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THE WHITE HOUSE

WASHINGTON

November 23, 1974

MEETING WITH ROY L. ASH, BILL TIMMONS
AND RON NESSEN

Monday, November 25, 1974

10:00 A.M. (30 minutes)

From: Roy L. Ash

I. PURPOSE

To make final decisions about the release of FY '75 budget reductions to the Congress, the press and the public.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: After a lot of discussion and many decisions, the FY '75 budget reductions are nearly ready for release. This meeting will focus on the final preparations for their release, especially the substance of the message transmitting the reductions to the Congress and the themes the Administration will emphasize in discussing the reductions with the Congress and the press.

B. Participants: Roy L. Ash, Bill Timmons, Ron Nessen, Paul O'Neill, Don Ogilvie, Dale McOmber, Walter Scott, Frank Zarb.

C. Press Plan: David Kennerly photo.

III. TALKING POINTS

A. I have the three alternative messages that could be used to transmit the FY '75 budget reductions to the Congress. Roy Ash, would you give me your judgment as to which one should be used?

B. These budget reductions will provoke a substantial amount of comment by the Congress, the press and the public.

Roy Ash, would you tell us what themes you think should be emphasized by the Cabinet officers and agency heads in discussing these reductions?

- C. Just the process of releasing these budget reductions is complicated. What plans have been worked out to release these materials to the Congress, the press, and the public?
- D. The reaction of the Congress to the budget reduction package will be interesting. Roy Ash or Bill Timmons, have you any judgments as to how the Congress will react and what the final outcome will be as to achieving these reductions?



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Date: 11-26

TO: *Jerry Jones*
FROM: Dennis Wood *DW*

ACTION:

Approval/Signature _____
Comment _____
Information _____
File _____
Draft response for
Roy L. Ash's signature _____
For your handling _____

REMARKS:

*This is President's copy for
his files - He gave it
back to Roy -*

Substitute Table for Budget Restraint Message

(fiscal years; dollar amounts in billions)

	<u>Defense¹</u>	<u>Interest on the public debt</u>	<u>Nondefense payments for individuals</u>	<u>Other</u>	<u>Total</u>
Actual 1974 expenditures..	78.4	29.3	110.1	50.5	268.4
1975 Budget (July 1 estimate).....	85.8	31.5	130.5	57.6	305.4
Changes (including those proposed).....	-2.6	+1.5	+1.0	-3.2	-3.3
Presently proposed levels for 1975.....	83.2	33.0	131.5	54.4	302.2
<hr/>					
1975: Percent change since July 1.....	-3.0	+4.8	+7	-5.5	-1.1
1975: Percent change over 1974.....	+6.1	+12.6	+19.4	+7.8	+12.6

¹ Department of Defense, Military and Military Assistance.

1975 BUDGET OUTLAYS
(fiscal years; in millions of dollars)

	<u>Defense¹</u>	<u>Interest on the public debt</u>	<u>Nondefense payments to individuals</u>	<u>Nondefense Grants</u>		<u>Government operations</u>	<u>Total</u>
				<u>For individuals</u>	<u>Other</u>		
February budget estimate...	85,800	30,500	111,508	16,918	34,760	24,959	304,445
Changes.....	---	1,000	1,488	628	696	-2,819	993
June estimate.....	85,800	31,500	112,996	17,546	35,456	22,140	305,438
Changes.....	-2,174	1,500	2,665	952	-1,032	-588	1,323
Current base.....	83,626	33,000	115,661	18,498	34,424	21,552	306,761
Proposed reductions.....	-381	---	-1,770	-893	-371	-1,166	-4,581
Revised estimate.....	83,245	33,000	113,891	17,605	34,053	20,386	302,180

¹ DOD Military and Military Assistance; includes military retired pay.

THE WHITE HOUSE

WASHINGTON

NOV 21 1974

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

~~ROY L. ASH~~

SUBJECT:

Message on Budget Cuts

I. BACKGROUND

At our meeting November 15, we discussed the proposal of including with your Message on budget cuts a further list of reductions that, while not recommended, would permit 1975 outlays to be reduced to \$300 billion. At your request, we gave you on November 16, two alternative lists:

- reduction items that you previously decided not to recommend; and
- a shorter alternative that avoids many of the undesirable items in the first list.

You approved the shorter alternative.

We also indicated that we would send you alternative draft Messages to deal with problems discussed at the November 15 meeting. These Messages are attached.

II. OPTIONS

Tab A is a draft Message that is consistent with the submission of the additional cut list indicated above. It would not endorse the additional cuts, but would place them before the Congress as one means of reaching \$300 billion. Tab B is the list of additional cuts you approved earlier.

Tab C is a draft indicating that we have reached the \$300 billion level, if increases for programs to help the unemployed are excluded.

Tab D is a draft Message that makes the best case possible for a \$302.5 billion level, without one of the rationales used in the first two options.

III. RECOMMENDATION

In the process of writing these Message drafts, it seemed to me that either the Tab C or Tab D option deserves your further consideration. For I see use of the "not recommended" listing as a signal to many constituencies that you view them to be at the margin -- they're next. While you would not actually be recommending that their programs be cut, this is likely to gain little credit from them -- more likely the opposite. It could stimulate pressures limiting your ability to deal with these programs at a later date.

IV. DECISION

1. Tab A, transmitting a second listing of cuts not recommended (Tab B) that would get the budget total to the \$300 billion level _____
2. Tab C, explaining that we have reached \$300 billion but that unemployment programs have added amounts above that level _____
3. Tab D, which uses neither of the rationales above _____

Attachments

NOTE

Tab A includes two paragraphs that do not appear in the other Messages, as marked on pages 3 and 5. As a result, the ending is somewhat different.

Tab C contains one paragraph that does not appear in the other Messages, as marked on page 2, and the sequence of ideas is different from the other Messages on page 2.

Tab D is identical to Tab A except for the excluded paragraphs indicated above, and the use of the same ending as Tab C.

THE WHITE HOUSE
WASHINGTON

Tab A

DRAFT MESSAGE

TO THE CONGRESS OF THE UNITED STATES:

Last month I sent a 31-point economic program to the Congress. The program that I submitted was a balanced one. It was designed to help control inflation and, at the same time, to help those persons who are hit hardest by inflation and by the slack that has developed in some sectors of the economy.

Responsible restraint of government spending is an integral part of my economic program. Thus, I am grateful that both the House and the Senate have clearly indicated agreement with the necessity to reduce government expenditures.

In my October 8 Message to the Congress, I pledged to transmit a package of proposed actions to reduce the 1975 budget. I therefore asked the heads of Federal agencies to undertake a thorough review of 1975 expenditures. Today I want to report on the results of this review and present my specific recommendations for reducing Federal outlays.

First, let me point out what is happening to the budget. When the current fiscal year began last July 1, budget outlays for the year were estimated to be \$305.4 billion. Recent developments in the economy have been adding to our expected expenditures. Specifically, increased aid to the jobless -- including the additional programs I

Pay RR retirement
Funder 7
2/27

proposed last month -- has added \$2.7 billion to the budget. This increase is not only unavoidable, it is necessary as a means of easing the burden on those who are most affected by current economic stress.

Interest rates are also up, so that interest on the public debt is now expected to be \$1.5 billion more than the estimate last June. Veterans benefits will also be higher.

However, estimated spending for the Defense Department's military programs has decreased by \$2.2 billion, largely as a result of congressional action. Spending by the Environmental Protection Agency and the Department of Health, Education, and Welfare is also running below previous estimates.

Taking these developments into account, my present recommendations for \$4.6 billion of budget reductions will result in a budget total of \$302.2 billion. Although this exceeds the \$300 billion target I had set, you will note that it does so by less than the \$2.7 billion of very necessary increases in aid to the jobless.

The fiscal year 1975 budget actions by the Executive and the Congress since July 1, including those herein proposed, can be summarized and compared to last year's actual expenditures as follows:

(fiscal years; dollar amounts in billions)

	<u>Defense</u>	<u>Interest on the public debt</u>	<u>Payments to individuals and grants¹</u>	<u>Other government</u>	<u>Total</u>
Actual 1974 expenditures.....	\$ 78.4	\$ 29.3	\$ 139.5	\$ 21.2	\$ 268.4
1975 Budget (July 1 estimate)...	85.8	31.5	166.0	22.1	305.4
Changes (including those proposed).....	-2.6	+1.5	-1.4	-.7	-3.2
Presently proposed levels for 1975.....	83.2	33.0	164.6	21.4	302.2
<hr/>					
1975: Percent change since July 1.....	-3%	+5%	-1%	-3%	-1%
1975: Percent change over 1974.....	+6%	+13%	+18%	+1%	+13%

¹ Nondefense.

Appears only
in Tab A.

With this Message I am also identifying possible further reductions amounting to over \$2.5 billion that the Congress may wish to consider, but which I cannot recommend. These additional reductions would bring budget spending to below \$300 billion.

The 1975 outlay estimates can be affected significantly by variations in income from oil lease sales on the Outer Continental Shelf. This income is treated in the budget as an offset to spending.

If the current schedule for lease sales is not met -- for environmental or other reasons -- or if the bids turn out to be significantly less than anticipated, outlays could increase further -- by \$3 billion or more.

The reductions I am proposing to the Congress will require a number of changes in basic legislation and in pending appropriations. I am also transmitting proposed rescissions and deferrals, as required by the Congressional Budget and Impoundment Control Act, to achieve reductions in programs for which funds have already been appropriated. The rescissions would result in decreased outlays of \$_____ million in 1975 and \$_____ million in 1976. Deferrals would reduce 1975 outlays by \$_____ million and 1976 outlays by \$_____ million.

The reductions I am proposing focus on programs that have grown rapidly in recent years or that have been increased substantially over the budget proposals. In most cases, the level of 1975 outlays will be materially above actual spending last year. Even after the proposed cutbacks, Federal benefit payments to individuals and grants to State and local governments are estimated to reach \$164.6 billion, \$1.4 billion below the June estimate, but \$25 billion, or 18%, above actual spending last year.

While I am recommending further cuts in defense spending, I have taken into account the substantial reductions already made by the Congress. My current recommendation for defense spending is \$83.2 billion, \$2.6 billion below the June estimate. I believe that further cuts in defense spending would be unwise.

In determining which budget programs should be reduced, I have tried to take actions to eliminate the less essential and to overcome inequities. I have tried to avoid those actions that would add to unemployment or adversely affect those who have been hurt most by inflation.

*Appears only
in Tab A.*

The additional \$2.5 billion in program reductions necessary to reduce outlays below \$300 billion would require action that many will consider unrealistic or undesirable. It is for this reason that I am not recommending these actions. But if the Congress wishes to reduce outlays further, I urge it to analyze the list of additional reductions I have identified. I will be glad to cooperate with the Congress if it wishes to make further budget cuts.

I hope that the Congress and the Executive can work together rapidly and effectively toward the important goal of budget restraint.

THE WHITE HOUSE,

November , 1974.

Tab B

Further Budget Cuts Not Recommended
(Outlays in millions)

	<u>1975 reduction</u>	<u>Effect on 1976</u>
Public works programs -- Defer new construction starts and land acquisition, slow project schedules and stop marginal projects:		
Corps of Engineers	112	250
Bureau of Reclamation	20	84
Transportation -- Defer 22% of Federal aid highway program	50	300
Environmental Protection Agency -- Rescind funds to reimburse municipalities for sewage facility construction build without any grant agreement or other Federal commitment to share the costs	100	---
HEW -- Rescind \$415 million for Title I of the Elementary and Secondary Education program ..	155	189
-- Decrease Vocational Rehabilitation matching rate for State grants from 80% to 75%	75	80
HUD -- Postpone start-up of the new community development program for six months to July 1, 1975	150	300
-- Withhold Model Cities funds carried over from 1974 and rely on 1975 funds and community development block grants	50	---
HUD and SBA -- Sell loan assets.....	400	---
Justice -- Defer \$241 million of LEAA grants	44	160

	<u>1975</u> <u>reduction</u>	<u>Effect</u> <u>on</u> <u>1976</u>
Labor -- Rescind increase over budget for Comprehensive Manpower Assistance	175	42
-- Enact legislation to terminate the Work Incentive program	125	320
Treasury -- Allocate General Revenue Sharing payments over an additional four quarters	888	1,905
VA -- Enact legislation to defer dividends under veterans life insurance programs effective January 1, 1975	160	344
All agencies -- Freeze grade promotions for federal and military personnel for 90 days	<u>40</u>	<u>---</u>
Totals	2,544	3,974

Tab C

THE WHITE HOUSE
WASHINGTON

Tab C

DRAFT MESSAGE

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Last month I sent a 31-point economic program to the Congress. The program that I submitted was a balanced one. It was designed to help control inflation and, at the same time, to help those persons who are hit hardest by inflation and by the slack that has developed in some sectors of the economy.

Responsible restraint of government spending is an integral part of my economic program. Thus, I am grateful that both the House and the Senate have clearly indicated agreement with the necessity to reduce government expenditures.

In my October 8 Message to the Congress, I pledged to transmit a package of proposed actions to reduce the 1975 budget. I therefore asked the heads of the Federal agencies to undertake a thorough review of 1975 expenditures. Today I want to report on the results of this review and present my specific recommendations for reducing Federal outlays.

First, let me point out what is happening to the budget. When the current fiscal year began last July 1, budget outlays for the year were estimated to be \$305.4 billion. Recent developments in the economy have been adding to our expected expenditures.

*Compassionate
Add - on to
spending*

- 1) Pay increases
- 2) Federal retirement
- 3) Fuel & Prof.

However, estimated spending for the Defense Department's military programs has decreased by \$2.2 billion, largely as a result of congressional action. Spending by the Environmental Protection Agency and the Department of Health, Education, and Welfare is also running below previous estimates.

why
Interest rates are ^{on borrowings by the federal govt} up, so that interest on the public debt is now expected to be \$1.5 billion more than the estimate last June. Veterans benefits will also be higher.

?
However, the most significant change is the increased aid to the jobless -- including the additional programs I proposed last month -- that has added \$2.7 billion to the budget. This increase is not only avoidable, it is necessary as a means of easing the burden on those who are most affected by current economic stress.

Appears only in Tab B.
Taking these developments into account, my present recommendations for \$4.6 billion of budget reductions will result in a budget total of \$299.5 billion before considering \$2.7 billion increased spending for aid to the unemployed. They represent a major effort at budgetary restraint. It would be unwise, in my view, to add an additional dollar of reductions for each dollar of increased aid to the unemployed.

The changes outlined above are summarized and compared to last year's actual expenditures in the following table.

(fiscal years; dollar amounts in billions)

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The 1975 outlay estimates can be affected significantly by variations in income from oil lease sales on the Outer Continental Shelf. If the current schedule for lease sales for environmental or other reasons is not met, or if the bids turn out to be significantly less than anticipated, outlays could increase further -- possibly by \$3 billion or more.

The reductions I am proposing to the Congress will require a number of changes in basic legislation and in pending appropriations. I am also transmitting proposed rescissions and deferrals, as required by the Congressional Budget and Impoundment Control Act, to achieve reductions in programs for which funds have already been appropriated. The rescissions would result in decreased outlays of \$_____ million in 1975 and \$_____ million in 1976. Deferrals would reduce 1975 outlays by \$_____ million and 1976 outlays by \$_____ million.

The reductions I am proposing focus on programs that have grown rapidly in recent years or that have been increased substantially over the budget proposals. In most cases, the level of 1975 outlays will be materially above actual spending last year. Even after the proposed cutbacks, Federal benefit payments to individuals and grants to State and local governments are estimated to reach \$164.6 billion, \$1.4 billion below the June estimate, but \$25 billion, or 18%, above actual spending last year.

While I am recommending further cuts in defense spending, I have taken into account the substantial reductions already made by the Congress. My current recommendation for defense spending is \$83.2 billion, \$2.6 billion below the June estimate. I believe that further cuts in defense spending would be unwise.

In determining which budget programs should be reduced, I have tried to take actions to eliminate the unessential and to overcome inequities. I have also tried to avoid those actions that would add to unemployment or adversely affect those who have been hurt most by inflation.

The \$[4.6] billion budget outlay reduction I now propose does not appear large when compared with total Federal spending. Nevertheless, the Congress may find it difficult to agree with all my proposals. I urge the Congress *of join with me in tightening the belt on federal expenditures* to accept them. The decreases are essential to demonstrate to the American people that the Federal Government is working seriously to restrain the growth of its spending. They are also a start toward the critical goal of gaining control over budgets in the future.

THE WHITE HOUSE,

November , 1974.

TAB

D

THE WHITE HOUSE
WASHINGTON

DRAFT MESSAGE

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outlays for the year were estimated to be \$305.4 billion. Recent developments in the economy have been adding to our expected expenditures. Specifically, increased aid to the jobless--including the additional programs I proposed last month--has added \$2.7 billion to the budget. This increase is not only unavoidable, it is necessary as a means of easing the burden on those who are most affected by current economic stress.

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THE WHITE HOUSE

November , 1974

THE WHITE HOUSE

WASHINGTON

November 20, 1974

MEMORANDUM FOR: THE PRESIDENT
FROM: ROY L. ASH
SUBJECT: Fiscal 1975 Budget Cuts -
Regulatory Agencies

No 1975 budget cuts were taken in the independent regulatory agencies primarily because of concern with the potential for jeopardizing our important deregulation initiative. We are concerned that cuts at this stage could prejudice the new National Commission on Regulatory Reform effort which will take a broad look at the independent regulatory agencies. Congress might perceive any reductions at this stage as indicating we already have our minds fixed on what should be done with regard to the regulatory agencies, rather than having the new Commission undertake this effort with a clean slate. Furthermore, we are concerned that any cut backs at this stage could have the effect of increasing regulatory backlogs and delays rather than easing regulatory burdens.

THE WHITE HOUSE

WASHINGTON

November 20, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: OEO as a Budget Reduction Item

I understand a question has been raised as to why OEO is not included in the budget reduction exercise.

The original FY 75 budget proposed no funding for OEO. Since the Congress has not yet taken final action on the HEW, Labor, OEO appropriation bill, funds have been provided under a continuing resolution.

Therefore, if we were to try to stop funding for OEO now, we would have to propose a deferral or rescission of authority provided by the continuing resolution. I believe this would be an undesirable approach for the following reasons:

Deferral

- We do not want a deferral of spending authority, we want no funding;
- It is very likely that a proposed open-ended deferral of authority which had the effect of eliminating a program would provoke a serious confrontation with the Congress, they claiming that the deferral authority was not intended to provide the Executive with program termination authority;
- A majority of either house of Congress, (very likely) could force us to continue OEO; a worse situation than we face now.

Rescission

- A proposed rescission would also worsen our situation because if both houses failed to adopt the rescission within 45 days we would have to continue the program.

For the reasons indicated above, I recommend we stay on our current course; oppose any new budget authority for OEO in this FY budget. We should, of course, make mention of the fact in your message to the Congress, that to achieve the recommended budget levels, it is necessary, and assumed that no funds will be voted for OEO this year.