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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR 23 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: The Tax Bill Decision

Both the amount and the structure of the tax bill leaves much to be desired. However, in assessing the usefulness of a veto, it is important to forecast the possible improvements and the public's perception of your position, against the risks you run that the veto would not be sustained or that you would get a worse law.

The Possible Gains:

However we might cast the reasons for your veto, I believe the win or lose issue is the overall size of the tax cut. I say this because the structural defects are difficult to explain, even to Members of Congress who have not been directly involved in the Ways and Means and Senate Finance Committee discussions.

Assume, therefore, that the veto is sustained and the bill goes back to Committee for reconsideration, What is likely to happen?

My best guess is that:

1. The Housing credit would be dropped (\$600 million);
2. The investment tax credit would be reduced (perhaps by as much as the \$900 million difference between the amount in the bill and the original House provision);
3. The tax credit might be reduced, say from \$30 to \$25 or \$20 (say, \$1 billion); or
4. The breakeven point for the earned income credit might be reduced to the original House level of \$6000 (say, \$500 million).

The first three items alone would bring the total tax cut into the \$20 billion range that the Administration has intimated would be acceptable. In effect, the Committees would be able to take steps that seemed to accommodate your concerns without, in fact, really doing so.

Even from this likely outcome there are two benefits. First, we would save \$2 to \$3 billion in deficit financing. Second, the public would perceive you as having stood firm for a "reasonable" tax cut. It should be noted that even failure to sustain a veto could possibly have this second benefit, especially if later developments indicate that too much stimulus was provided.

The Possible Losses:

Since failure to sustain a veto would not affect the substance of the bill, the possible losses all have to do with public perception of your position. It is difficult to know how this would play, but it is not unlikely that the general perception would be that the Congress is in charge.

In my judgment, all of the above weighs heavily in the direction of a veto. However, I do not think this single-dimension approach should control the final decision on the bill.

The Broader Considerations:

The tax bill is but one element that will determine the final outcome of our fiscal, financial and economic situation.

More important than the tax bill itself is the combination of the tax bill, the future of the cuts you have proposed and the wide array of new program spending threats that are developing in the Congress. We need to establish this linkage in the minds of the public and the Congress, whatever your decision may be on the tax bill.

I believe this linkage can be forged most forcefully if you sign the tax bill as it stands now precisely because we can make a case that it is too much.

In signing the bill, your case against more program spending would be stronger than it would be no matter how the Congress came out on the veto strategy.

If you "won" on the veto, Congress would be able to argue that more program spending was needed because all of the individual needs and fiscal stimulus requirements were not met by the tax bill.

If you "lost" the veto, the Administration's strength in asserting its position with the Congress would be diminished and it would substantially reduce our chances of regaining control of a run-away Congress.

Recommendation:

On balance I recommend you sign the bill with a strong statement on its undesirable features. The main point of your statement, however, should be aimed at what this bill will do to the size of the deficit; bringing it to \$60 billion even if Congress accepts the expenditure cuts you have proposed. I would couple this with a renewed call to the Congress to enact such cuts, indicating that you have done everything you can to keep the deficit from going even higher. You should indicate further that, should the Congress fail to enact the cost saving legislation, the deficit will rise to over \$70 billion and the non-inflationary recovery we all desire will be in serious jeopardy. Finally, you should strongly reiterate your intent to veto any and all new legislation that would add to spending and the deficit, and add a new dimension - that you will not hesitate vetoing any appropriation bills under existing legislation significantly above your budget requests.