Liabilities for Single Person with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, individual uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3.817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

Office of the Secretary of the Treasury
Office of Tax Analysis

# #

II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the $30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

-- Increase the personal exemption from $750 to $1,000.

-- Replace the present minimum standard deduction (low income allowance) of $1,300 and maximum standard deduction of $2,000 by a single standard deduction in a flat amount of $1,800 for a single taxpayer and $2,500 for a married couple ($1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of $1,625 by married couples and $1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)

-- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

-- Reduce the maximum corporate tax rate from 48 percent to 46 percent.

-- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from $25,000 to $50,000 of taxable income.

-- Continue the 1975 Act reduction in the rate on the first $25,000 of taxable income from 22 percent to 20 percent (the second $25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).

-- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.

-- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around $53 billion in a single year. Budget outlays are approaching $370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach $423 billion or more. The main elements of an increase of $53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	+9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	+7
TOTAL	53

B. Decisions have not yet been made on which programs will be restrained or curtailed.

-- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.

-- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of $395 billion on FY 1977 expenditures now.

-- A $395 billion ceiling is $25 billion above the currently estimated spending level this fiscal year and $28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach $370 billion, the FY 1976 budget deficit would be about $70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of $40-44 billion.

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EMBARGOED FOR RELEASE
UNTIL 8:01 P.M. EDT

OCTOBER 6, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM E. SIMON
SECRETARY OF THE DEPARTMENT OF TREASURY
JAMES T. LYNN
DIRECTOR OF THE
OFFICE OF MANAGEMENT AND BUDGET
ALAN GREENSPAN
CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
AND
CHARLES WALKER
ASSISTANT SECRETARY OF THE TREASURY

ROOM 450
EXECUTIVE OFFICE BUILDING

5:44 P.M. EDT

MR. NESSEN: I don't know who the leader of this group is.

SECRETARY SIMON: I will start.

You know the President has been working for several weeks on questions relating to Federal taxes and spending. Tonight, he has asked for television time, which Ron just spoke to.

First, as you can see from the fact sheets, the President is going to propose a substantial and permanent reduction in Federal taxes, going far beyond the temporary tax cut that expires at the end of this year. The total cut will be approximately $28 billion, approximately three-quarters for individuals and one-quarter for business.

Secondly, he is going to propose a substantial reduction in Federal spending, below those levels that are projected for fiscal year 1977. Jim Lynn is going to elaborate in a second, before your questions.

Federal spending will, in fiscal 1977, easily surpass $420 billion unless affirmative action is taken, and taken right now. The President is asking that the spending be held in fiscal 1977 to $395 billion, a reduction of an equivalent amount of $28 billion.

MORE

I want to emphasize how important it is that everyone understand that these two proposals are regarded as one package. The President is going to ask Congress to act on them both now, and he is insisting that only if Congress is willing to adopt a spending ceiling for fiscal 1977 will he go forward with these major taxcuts.

It would be dangerous and irresponsible to cut taxes and not cut the growth in Federal spending. That would only leave us with huge deficits, higher interest rates and more inflation and eventually more unemployment.

So, the two proposals are inextricably tied together, and we are presenting them as one single package. Together, they are designed to return more economic decision-making to our private sector.

The President is going to address more fully tonight why it is important to halt the trend toward big Government in this country. In this session, I want to talk more specifically about three particular advantages of this, what we consider balanced fiscal package: the economic advantages, the financial advantages and the psychological advantages.

First of all, on the economic side, in the short-term this package will provide us with a stronger foundation to sustain the momentum of our current recovery. In the long-term, the discipline imposed upon the growth in the budget will reduce the inflationary pressure generated by Federal spending.

There can be no question that curbing the explosive growth is an essential weapon in the long-term fight against inflation. Furthermore, by reducing taxes, as well as spending, we will also encourage greater savings and investment, a process that is imperative if we are to create jobs and increase productivity and increase real earnings in this country.

In short, it is going to provide a higher standard of living for all of us.

Second, this program will improve conditions in the financial markets. By tying spending cuts to tax cuts, the President is insuring that during the next few years our budget deficits will be progressively smaller and the Federal Government will not soak up as much money through borrowing in our private capital markets.

For all practical purposes, too many small- and medium-sized businesses are crowded out of our capital markets today. By reducing Federal borrowing, the Government will reduce the upward pressure it places on interest rates. Lenders are going to be more willing to lend long-term and more private borrowers are going to gain access to the credit markets.

Again, this process is essential for assuring long-term economic growth. As the President will say tonight, our ultimate objective is to bring the budget into balance within three years.

Psychological: Finally we have to take into account the public's perception of Government itself. Clearly, public confidence in the Government's ability to reduce inflation has been eroded by the last decade of huge increases in Federal spending, along with the huge increases in our budget deficits.

Over time, that process has built inflationary expectations into all of our society. The President is intent upon changing those expectations through this porgram and further efforts in the future.

Let me re-emphasize the determination of the President and the full Administration to stop the uncontrolled growth of Government outlays and to return to the American people more of the decision-making on how their incomes are going to be spent.

Unless action is taken, Federal Government spending can be expected to increase by approximately $53 billion in fiscal 1977. Outlays as a share of GNP will continue to rise. Outlays in fiscal 1977 would reach $423 billion. Roughly, four and a quarter times higher than outlays just 15 years ago.

The President's program is designed to restrain this growth and to reduce the share of GNP going into the Federal Government. This plunging process is vital to the economic and financial well being of our people.

I might add that in my recent testimony before the Congress, I have been heartened by the desire expressed by both budget committees to work with us in holding down spending and holding down the attendant deficits.

We hope that the full Congress is now going to join with us in adopting this very important package that the President is submitting.

Now Jimmy would like to, I am sure, address the expenditure side.

MR. LYNN: Bill, I think you have covered it sufficiently for openers. I would, kind of reversing the roles a little bit, draw your attention specifically to the tables that are included in the fact sheet showing the impact on the various families.

MORE

What we have here is a situation where practically dollar for dollar, if you compare the 1974 law before the 1975 temporary cuts were put in, of a dollar for dollar reduction in the expenditures from where they would have gone without restraing for a comparable amount of benefit on the side of tax reductions.

I think at this point, unless Alan, you have something to add, why don't we let these ladies and gentlemen ask their questions. That is the most important thing.

Q On those very tables you mentioned, can we have some figures below $5,000 of income, and why weren't they supplied in the first place?

MR. WALKER: I think we have them not below $5,000 because of the non-change that is involved there.

Q Not for single people. There are changes, some of whom are tax exempt now, and I am wondering if they would still be tax exempt under this proposal?

MR. WALKER: I can see that.

SECRETARY SIMON: I can show you that, Eileen, because I have a table that shows you the new tax exempt income for singles and marrieds.

Q Mr. Secretary, you say these proposals of tax and spending ceilings are linked. Are they going to be linked in their presentation to the Hill, and is there any way that this can be done through the statutory provisions?

SECRETARY SIMON: What the President is going to do is urge the Congress to adopt a spending ceiling for fiscal year 1977 of $395 billion. At that point, he would accept the tax reduction as outlined here on the tax side.

Q Is the President going to save $28 billion?

Q Will it be something informal? You are not going to propose a tax bill to Ways and Means that would have a spending ceiling tied into it?

SECRETARY SIMON: The Ways and Means Committee will be told the conditions under which we would accept this type of a tax proposal, that is correct.

Q Does that mean that if the Congress will not vote your ceiling that the President will oppose and perhaps veto tax cuts in the coming election year?

MORE

SECRETARY SIMON: If the Congress rejected the notion of putting a $395 billion spending limit on the fiscal 1977 budget and sent down a tax bill here, in this regard this President would veto it.

Q Can I follow that? From a practical standpoint, however, isn't it likely that we would act on the tax cut this fall? They don't have to take up the question of the ceiling until next year.

SECRETARY SIMON: I want Jimmy to talk to this, too. We think they have got plenty of time in the three months that are remaining. They have been working for several months, the budget committees, on fiscal 1976. They have the figures for 1977. We are going to be delighted to work with them on processes.

MR. LYNN: I suppose they could do almost anything, you are right. They could delay, but it seems to me the delay will cost the taxpayers money. What our hope would be is that they take action on both sides of this equation now so that the taxes can take effect -- the cuts could take effect -- as of January 1.

Q The question did not suggest that they would delay on voting the tax cut, but after all, they, just within the last few weeks, set the ceiling on fiscal 1976, didn't they? So, is it reasonable to expect them to set a ceiling on fiscal 1977 this fall?

MR. LYNN: I most certainly think it is. First, let me say I have been testifying before the Congress that one of the things that have disturbed me so much is that I see consideration of various programs before the Congress, including consideration of extension of the tax cut without any figures being explored with respect to what the effects are in fiscal year 1977.

Just to give you an example, the President vetoed the education bill. The effect of that override of his veto is to add almost $1 billion to expenditures in fiscal year 1977.

We don't see, frankly, how they can take action with respect to the taxes without setting for themselves now a target, as we have done.

Q Mr. Lynn, you have got $53 billion worth of expenditures detailed here. Are you now, or is the President later, going to send up a list of specific cuts of the total $28 billion, or are you leaving that all to the Congress?

MR. LYNN: Oh, no. Of course we will. We are doing that in the budget process. What we are doing now is our usual budget review that occurs this time of year. This budget will be presented to the President, he will make his changes in it, and all of those cuts will be expressly set forth in his January budget for fiscal year 1977.

Q In order for Congress to take action now, don't you have to provide a list of where you want the $28 billion cut?

MR. LYNN: No, I don't think so. My own feeling about that is that Congress can adopt an overall ceiling to show their concurrence with this approach of trying to moderate the growth of Government and give the American taxpayers a break without having their detailed make-up. We have done enough work in the course of the last months to see that it can be done. Now, very frankly, the exact ways that it should be done should be to determine in concert with the departments and agencies

They have a principal role here and we want to see that they play those roles and will develop that budget just like the budget committees will be working on details of their budget when they see the President's budget.

All we are asking at this point is that they adopt an overall ceiling, not the make-up of that ceiling.

Q Mr. Lynn, as you know, many previous Administrations have been frustrated by trying to impose a firm ceiling on Congressional spending and I suppose one reason for that is that many of these spending programs are open-ended in their appropriations impact. How do you specifically plan to deal with such problems where Congress authorizes spending under a program and sets no ceiling as long as people qualify?

MR. LYNN: You mean so-called entitlement programs where anybody that qualifies can come in.

I think what it takes in that area is legislative action. It takes affirmative legislative action. You are absolutely right, that does not lie within the control of the President. That is why he is calling on the Congress to join him in this effort.

This cannot be done by the President acting alone, it does require the cooperation of the Congress.

Q Mr. Simon, glancing quickly at the figures here, it does seem that the higher the income, the larger the tax reduction, and it also seems that a special provision, such low income allowance from the 1975 laws, is now being eliminated. Is that the general thrust of this proposal by the President?

MORE

SECRETARY SIMON: In general. You have to go through and take a look at the singles and the marrieds and how the various dependents are affected. Basically, the maximum benefit does not come at the maximum income. With the cut-off the maximum benefit is approximately the $25,000 income level and, naturally, there is some flow-throu effect from (A) a combination of the 1975 tax reduction, plus the magnification.

Now, let me explain to you what magnification is. The 1975 tax reduction was for an 8-month period; that was $8 billion for individuals. In order to annualize it for a 12-month period we had to make it $12 million so that is 50 percent larger. We then added, of course, the $8.6 billion more and provided this restructuring, removing, as you said, Phil, that to simplify, just have a single standard deduction.

Q Mr. Simon, does this package have your full support?

SECRETARY SIMON: Wait a minute. Alan wants to add something to that.

MR. GREENSPAN: I think if you will take the percentage changes in tax liability, they start the highest at the lowest level and they proceed downward thereafter throughout the whole tax schedule so that I would say the actual percentage change in taxes is very small at the bottom end of the scale.

SECRETARY SIMON: Let me give it to you in the zero to $5,000 area, the percentage reduction in tax liability is 61.3 percent.

Q Compared to which year?

SECRETARY SIMON: That is with the tax reduction proposals at 1975 levels of income, Eileen.

Q But compared to 1975 law or --

SECRETARY SIMON: That is compared to the 1972-4 law before the 1975 change.

$5,000 to $10,000 the tax reduction in tax liability, 35 percent; 23 percent in the $10,000 to $15,000; 17.7 in the $15,000 to $20,000; and 11.7 in the $20,000 to $30,000 so that you can see --

Q Let's have that compared to the 1975 law.

Q Are you talking about the dependents now or single?

SECRETARY SIMON: That is the income distribution of the President's tax reduction proposal. That is overall.

Q What was the last figure?

SECRETARY SIMON: 11.7 in the \$20,000 to \$30,000.

Q Can we have those compared to present law; that is, 1975 law?

MR. GREENSPAN: It will show the same.

Q Let's have the numbers.

SECRETARY SIMON: We don't have the numbers compared to the 1975 law. We have it magnified but that would not show the same as the 1975 laws that exist today. We have it magnified to the -- you know, adding the \$4 billion, the 50 percent on and the percentages change at that point but still heavily weighted and we only have it on the percentage reduction -- no we don't have the specific one you say to the existing 1975 tax law.

Q Are all these cuts permanent or only some of them permanent and some of them temporary?

SECRETARY SIMON: No, this is a permanent tax reduction recommendation by the President.

Q Mr. Secretary, what is the economic situation that has caused you to decide not only to continue the 1975 tax reductions but to increase them substantially?

SECRETARY SIMON: When we talk about the economic situation, what we are trying to do,as I say, is control the explosive growth,as I said in my opening comments,and in Federal spending.

Q That is nine months after the start of the calendar year.

SECRETARY SIMON: We are talking about fiscal year 1977 as well and I, myself, have always personally favored tax reductions to return the decision-making back to the American people if at the same time we can have a simultaneous reduction in expenditures, permanent reduction.

Q But the permanent reduction, as I understand the program, does not apply to the months immediately ahead. It only applies to fiscal 1977.

SECRETARY SIMON: No. Obviously the six months immediately ahead for the half a year would be a continuation. No, until July 1.

MORE

Q Don't you have a transition quarter?

SECRETARY SIMON: Well, the investment tax credit of course is 1977.

Q Doesn't fiscal 1977 start October 1?

MR. LYNN: October 1 of next year.

Q So it is nine months.

Mr. Simon, could you tell us then what the economic factors are that would make you decide to do this?

SECRETARY SIMON: Well, I tried to outline it-- that there were economic and psychological and, of course, financial market-related reasons why we should reduce this growth in spending and reduce the deficit,as I said in my opening remarks.

Q Well, does the recovery seem inadequate?

SECRETARY SIMON: No, it most certainly does not. As I believe Alan's last report, the third quarter growth will be reported in the next couple of weeks and is going to show strong real growth -- I think stronger than anyone had originally predicted, and that real growth is projected.

The average real GNP growth through June 30, 1976, we can say is still roughly 7 percent.

Q Mr. Secretary, did I understand you correctly earlier that you said the President would veto a tax cut if it were not accompanied by the other?

SECRETARY SIMON: That is correct. If the Congress sent down a tax reduction for a year or permanently in the absence of adopting a spending ceiling for fiscal 1977 of $395 billion, he would veto it.

MORE

Q Aren't you almost certainly getting into a situation, given the way the whole tax thing has gone so far, the way the whole energy thing goes, that you will get a proposal from the Congress for a tax cut of at least as large as yours, possibly larger, and heavily weighted to the bottom of the scale, and you will get the other deferred completely from consideration until some later date so you won't have a yes or no and you will sit in this limbo and then the President has to make a decision?

SECRETARY SIMON: I would certainly hope you are wrong, and as I say, the President has made a decision as far as what he would do, if indeed that happened, and a tax bill came down. I think that (a) the way this tax proposal has been structured, and (b) the need for a curb in Federal spending is well recognized on Capitol Hill, as it is in the Executive Branch of Government, so I am optomistic that we are going to get some action on a $395 billion spending ceiling.

Q What form would the spending ceiling take? Would it be a budget resolution to the procedures that are now in place?

SECRETARY SIMON: Yes, it would be what, the second current --

MR. LYNN: I would think they could do it any number of ways. One way would be by a resolution of the Congress. Another way would be in the preamble to the tax legislation. I would not purport to tell or even suggest the manner in which Congress can do it, but I am certain there are a number of ways that they can do it.

Now, it is the matter of their will to do it if they decide to do it. If a majority of both Houses decide to do it, they will find a way to do it, and there are ways available.

Q The Budget Reform Act reserves jurisdiction in the Senate and House budget committees. The Ways and Means Committee does not have anything to do with spending.

MR. LYNN: Again, I would hope that what we will see in the Congress is a coordination of those efforts. As I have said, even in testimony I believe it was before the House side that one of the things that bothered me was that we were seeing a mark up with regard to a tax extension at a time prior to even the mark up for fiscal year 1976 on the budget side and on the second concurrent resolution.

I happen to feel you have got to look at 1977 numbers every bit as much as you have to look at 1976 numbers when you are deciding what the taxation structure ought to be from here on out, and that decision is before Congress because the old temporary cut runs out December 31.

MORE

Q Would you buy a sense of the Congress resolution, or would it have to be binding law?

MR. LYNN: Look, after all, the budget resolution, for example, is a sense of the Congress in the sense that they are setting their preliminary target for the existing year. I would suggest they can use the same procedure that they have used for their budget resolution process, if that is the way they care to do it, but we certainly would not want to suggest that one way or another is absolutely essential.

So long as that signal comes through strongly from the Congress to the American people and to the President that they are willing also to work to keep that $395 billion ceiling, that will do the trick.

Q Mr. Secretary, could I come back to Joe Slevin's question?

Q Mr. Secretary, the ceiling you are recommending does not become effective until the fiscal year beginning October 1, 1976. What effect, if any, do you suggest this should have on appropriations matters before the Congress for this fiscal year current and for the interim period between July 1 and October 1? Wouldn't that require some cutback so you have an estimate?

MR. LYNN: As you know, we already still have before the Congress requests for reductions from what a current services path would take you or even more from the path Congress seems to be on on both the authorization bill and appropriation bills. I would hope that at the same time -- or I should say in keeping with their agreement to also work with us on the $395 billion ceiling -- they would start looking very hard and adopt the kind of proposals for moderation for 1976 that we have proposed.

As you know, now that we are well into the fiscal year, a number of those can't be recaptured for the period of time that has already elapsed, but there is still plenty of room for them to exercise budget restraint for the rest of the year, and we would urge them to do so.

Q Secretary Lynn, getting back to Joe Slevin's question about economic rationale for the program and can either you or Mr. Greenspan elaborate on that; specifically, is this program supposed to have a net fiscal stimulus?

Q Question?

MORE

SECRETARY SIMON: Is this program supposed to have a net fiscal stimulus?

This program has, as I said, three parts to it: One, to help sustain the current economic advance. I think everyone is pretty generally agreed right now -- that private as well as the Government forecasters -- that the economic recovery is well underway and it is going to be strong and indeed vigorous here in the early months of the recovery and into the next year.

The questions that seem to be raised right now are what indeed is the third quarter? Some are even questioning the second quarter of the calendar year 1976.

Also, a program like this helps to lessen the strain on the financial system by reducing the inflation itself over the long-run and,more importantly, the inflationary expectations as people begin to realize that we are getting a handle on this budget deficit problem, that we are not going to allow this explosive growth in Federal expenditures to continue at the very larger percentages that they have, and, finally, and just as importantly, to slow the secular Federal Government inroads into the lives by returning the money to the American people that is now being presently spent by the Government.

Alan, would you like to add to that?

Q Before you go, Mr. Secretary, on your point that they helped to sustain the economic advance, how do you help sustain the economic advance when you cut expenditures by the same amount that you reduce taxes?

SECRETARY SIMON: Well, on a simple accounting basis one might say that that has, as I say on a simple accounting basis, a neutral effect but I am afraid that ignores the incentive gain of what happens when this amount of money or any amount of money is pumped into the private sector and into business creating all of the capital formation which is so terribly needed, as you have heard me say quite often, and I believe it has very definitely a net positive effect.

Al, do you want to add to that?

MR. GREENSPAN: We have taken the specific proposals on a quarter-by-quarter basis and got some of them through by various numbers of techniques including the regular macro-econometric types of procedures.

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Statistically, what we get is slightly larger deficits in the next two to three quarters of 1976 calendar year and then somewhat lesser thereafter.

The amounts involved are not large and, in any event, I would scarcely describe the effects as being clearly affecting the economy one way or the other. This particular program has not been constructive for the purposes of affecting the short-run economic recovery in the usual classic sense of the word. The major problem which it has attempted to confront is something which anybody who has looked at the extraordinarily burgeoning effect of the rise of Federal expenditures as you get into fiscal 1977, 1978, 1979 -- what you begin to basically recognize is that at some point some basic decision must be made.

Either we are going to decide to continuously increase the size of Government and ultimately increase taxes in the whole control of the Federal Government of the economy as a whole, or we decide that is the way in which we do not wish to go. The essential thrust of this program I would describe, while certainly having short-term effects, as any program must, was not constructed in that light and its basic thrust is longer term.

It's short-term economic effects, as the Secretary has just said, are roughly neutral. The reason I say roughly is the fact that some people are going to evaluate part of it as positive and part of it as negative and I think others will do precisely the reverse. There is no major impact so far as I can see from anybody's evaluation.

Q Mr. Greenspan, could you, if you have these numbers, tell us what the net effect would be for the first, second and third quarters in terms of adding to expendable income? I guess we don't have to do anything on the Government spending side since there will not be any reductions during those first three quarters.

Secondly, isn't that in fact the stimulus?

MR. GREENSPAN: Well, the problem that you have got is that at this particular point it is not clear to what extent you in fact create stimulus from increasing deficits. Let me suggest to you that we have the conventional wisdom which always says that the greater the deficit, the greater the stimulus, the greater the level of employment. That is true only in the very restricted confines of our econometric models which, of necessity, is a very extraordinary abstraction from reality.

We have found, as you are no doubt well aware, that these models have not captured many of the things that have gone on in our economy in recent years and most specifically in the financial area.

As best we try, and we tried extraordinarily hard, to capture these very subtle financial impacts as they affect the levels of production and employment. To the extent that we have failed to do that, it is clear that what we have done is underestimated the negative impacts of the so-called expansionary policies on interest rates, on inflation and, therefore, on real growth.

So what I am suggesting is that while we do have these various sorts of figures which you discuss, I would not, by any means, describe simply the fact that we do have somewhat higher deficits in fiscal year 1976, specifically the first three calendar quarters, as being ipso facto stimulus.

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MR. LYNN: If I might just add one thing to that, if I can, when you look at the figures we have here with regard to fiscal year 1976 expenditures, we are making some guesses, some estimates as to where Congress is moving.

With the kind of restraint I talked about a little bit earlier, that amount of expenditures for fiscal year 1976 could be kept lower than that, and I would hope also get the difference I cite lower than the number we show there.

Q Just one more question. We are going to have $21 billion of $28 billion tax cut effective by October 1 so you have a net increase of money in the spending stream of $21 billion. You are not having any reduction in spending during that same period so, in effect, don't we have a $21 billion stimulus for the first three quarters? That is the question I have.

MR. GREENSPAN: No, I am not sure those numbers are correct.

Q Excuse me. I think to answer that question we have to be given the numbers. This table that adds up to $27.20, $.7 billion you talk not in terms of the comparison with 1974, but in terms of present law. Can we have those numbers, just that little five or six item breakdown on page two here?

SECRETARY SIMON: We can get those numbers for you. The reason that we didn't do it on the figures that you wish is because the 1975 tax laws are temporary law.

Q Just a second.

Mr. Greenspan, is it reasonable or even rational to compare what you are proposing for the year ahead with two years ago in terms of assessing the economic impact? Can we really balance a two-year change on the tax side with a one-year change on the spending side, and you are trying to say they are the same thing?

MR. GREENSPAN: No, no. Let me tell you what the comparisons are. We have ongoing forecasts of the economy and what we tend to do is to reflect various different options that are involved in them. The latest forecasts that we have set up are not reflective of obviously 1972 or 1974, but essentially what has been going on within the tax structure as it stands now.

What we have done is superimposed upon them, starting off with expenditure expectations of no actions of any sort and running our best estimates that we can, we came up, as I indicated several weeks ago, with a real growth rate approximating 7 percent to mid-1975 to mid-1976.

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What I am suggesting to you is this: We have reinstituted new estimates based on this program, and it does not significantly alter those numbers.

Q Okay. I wondered, however, if we can't have a figure to compare existing 1975 law to see what these tax changes really are.

MR. GREENSPAN: I agree with you. I think that is correct and those data should be made available shortly.

Q Now, the second question on the same subject of these numbers, differently. I assume that everything, Mr. Simon, that you have told us about the percentage tax increases by tax bracket eliminates, leaves out of consideration the fact that you are asking that the work bonus, the earned income credit, be eliminated, and you are now calling it an expenditure.

Therefore, this thing which is for the low income is nowhere in any of these figures, percentage change or otherwise, that you have given us, is that correct?

SECRETARY SIMON: The earned income credit is not in the President's tax proposals, that is correct.

Q Or in any of these comparison numbers?

SECRETARY SIMON: That is correct.

Q Including the tables that show by income bracket and so forth?

SECRETARY SIMON: That is correct.

Q Mr. Simon, as I see this, the tax reductions that are in effect may begin at the first part of the calendar year, but the spending reductions do not go into effect until the third quarter, and so your proposition is to cut taxes for the first three quarters for no spending and then what happens in November of 1976 is that there is an election.

Now, was that taken into consideration in deciding on the timing?

SECRETARY SIMON: It most certainly was not taken into consideration. The consideration was that we wanted a determination by the Congress that fiscal 1977 budget expenditures would be held to $395 billion, which from today's estimates mean that the proposed cut in the future would be equivalent to the amount of the tax cut that the President is proposing today, and it had nothing to do with the election in November 1976.

MORE

Q Did you seriously discuss any of these proposals with Congressional leaders before making them public?

SECRETARY SIMON: The President is discussing these right at this very moment with Congressional leaders.

Q But since your Administration, as I understand it, has a minority in both Houses of Congress and since this will require legislative action, it seems to me that you could be accused here of presenting a political ploy to the Democratic Congress.

SECRETARY SIMON: I would assume that you can always be accused of presenting a political ploy to Congress, but that does not concern us. We believe that this proposal makes good long run sense to the American people, that they begin to reverse this trend that has been going on in Government, especially in the last ten years.

If they want to attach certain slogans to it, some people, well, so be it. That was not the intent of the proposal.

Q The long-term effect you say is this reduction of Federal spending.

SECRETARY SIMON: The growth in Federal spending.

Q The short-term effect is to increase the Federal deficit and increase the Treasury's borrowing on the market, I believe was the question. Correct me if I am wrong.

Why is that a good idea now, and why don't they have all the dire consequences that you have been warning about for many months?

SECRETARY SIMON: The near term effect is slightly raising the President's ceiling that he put on at $60 billion. That is a fact. The point is that for the longer run considerations they outweigh these shorter run considerations, and I think that if this program were enacted in this fashion, the expectations of the marketplace would be that the Federal Government is finally getting their spending under control and we begin to work away at the important inflationary expectations that are so deeply ingrained, plus the loss of confidence the American people obviously had based on every policy that is taken in the ability of Government to manage their economy and, more importantly, to get their spending and inflation under control.

MORE

I think on the whole the positives far outweigh the negatives of a short-term, as I say, slight increase in the deficit.

Q How much will the deficit go up?

MR. LYNN: It depends on an awful lot of factors. As you have heard me testify on the Hill, we have a good deal of uncertainties right now, ranging all the way from just trying to get a good handle on estimating entitlement programs, whether we are talking about food stamps or supplemental unemployment benefits and so on.

Quite apart from that, we have to engage in a guessing game as to what Congress will do from here on out by way of the kind of salami tactics that we have had up to now, where we propose "X" and Congress always feels disposed to add "X plus Y" to the particular program.

My hope would be that Congress, in the spirit of this proposal, will now make a genuine effort to go along with the proposals that are still before the Congress that the President has made. I would think, to give you a rough estimate, that we would be able to have a deficit somewhere in the middle 60's before we are done.

We had to look at the reality that if Congress does not show that kind of restraint and looking at the total estimating that is involved, you can have a deficit of about $70 billion. But, I have to urge you once again this early in the fiscal year -- and also given all of the uncertainties with respect to the estimate -- you can't give a positive single figure at this point and feel confident that it is so.

Q Just this itself, how much would this add to the deficit?

Q What year?

MR. LYNN: What are you talking about? Fiscal 1976?

Q Fiscal 1976.

MR. LYNN: The effect of this proposal by way of receipts lost over and above, let's say, the magnified extension is what? Do we have that? It is what? Five?

Q All by itself?

MR. LYNN: All by itself.

MORE

Q It is 11.

MR. LYNN: It is 11 by itself for what, on a full year basis?

Q It is 28.

MR. LYNN: The 28 again, in answer to Miss Shanahan's question, the 28 is from the 1972-1974 kind of package, so what I was giving you was a figure of the net additional amount if you were to assume things continued the way Miss Shanahan talked about it.

Q What is that total figure from 1975 to 1976? These tax cuts are what?

MR. LYNN: Say that again.

Q From present law --

MR. LYNN: From present law?

Q From present law the total tax cut herein proposed is $11 billion, is that right?

MR. LYNN: About 11, that is right. On an annualized basis?

Q No.

MR. LYNN: On an annualized basis?

Q She asked how much the increase is from 1975.

SECRETARY SIMON: Break it down. First we had the rebates in there, and they are out, so we forgot these. Right? Then, we take the individual reductions, which were $12 billion in 1974 and now they are $20.6, so we are up $8 billion for the individuals, 1975 over 1976. Then the business cuts.

In 1976, the investment tax credit does not expire until January 1977, so the impact is not felt until fiscal 1977. So, leave out the 2 percent reduction.

Q Leave that out?

SECRETARY SIMON: Yes, the 2 percent reduction in corporate tax rates, the impact is on there, so that is roughly it.

Q Let's get clear. This proposal is that you are proposing tax law changes which would reduce taxes in 1976 by $11 billion compared to tax liabilities under present law?

MORE

MR. LYNN: You are talking about calendar year 1976?

Q Yes.

MR. LYNN: See, that is where our confusion was coming. I was talking fiscal year. You are talking calendar year. As far as receipts, it lost about $11 billion.

Isn't that right, Bill?

Q Where does that put you?

Q In comparison with present law.

MR. LYNN: In comparison with present law?

Q That is not my question.

MR. LYNN: That answers one question. Let's take another one. You go ahead.

Q My question is, how much will be added to the deficit by proposing by this tax proposal, and that is assuming that the 1975 tax cut would have expired.

MR. LYNN: Totally?

Q Period.

MR. LYNN: I suppose the way you would estimate that is, first, to take a half of a full year's effect. The full effect of the tax package is roughly $28 billion, right? So, you take a half year's effect of that, and I am being very rough in that.

My real expert, Bill Macomber, please feel free to correct me. Take roughly half of that and that would be the additional receipts lost for the period. But, what the economists also do is take a look at all of the factors that enter into the economy, and what you think that kind of tax cut will do by way of signals -- more importantly, what the restraint provision you are trying to get for 1977 will do to the business community and to the individuals and, therefore, some part of that receipts loss will build into the deficit.

Q Sure you figured it out. I am just asking for the figure. I know what the process is, but what is the figure? Is it $11 billion?

MR. LYNN: It would not be the total $11 billion by any means.

Q It is not the total $14 billion.

MR. LYNN: All right, the total $14 billion.

Q What is it?

MR. LYNN: It would be something less than that.

Alan, would you care to comment on that?

MR. GREENSPAN: One of the problems he has got is the fact that when taxes are received -- and I think that unless you can go through a simulation of the specific tax receipts differences, that is not a number you can get that simply.

Do you have that?

Q You cannot say how much this will add to the deficit?

MR. GREENSPAN: No.

MR. LYNN: We have said that. We have said it in the fact sheet.

What we said at the end of the fact sheet was that taking into account the factors that we know of now, and that includes putting in somewhat of a cushion for Congressional reluctance in the future, as they have in the past, to adopt the kinds of restraints that we have proposed, that the deficit for fiscal year 1976 would be about $70 billion.

Q Dropping the 40 to 44 in following fiscal year?

MR. LYNN: Yes.

Q Can we have the breakdown again of that $11 billion on the 1975 comparison of the tax cut? In calendar 1975, compared to the temporary 1975 law, you said earlier, how do you break that down?

MR. LYNN: The way I got to that in my head was--and again, Dale, the way we calculated it was--that if you take the 1975 law, the way it is being applied now and with withholding rates, as you have it now, the effect on a full year basis on whether you take fiscal or otherwise, but once it is in effect is about $17 billion -- $17 billion, $18 billion, somewhere in there.

So, therefore, if you look at your $28 billion, that is what your differential is.

MORE

Q $17 billion revenue loss?

MR. LYNN: Yes. That is revenue loss again. That does not necessarily mean your deficit loss.

Q Can we get a breakdown of numbers parallel to the 1972-1974 numbers?

SECRETARY SIMON: We can pass out what the 1975 tax act was in the old sheet that gives you the revenue impacts on the 1975 tax act. You have the 1976 act here proposed with the revenue impacts and a good many of the business tax cuts are the same.

The investment tax credit, as I say, does not expire until 1977. Your major difference is in your individual tax cut. Of course, that is offset by the rebate, which the $8 billion is off already.

Q What you are saying now is the $28 billion is made up of the $17 billion worth of cuts this year in calendar 1976 and 11. Is that the 28? There was 17.

MR. LYNN: Try it again.

Q The 28 is a combination of $17 billion worth of tax revenue loss in this calendar year. What you are proposing is 11 for calendar 1976, and that is how you get your 28.

MR. LYNN: It is not quite that because you have to distinguish between what the total amount of tax deduction is locked into, not individual taxpayers or the like, and that gets you to an annualized amount of about $14 billion, I think it is. Is it 14? No, 12 plus. It is somewhere between $12 billion and $13 billion.

If you assume the taxpayers continue to get the same take-home pay, in other words you try to get an annualized base so that they keep the same withholding that they have now, you have to add another $4 billion plus to that, and that is what gives you the $17 to $18 billion.

If you were to have taxes just continue now the way our American taxpayers are paying them, with their take-home pay as they get it every month, it would cost you on an annual rate about $17 billion, somewhere between $17 and $18 billion. What this does is add about another $11 on top of that.

Q Yes, but if we get to the end of 1976 --

MR. LYNN: Are you talking calendar?

MORE

Q Calendar.

MR. LYNN: Okay, I just wanted to know.

Q If we ever get to the end of calendar year 1976 --

MR. LYNN: I hope we do.

Q Then what you will be saying is that $11 billion will be lopped off in 1976, isn't that right?

MR. LYNN: In one way, I see what you are saying. If you were to assume that the temporary tax cut were there forever, if that is the way you looked at it, and we looked upon it as a new ball game that we have to decide now what is the best tax policy for the United States effective January 1 -- but if you looked at it your way, you are absolutely right.

It was decided in the old law to add at the rate of $17 billion a year and under this new change you are adding another $11 billion a year. We prefer not to look at it that way. We prefer to look at it overall as to what does this mean by way of a tax program that makes sense for this country for a longer term direction.

One thing I will urge you to look at is that in the President's statement--and it should have been reflected in the fact sheet, and I am sorry it is not there, it should be there -- the President says that this ceiling is the first step moving toward a balanced budget within three years.

Now we think the net effect of all of these actions that the President is proposing will be to, one, get a much healthier economy; two, return some freedom of our taxpayers to spend the money they are earning that they have rapidly been losing over many years in the past.

MR. NESSEN: There is a Cabinet meeting that these three gentlemen need to go to. It started a couple minutes ago, so we probably should knock this off.

Q Does this program mean you will initiate no new programs next year?

MR. LYNN: Yes, no new spending.

THE PRESS: Thank you.

END (AT 6:24 P.M. EDT)

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OCTOBER 6, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S PROPOSAL FOR TAX CUTS AND FEDERAL SPENDING RESTRAINT

President Ford is proposing that permanent large tax cuts be made possible for American taxpayers by Congress joining with him in limiting the growth of federal expenditures. The tax reductions proposed by the President total about $28 billion compared to 1974 law. This proposal is linked to the adoption by the Congress now of a spending ceiling of $395 billion for FY 1977. This represents a reduction of about $28 billion from projected levels for that year unless action to limit federal spending is taken.

The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning $14,000 a year would receive a reduction in their tax liability of $412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

- $8 billion in cuts to replace the temporary 1975 tax reductions.
- $4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a $4 billion extra cut is provided to keep withholding constant.)
- $8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

(OVER)

C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	Individual Tax Cuts
Increase personal exemption from $750 to $1,000.	$10.1 billion
Replace $1,300 low income allowance and $2,000 maximum standard deduction with flat amount standard deduction of $2,500 for married couples ($1,800 for a single person)	$ 4.0 billion
Reduce tax rates	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
Extension of 1975 corporate rate and surtax exemption changes	$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	$ 2.5 billion
2% corporate rate reduction (48-46%)	$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

The effects on individual taxpayers of the President's tax proposals are shown in the following tables:

Tax Liabilities for Family with 2 Dependents, Filing Joint with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, family uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	98	0	0	98	0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	287
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

Office of the Secretary of the Treasury
Office of Tax Analysis

Tax Liabilities for Single Person with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, individual uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3.817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

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II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the $30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

-- Increase the personal exemption from $750 to $1,000.

-- Replace the present minimum standard deduction (low income allowance) of $1,300 and maximum standard deduction of $2,000 by a single standard deduction in a flat amount of $1,800 for a single taxpayer and $2,500 for a married couple ($1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of $1,625 by married couples and $1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)

-- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

-- Reduce the maximum corporate tax rate from 48 percent to 46 percent.

-- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from $25,000 to $50,000 of taxable income.

-- Continue the 1975 Act reduction in the rate on the first $25,000 of taxable income from 22 percent to 20 percent (the second $25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).

-- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.

-- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

more

III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around $53 billion in a single year. Budget outlays are approaching $370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach $423 billion or more. The main elements of an increase of $53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	+9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	+7
TOTAL	53

B. Decisions have not yet been made on which programs will be restrained or curtailed.

-- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.

-- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of $395 billion on FY 1977 expenditures now.

-- A $395 billion ceiling is $25 billion above the currently estimated spending level this fiscal year and $28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach $370 billion, the FY 1976 budget deficit would be about $70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of $40-44 billion.

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