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THE SECRETARY OF THE TREASURY
WASHINGTON

March 28, 1975

Dear Mr. President:

In mid-January you urged the Congress to take emergency action to provide quick temporary stimulus to our economy to shorten the recession. You specifically asked that the Congress not penalize the American people by delaying action while arguing over the nature of permanent changes in the tax system. Now, 2-1/2 months later, the Congress has handed you a combination permanent tax-reduction/tax-revision/welfare bill which would -- in the light of their other spending decisions -- not only provide more fiscal stimulus than is needed for the economic recovery which is now probably already underway but would provide a guarantee of large future deficits which could well abort that recovery and bring about substantial unnecessary unemployment in future years.

The tax revisions which have been added to the bill do not come to grips with the basic problems that brought us into the inflation/recession cycle. These provisions would only worsen our long term problems through encouraging further inflationary expectations. Moreover, the specific provisions of the bill would introduce a number of extremely harmful continuing features into the tax law. The Earned Income Credit, the Social Security bonus, and the child care deduction move us further away from an understandable integrated welfare program toward a wasteful new proliferation of uncoordinated programs, which are not related to need and are not equitable in coverage. The housing provision is likely to prove an administrative nightmare with no significant benefit to employment in the construction industry. The depletion changes cannot help but retard our efforts to achieve energy independence.

I realize this is a tough call, but I believe the American people are becoming alarmed over the fiscal irresponsibility of the Congress.

After a veto I'm convinced we would get another tax bill promptly. I believe we could get one closer to the House version, probably less than \$20 billion. In today's circumstances, that \$4 billion difference is important.

We could also probably get some of the tax revision measures put aside for consideration later when the Congress and the Administration, working together as you have suggested, would have an appropriate amount of time to devote to the complex subject of a tax reform. We must make that effort. Tax reform which improves -- rather than undermines -- our long-range productivity is essential.

Under these circumstances I recommend that you veto the bill.

Faithfully yours,



William E. Simon

*P.S.
I don't envy you
on this one Mr President!*

The President
The White House