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THE WHITE HOUSE  
WASHINGTON

January 27, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES T. LYNN

FROM:

JAMES E. CONNOR *JEC*

SUBJECT:

Local Public Works Capital  
Development and Investment Act  
of 1975 (H. R. 5247)

Confirming phone call to your office today, the President reviewed your memorandum of January 23 on the above subject and approved the following:

"That we advise the Congress that he will veto the bill, because of its impact on increasing the Federal deficit and because the programs are ineffective or unnecessary means of stimulating the economy."

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE  
WASHINGTON

January 26, 1976

MR PRESIDENT:

James T. Lynn's memo of 1/23/76 re:  
Local Public Works Capital Development  
and Investment Act of 1975 (H. R. 5247)

Staffing of the above memorandum resulted in the following:

Jack Marsh - Agrees with EPB's recommendation.

Jim Cannon - "I'm for veto".

Max Friedersdorf - "I recommend we tell Congress that OMB & EPB will recommend the President veto the bill."

Phil Buchen - See detailed comments at TAB A.

Jim Connor



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

JAN 23 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JAMES T. LYNN

SUBJECT:

Local Public Works Capital  
Development and Investment  
Act of 1975 (H.R. 5247)

The purpose of this memorandum is to obtain your decision on whether we should advise the Congress that you will veto H.R. 5247, the Local Public Works Capital Development and Investment Act.

Status

On December 8, the Conference Committee completed action on this bill. The House previously had passed an accelerated public works bill which authorized \$5 billion for a grant program to be administered by the Department of Commerce (EDA). The Senate had passed a substantially different bill totalling over \$6 billion, which included authorization for extending EDA's Job Opportunities program, additional authorizations for EDA's other programs, authorizations for a "counter-cyclical revenue sharing" program, and a change in the allocation formula for EPA waste treatment grants.

The Senate passed the Conference Bill on December 17, by voice vote. The House delayed taking final action last session, but is expected to pass it quickly upon its return. The House expects a veto, and did not want to send a bill down that might be pocket vetoed.

Summary of Bill

The bill includes three titles.

Title I is essentially the original House bill for accelerated public works, with the authorization level cut in half to \$2.5 billion. It authorizes a new program in Commerce to permit it to make grants to any State or local government for 100% of the cost of any public works project. At least 70% of the funds are to go to areas having unemployment rates in excess of the national average.

The Administration opposed this title when it was being considered by the House. If funds were appropriated, outlays from the program would increase the 1977 deficit by an estimated \$1 billion and the 1978 deficit by about \$1.2 billion. It would have its peak impact in late 1977 or early 1978, when it may be stimulating inflation.

Title II is to authorize and direct the Secretary of the Treasury to make revenue sharing payments to state and local governments, when the national rate of unemployment exceeded 6% during the 5-quarter period beginning April 1, 1976. It would authorize an appropriation of \$125 million per quarter at the 6% unemployment level plus \$62.5 million per quarter for each half percentage point by which unemployment exceeds 6%. For example, if the national rate of unemployment remained at 8% for a full year, an appropriation of \$1.5 billion would be authorized for that year. One-third of the funds would be reserved for States and two-thirds for local governments, and the funds would be allocated on the basis of the local unemployment rates and taxes raised.

The Administration has opposed this type of aid as proposed in S. 1359 (Muskie, Humphrey, and Brock), a bill almost identical to this title. It would increase the 1977 deficit by about \$1,125 million, if the national rate of unemployment were at 8%. We have argued that extension of unemployment compensation and tax reductions are more effective means of achieving economic recovery.

Title III picks up several parts of the original Senate bill, including an authorization for an additional \$1.4 billion for EPA's wastewater treatment grants program; an extension and modification of the Job Opportunities program; an authorization for EDA to provide interest subsidies to businesses receiving commercial loans; and an amendment to the EDA Act to, in effect, make EDA an urban renewal agency. The total amount authorized is over \$2 billion.

The Administration has consistently opposed the Job Opportunities bill as being a costly means of creating temporary jobs as well as being administratively unwieldy. The changes would not improve the program and would likely increase the pork barrel nature of the allocations. The Administration also has opposed increases for the EPA wastewater treatment program.

The interest subsidy provision would result in grants to private firms and it would be very difficult to allocate the subsidies to those firms which would have the greatest impact on reducing unemployment. The amendment to make cities over 50,000 eligible for EDA assistance could get EDA into a major new and costly urban development role. It would be a step in reestablishing categorical grant programs for urban development.

The Bill in total authorizes funding of over \$6 billion. Outlays in 1977 could be over \$3 billion if the funds were appropriated. It is unlikely that Congress would appropriate the full amounts authorized, but enactment of this bill would almost certainly result in a substantial increase in appropriations.

Recommendation

The Economic Policy Board has reviewed this bill and recommends that we advise the Congress that you will veto the bill, because of its impact on increasing the Federal deficit and because the programs are ineffective or unnecessary means of stimulating the economy.

Decision

MR3 Agree

\_\_\_\_\_ Disagree



THE WHITE HOUSE

WASHINGTON

January 26, 1976

MEMORANDUM FOR: JIM CONNOR  
THROUGH: PHIL BUCHEN *P.*  
FROM: KEN LAZARUS *el*  
SUBJECT: Lynn Memo on H. R. 5247

This office has reviewed the above-noted memorandum and offers the following:

1. We should try to avoid the appearance of being inflexible on measures aimed at alleviating unemployment. A simple threat to veto would tend to create that impression.
2. A better approach would be to focus on those aspects of the bill which are extremely vulnerable to criticism. For example:
  - a. The interest subsidy provision in Title III is especially prone to attack and should be singled out as a major provocation for a veto.
  - b. The revenue sharing payments in Title II can be criticized as too general in their impact to be targeted at the sources of employment.
  - c. Title I criticism should be less intense. However, areas of vulnerability include:
    - (i) the lack of assurances of a connection between specific public works projects and persons who are unemployed and
    - (ii) as much as 30 percent of the funds may go to areas with unemployment below the national average.



3. It would be unwise to fall into the trap of equating unemployment measures with the budget issue generally. This would run the risk of creating too clear cut a target on the President's most vulnerable issue. For this reason, we should not attempt to attack measures such as H. R. 5247 with a frontal assault.

Attachment