The original documents are located in Box 31, folder "State of the Union Address, 1976 -White House Staff Suggestions (2)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

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THE WHITE HOUSE

WASHINGTON

December 31, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN RUS

SUBJECT: Discussion of Tax Policy in the State of the Union Message

The Economic Policy Board Executive Committee has considered three issues in connection with the treatment of tax policy in your State of the Union Message: First, the structure of additional tax reductions; Second, tax reform; Third, a broadened stock ownership plan.

Additional Tax Reductions in 1976

In the wake of the recently enacted tax bill, you have publicly indicated that you will propose in the coming year a \$10 billion increase in the annual level of tax reductions in additional tax cuts beyond the level of reductions embodied in the six-month temporary tax reduction bill.

The EPB Executive Committee has considered alternative ways of structuring such reductions and is unanimously agreed on the following recommendation.

That you propose enactment of your \$28 bil-Recommendation: lion tax package originally proposed on October 6, 1975 effective July 1, 1976. The proposal provides for an increase in the personal exemption and the standard deduction and reductions in the tax rate. Withholding rates would be reduced effective July 1, 1976 to the permanent rates required by the October 6 package. Individual tax liabilities for the first six months of 1976 would be recomputed, setting them at the overall level provided by the Congress in the six-month temporary reduction. Thus, the net effect would be that taxpayers will be given a single tax rate for 1976 made up of an average of the lower rates effective during the first half of the year and your proposed deeper tax cuts effective during the second half of the year. The package also includes a permanent reduction in the corporate income tax rate from 48 percent to 46 percent effective July 1, 1976. There will be, under this proposal, no overall revenue effect from these changes that is not already reflected in the current estimates in your budget.

Approve

Disapprove

Tax Reform

During the second session of the 94th Congress the Senate Finance Committee will take up the tax reform package completed by the House Ways and Means Committee during the first session. The tax reform package includes LAL, MTI, and other proposals which are similar to the basic thrust of the Administration's 1973 tax reform proposals that you have endorsed.

The EPB Executive Committee unanimously feels that the Treas--ury should continue to work with the Congress in securing passage of this tax reform legislation in a form as consistent with the Administration's proposals as possible.

In addition, the issue of basic tax reform to provide greater simplicity and equity in our tax system has received increasing attention in recent months. Many taxpayers consider the present set of complicated deductions and exclusions both a burden in computing their own tax liabilities and a means for some taxpayers to escape paying their fair share of government taxes.

The Treasury has publicly supported basic tax reform and estimates that at least a full year is necessary to refine a comprehensive proposal for specific revisions in the tax structure. There is concern that some proponents of basic tax reform will attempt to use the exercise as an occasion to also seek further redistribution of income, a thrust which the EPB Executive Committee unanimously feels should be resisted.

There is general consensus that a comprehensive study of basic tax reform is appropriate in view of the increasingly complexity of the tax system in recent years.

Recommendation: The EPB Executive Committee recommends that you announce your intention, in the State of the Union or another appropriate message, to direct a study to develop proposals for fundamental tax reform with three objectives: (1) Reducing the complexity of the present tax system; (2) making the present tax system more horizontally equitable to address the apparent inequity of taxpayers with the same income paying different amounts of tax; and (3) seeking modifications in the tax system to encourage job creation.

Approve

Disapprove

If you approve undertaking the study two issues require your decision.

- Issue #1: Should a study of basic tax reform be undertaken
 by the Treasury or by a non-partisan Presidential
 Commission?
- Option A: Direct the Secretary of the Treasury to undertake the study of basic tax reform. The Secretary of the Treasury would appoint a Commission composed of non-government experts to advise the Treasury in this effort.

Advantages:

- The study will more likely be perceived as a significant Administration effort.
- The study could be completed more quickly and could probably be finalized by January 1977.
- Option B: Appoint a non-partisan Presidential Commission to undertake the study.
 - Criticism of the project might be deflected from the Administration if the study were by a nonpartisan Commission.
 - The Treasury would not be pressured to make premature disclosure of its work.

Decision

Option A _____ Direct the Secretary of the Treasury to undertake the study of basic tax reform.

Option B _____ Appoint a non-partisan Presidential Commission to undertake the study of basic tax reform.

Issue #2: When should a study of basic tax reform be announced?

Option A: Announce the basic tax reform project in your State of the Union Message

Advantages:

- The project is significant and hopefully will be favorably received.
- Including it in the State of the Union would give it proper emphasis.

Option B: Announce the basic tax reform project in a message following the State of the Union.

Advantages:

 If the Treasury is directed to undertake the study, inclusion in the State of the Union would make the project "public" before the Treasury has proceeded very far in developing specific plans. Accordingly, pressures for premature disclosure and premature questions of you and others might hinder proper development of the project.

Decision

Option A _____ Announce the basic tax reform project in your State of the Union Message.

Option B _____ Announce the basic tax reform project in a message following the State of the Union.

Broadened Stock Ownership Plan

The Executive Committee has reviewed a range of employee and broadened stock ownership plans in recent weeks. A strong likelihood exists that Senator Long will continue to successfully push his employee stock ownership plan (ESOP) in the Senate. There is general agreement that if a stock ownership plan is to be enacted that a plan more broadly-based than the Long approach is desireable.

The Executive Committee recommends that you propose a Broadened Stock Ownership Plan to encourage savings and investment in equity issues. In brief, the plan would permit participation in employer-sponsored plans for purchase of company stock or in private plans where the employee could select his own portfolio or participate in a mutual fund arrangement. Employees not covered by employer plans could establish their own BSOP.

The tax incentive would take the form of an exclusion from income for amounts contributed to the plan. The plan would be restricted to individuals in the middle and lower income ranges. A table showing alternative income range limits and estimated revenue effects is attached. The funds could be withdrawn from the plan without penalty after a seven year period.

Advantages of a Broadened Stock Ownership Plan

A broadened stock ownership plan has several advantages:

- The plan has broad coverage and would be available to government employees, service personnel, and employees of small businesses as well as to employees of large corporations with established stock purchase programs.
- The earned income limitation focuses the benefits on low and middle income families.
- The withdrawl penalty provision should tend to stabilize savings and provide support for the equity market.

Disadvantages of a Broadened Stock Ownership Plan

A broadened stock ownership plan has several disadvantages:

 The plan lacks neutrality in that it favors equity ownership as opposed to other forms of savings such as savings accounts or insurance.

- There is a valid question as to whether this vehicle would achieve its objectives of encouraging stock ownership, increasing aggregate savings, and increasing identification with the free enterprise system.
- Entails revenue losses estimated by the Treasury at between \$360 million and \$1.5 billion depending on the parameters of the program.

<u>Recommendation</u>: That you propose a Broadened Stock Ownership Plan to encourage savings and investment in equity issues.

Approve _____ Disapprove _____

BROADENED STOCK OWNERSHIP PLAN ALTERNATIVES

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· .	A	В	с
Maximum annual amount eligible for exclusion from taxable income	\$1,500	\$1,500	\$2,500
Maximum income eligible to participate in the plan	\$25,000	\$25,000	\$50,000
Range of phase-out	\$10-25,000	\$20-25,000	\$25-50,000
Restriction on withdrawl without a penalty	7 years	7 years	7 years
Estimated number of par- ticipants	2.1 millic	on 2.4 millio	n 2.5 million
Estimated revenue cost	\$360 millic	on \$500-600 millio	\$1.5 billion n

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THE WHITE HOUSE

WASHINGTON

December 31, 1975

MEMORANDUM FOR THE PRESIDENT

FROM:

SUBJECT: Discussion of Unemployment in the State of the Union Message

L. WILLIAM SEIDMAN

The Economic Policy Board Executive Committee has discussed at length the approach and substance of your discussion of unemployment in the State of the Union Message. This memorandum outlines the current unemployment forecast, describes the current programs in place to alleviate and reduce unemployment, and suggests alternative approaches and possible initiatives for the State of the Union Message.

The economic forecast, which you approved, that will be published in the Budget projects the following calendar year average unemployment rates:

Since the 1930's the Federal Government has established and maintained a number of programs, referred to by economists as automatic stabilizers, to cushion the impact of unemployment on those laid off their jobs and to stimulate economic activity during a recession.

• A large number of programs currently exist to provide job training and employment. A detailed list and a description of such manpower programs, prepared by OMB, is attached at Tab A.

Moreover, in the wake of the economic downturn during the fourth quarter of 1974 you successfully proposed several new initiatives including a tax reduction, expanded public service employment programs, broadening the eligibility for unemployment insurance payments, lengthening the number of weeks of unemployment insurance compensation, and releasing additional highway trust funds.

There are some encouraging indicators on the unemployment front. 1.4 million more people were at work in November than were employed last March and almost a full point has been shaved from the peak unemployment rate.

The general approach of the Administration to date has been to focus its outlays through existing, tried and tested programs coupled with tax reductions to stimulate economic activity and create jobs in the private sector. This approach is much less visible than an approach involving outlays for entirely new programs or for large public works efforts.

The Administration's relatively less visible approach than many of the programs suggested by Democrats in the Congress to deal with unemployment has contributed to a public perception that the Administration is less concerned than the Democratic Congress about unemployment. There is general consensus within the Economic Policy Board that, at a minimum, we should attempt to change this perception through a systematic and concerted effort to more fully explain the Administration's program to the public.

There is also general agreement that unemployment remains a difficult problem for public policy and that it is essential that the subject of unemployment be addressed in the State of the Union Message.

Issue #1:	What sl	nould b	e t	he g	eneral	appro	ach in	discussing
	unemplo	oyment	in	the	State	of the	Union	Message?

Option A: Reaffirm your commitment to reducing unemployment through existing programs. Announce increases in funding levels for unemployment-related programs in your 1977 Budget (i.e. CETA). Outline your proposal for additional tax cuts of \$10 billion in FY 1977 to help sustain the recovery. Indicate that a long-term solution to our unemployment problem requires adequate capital formation and urge Congress to respond to your capital formation proposals. This approach is consistent with utilizing existing programs with primary reliance on individual and corporate tax reductions to stimulate private sector economic activity. It may prompt Democratic criticism that the Administration has failed to propose imaginative solutions to the unemployment problem.

Option B: Supplement Option A by proposing in addition one or more new initiatives specifically designed to reduce unemployment. (Several potential initiatives are outlined below.)

This approach makes more visible the Administration's effort to reduce unemployment and helps to alleviate the perception that the Administration is less concerned about unemployment than the Democratic Congress.

- Issue #2: What, if any, additional unemployment initiatives should be proposed in the State of the Union Message?
- Option A: Propose tax incentives (accelerated depreciation) for construction of plants and equipment in areas of high unemployment.

This proposal would allow rapid depreciation (5 years for equipment and 10 years for facilities) for companies who begin construction on projects after July 1, 1976 but before July 1, 1977, complete them within 36 months, and increase total company employment. An unemployment trigger level would establish area criteria to qualify for this incentive.

The objectives of the proposal include stimulating construction and capital formation, providing employment opportunities in the most severely impacted areas, and revitalizing industry in urban areas.

Pro:

- Designed to both stimulate capital formation and reduce unemployment in the hard-hit construction industry.
- Has minimal risk cost impact. If the program fails to attract additional investment it does not entail revenue losses. If the program succeeds in attracting additional investment it generates increased taxes and reduced unemployment compensation outlays.

o Does not require a new administrative structure to administer.

Con:

- Reduces economic efficiency through distortion of the allocation of economic resources.
- May be considered as a pro-business approach to reducing unemployment.
- Perpetuates use of the tax system to accomplish social goals and increases the complexity of the tax laws.

Revenue Cost Estimate:

- 1977 \$400 million
- 1978 \$1.0 billion
- 1979 \$1.4 billion

- Option B: Propose tax incentives (accelerated depreciation) for the construction of industrial environmental control and safety equipment and facilities.

This proposal would allow rapid depreciation for such facilities which are started between July 1, 1976 and July 1, 1977 and which are scheduled for completion within a 36 month period. The proposal would include a special automobile industry provision permitting tooling for auto emissions equipment to be expensed (declared as a current cost).

The objective of the proposal is to accelerate construction of EPA and OSHA mandated facilities, particularly in basic processing industries, and to improve cash flow to stimulate capital formation and investment.

Pro:

- Designed to both stimulate capital formation and reduce unemployment in the hard-hit construction industry.
- C

Accelerates progress toward improving environmental control and worker health and safety conditions.

- Provides tax benefit for projects which would have been undertaken anyway without fulfilling the central objective of generating new construction.
- May be perceived as an oblique approach to the task of reducing unemployment.
- o May be considered as a pro-business approach.
- o Increases the complexity of the tax laws.

Revenue Cost Estimate:

1977	\$1.2	billion
1978	\$1.2	billion
1979	\$1.2	billion

Option C:	Propose an employment tax credit of \$200 per employee
· · · ·	per month for all employers who make additions to
ng egeneration in the secor≢ t	their labor force above a base level of average
الا الارام المحمد معين على المستعمر التي الم المراجع المراجع المراجع المراجع المراجع	employment in 1975.

As an alternative a percentage, e.g. 25 percent of base pay, in lieu of a flat dollar credit could be allowed as a tax credit. Although more complicated from an accounting standpoint, a percentage credit would remove any bias toward hiring lower paid personnel.

Pro:

- o Involves no additional budget outlays.
- Does not require a new administrative structure to administer.
- Focuses attention on stimulating employment in the private sector.

Con:

 Entails extremely high revenue costs. Even with a baseline to calculate additional employees, the effect would be to provide a windfall benefit to employers for workers who would be rehired as a result of normal recovery from the recession. This approach is highly inefficient in achieving its objective since it is impossible to isolate the additional workers who would be hired as a result of the tax credit at the margin.

 Would create severe inequities within industries. Firms that have dismissed a large number of employees who rehire them would benefit disproportionately. The program could result in most the least efficient firms who have been forced to lay off a relatively higher percentage of their work force.

Revenue Cost Estimate:

1977\$4.6 billion1978\$8.6 billion1979\$12.8 billion

This revenue estimate assumes a lowering of the unemployment rate to 5 percent. The revenue cost has been netted after deducting estimated increased tax receipts generated through the additional economic activity. It does not reflect lower unemployment insurance costs.

Option D: Propose additional funding for CETA, Title I to support expanded work opportunities for youth to engage in a one-year Bicentennial Clean-Up America effort.

The objective of the program would be to provide added jobs for unemployed youth through the existing CETA, Title I program. (Current estimate for FY 1977, \$1.6 billion providing the equivalent of 467,000 full year opportunities for 1,280,000 participants.)

By focusing the additional funding on the work experience part of the CETA Title I program (the equivalent of the old Neighborhood Youth Corps Program) the cost per job could be held to approximately \$4,000 so that an additional 100,000 jobs would cost roughly \$400 million.

- Would provide a visible attack on an acknowledged problem -- high teenage unemployment.
- The thrust of the program as a bicentennial Clean-Up America effort would make it easier to keep the program temporary and terminate it at the end of one year.

Con:

- Impacts budget outlays rather than revenues as do the other unemployment initiatives and thus would require budget reductions elsewhere to maintain a \$395 billion spending limit in FY 1977.
- It is doubtful that we could avoid the incremental funding addition to the CETA "base" in future years.

Budget Cost:

1977 \$500 million

Option E: Propose an employment tax credit effectively reducing the minimum wage to an employer to encourage hiring of workers between the ages of 18 and 22.

This proposal would provide an employment tax credit of \$1.00 per hour worked for new employees between the ages of 18 and 22 added to the work force during 1976 and 1977 who are hired at the minimum wage.

Pro:

- Would encourage hiring of young workers, an age classification with a relatively high unemployment rate.
- Is a relatively efficient means of targeting unemployment assistance.
- Utilizes the tax system and thus does not entail expenditure outlays.

Con:

- Would likely be opposed by organized labor.
- o Would misallocate resources by encouraging labor-

Pro:

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Revenue Co	st Estimate	:				
19	77 \$500	million				
19	78 \$500	million		•		• • *
19	79 \$500 1	million		-	*	•
Decisions				1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 - 1990 -	•	
<u>Issue #1</u> :	What shoul unemployme					
Option A _			c commitme ough exist			nem-
Option B _	one	or more i	ption A by new initia reduce une	tives s	pecifical	
<u>Issue #2</u> :	What addit should be sage?					
Option A _	tio	n) for com	incentives nstruction s of high	n of pla	nts and e	
Option B _	tio vir	n) for the	incentives e construc control ar	ction of	industri	al en-
Option C	emp mak	loyee per e additio	mployment month for ns to the of average	c all em ir labor	ployers w force ab	nho Nove
						• .

. 78 Option D

Propose additional funding for CETA, Title I to support expanded work opportunities for youth to engage in a one-year Bicentennial Clean-Up America effort.

Option E

Propose an employment tax credit effectively reducing the minimum wage to an employer to encourage hiring of workers between the ages of 18 and 22.

JAN 9 1976

THE WHITE HOUSE

WASHINGTON

January 8, 1976

Jack -

Re the State of the Union message and the President's regulatory reform proposal, I thought you might find at least three paragraphs in Governor Carey's State of the State message of interest.

I continue to feel it is important that the President forcefully continue his regulatory reform thrust in the SOTU. Attached are some papers which the Domestic Council Review Group has prepared for the use of the drafters of the Message.

Ed Schmults

Attachment

cc: Dave Gergen

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM:

ED SCHMULTS PAUL MacAVOY

SUBJECT:

The State of the Union Address

This year the State of the Union Address is of even more critical importance than in most previous years. It represents the best opportunity for the President to state in a clear and comprehensive way what he sees as the goals for the United States through the end of this decade. Coming in the bicentennial year, it presents a magnificent occasion to draw some striking parallels between the problems which faced America in 1776 and the problems America faces today.

While parts of the Address must properly deal with critical issues of national security and energy policy, we believe that a major theme must be the pernicious threat to individual opportunity and freedom posed by the growth of massive and uncontrollable government. Today the threat to individual liberty is much more complex than it was in 1776. It is enhanced by a swollen Federal bureaucracy controlled by organized interest groups whose concerns are remote from those of the average American.

The President has attacked the problem of massive government in a variety of ways. First, he has established a Federal spending ceiling of \$395 billion. By proposing a significant reduction tied to a spending ceiling, President Ford has tried to assure that the proportion of GNP spent by the Federal establishment will decrease rather than increase over the next period of years.



The President has also launched a major campaign to free our economy from costly, inefficient, and outmoded government regulation. He has submitted to the Congress a comprehensive legislative program designed to produce a competitive and efficient transportation system free from unnecessary government regulation. He has also proposed elimination of Federal rate regulation of natural gas in order to stimulate extensive exploration for new gas supplies. In the future he will be looking at other types of Federal economic, as well as health and safety, regulation in order to propose elimination of government activity which is harmful to the national welfare.

Many newly elected officeholders such as Governors Brown of California, Dukakis of Massachusetts, Boren of Oklahoma, and former Governor Ronald Reagan have achieved significant popularity by attacking the evils of bloated and inefficient government. The President's record certainly exceeds the rhetoric of these governors and he ought to take credit for his performance in his State of the Union Address. He should explain as well that the President cannot succeed in this fight alone. Powerful and highly organized pressure groups are already arrayed against him. These pressure groups control large elements of the Executive Branch bureaucracy as well as the relevant congressional committees who must act if reform is to succeed.

While others talk during campaign '76, the President must lead. He must also clearly identify the opposition and attack it. Attached is some proposed draft language for the President's Address. We would appreciate your views on the tone and the direction of the Address.



Governmental Reform Theme for the State of the Union Address

Some years ago President Eisenhower eloquently warned Americans of the potential dangers inherent in the growth of the military industrial complex. Today I would warn of a different and more significant threat-the degree to which government has come to interfere in our lives and reduce our individual freedom. Just as in the troubled times of our Nation's birth, our freedom is again being actively and seriously threatened. Today, however, the threat to individual liberty is much more complex than it was in 1776. It is being endangered by a swollen Federal government whose concerns are often remote from those of the average American. For the last year and a half, my Administration has been working to wage a new revolution against the tyranny of an entrenched and distant bureaucracy.

Starting even before 1776, the American way was to rely on individual initiative and freedom as a way of providing for our economic needs. Over the last several decades, however, we have departed from this trust in individual initiative and consumer choice. For good reasons and bad, we have expanded government's role and the scope and detail of government controls. We have created a

governmental system which is more and more rigid and less able to respond to changing conditions. In an increasingly complex society, government's role should be to assist in the search for solutions to our problems. But government as we now know it has gone too far. Useless government activities have expanded geometrically at all The privacy of individuals and organizations is levels. invaded by a host of new government inquisitions and questionnaires. Incursions on our civil liberties by excessive government snooping have reached an all-time high. Our economy staggers under a variety of senseless and outmoded rules and restraints imposed by government.

This government expansionism began in the Depression era. In those crisis times, we as a people lost faith in the individual--turning instead to "Uncle Sam" to provide the answers. As a result, vast impersonal bureaucracies were created to resolve a myriad of economic and social problems. New government agencies were created to help reduce unemployment. New laws helped stabilize financial markets. New regulations helped protect failing businesses. At the time, these were practical solutions to very critical and immediate problems. Over time, some of these programs disappeared as the need for

their existance waned. However, many others are still on the books. But more important than these individual policies and programs, this era produced a philosophy of government activism which persists today.

In our compassion to solve urgent human problems, we have designed over the years a governmental structure which has undermined individual choice and initiative. The creative and innovative talents of the American people-long the hallmarks of our free society--have been ensnarled in a web of government programs and controls which no longer achieve their intended social and economic goals. We have set up complex and highly administered systems designed not merely to complement or supplement individual choice and initiative but to supplant it.

Government is omnipresent--regulating, subsidizing, allocating. It is highly susceptible to manipulation by highly organized interest groups seeking to use government for their own ends. In order to stop the growth of government by special interest, individual citizens must understand their system of government, and must know its costs as well as its benefits.



The time has come for all of us to insist on the development of a responsible system of government to ensure that decisions are made in the public interest. But fundamental change is a slow and difficult process. Once certain groups learn how to manipulate the system and benefit from it, they will resist any attempts at reform. Their cries vehemently resist any change, drowning the protest of individual Americans whose taxes pay for those benefits. Benefits that would result from reform of this system are so diffused through the population that it is hard for any identifiable group to achieve needed reforms. All too often individual taxpayers are generally aware of the problem but they hope that their neighbor will make the effort to do something about it.

Even the most visibly wasteful and inequitable public programs survive as a result of a powerful allegiance formed by the congressional committees that authorized and fund a program or agency, the bureaucrat who administers it, and the interest groups who are its beneficiaries.

Considering the resources that are usually mobilized in opposition to specific reforms, it is little wonder that progress is so slow. The opposition forces are generally

small in number, extremely well organized, and able to bring pressure to bear on decisionmakers in a forceful manner.

* * *

Faced with the challenge of bringing about fundamental change, my Administration has established a wide-ranging program to reduce the size of government and its intervention in every aspect of our daily lives.

First, I have announced my intention to reduce the level of Federal expenditures. Federal, State and local spending in the past decade has raged largely out of control. It was only 12 years ago that President Johnson was engaged in a struggle to hold Federal spending below the \$100 billion level. Today, my Administration is attempting to keep spending below \$400 billion.

I have set in motion a fundamental examination and reform of our system of government regulation. The basic objective of this program is to eliminate government regulation which is anticompetitive, antisocial or contrary to the public interest. The beneficiaries of this program will be the economy and the society as a whole. To accomplish this, I have already submitted a number of legislative proposals.

In the energy field, I have proposed legislation to deregulate the price of natural gas to provide incentive for more abundant supplies.

I have also forwarded bills to the Congress seeking major changes in the regulatory system governing our railroad, airline and trucking industries. These bills will promote greater competition in these industries, and result in lower fares and a wider variety of services. In the banking and financial fields, I have proposed legislation to ensure that competitive interest rates are paid to small depositors or investors and more diversified services are provided to all customers.

Recently, I signed into law a bill which repeals State Fair Trade laws so that consumers can take advantage of discount pricing on "brand name" merchandise. The cooperation between the Congress and the Administration on this bill should serve as an example for all regulatory reform legislation.

In addition, I have proposed legislation to sharpen the legal tools and resources of the antitrust activities of the Justice Department. This will serve to protect the public from that small minority of the business community that might attempt to profit from deregulation by engaging in illegalbusiness practices at the expense of the consumer.

I have also signed legislation that establishes a commission to reduce the extraordinary burden of Federal paperwork. Finally, I have directed the Executive Branch agencies to conduct inflation impact analysis of major activities and legislative proposals they support.

(OTHER EXAMPLES OF ADMINISTRATION ACTIONS

TO REDUCE GOVERNMENTe.g., changes in housing policy, Federal personnel reductions etc.) These measures constitute important first steps. They represent some fundamental changes in the roles of government and private enterprise. I intend to work closely with the Congress to see that this legislation is passed and I will continue to hold a public dialogue on additional areas needing reform.I also intend to develop reform proposals for other areas of government regulation is inappropriate or excessive.

In many cases, there will be strong resistance to these initiatives by special interests who argue that regulatory reform is good in other industries but that change in their industry will be disruptive. We must overcome this reaction and continue to advocate changes which will have a positive impact on the Nation as a whole.

While I intend to exert every effort to modify anticompetitive economic regulation, I also believe that we must begin to review the vast apparatus of Federal social regulations that has been set up in the last two decades in pursuit of the purest of motives.

I intend, therefore, to review Federal safety and health regulations in order to assess their effectiveness in accomplishing their goals without imposing excessive costs on consumers. It is my belief that there are often more efficient, less expensive ways to accomplish these objectives.

My Administration will make appropriate administrative changes and propose new legislation to reduce the size of the Federal government and the emphasis on enforcement of mandatory standards.



* * *

Our overall goal must be the restoration of individual choice and individual initiative as the guiding principles of our Federal system.

We must reexamine our government to discover

why we have allowed our individual freedoms to become restricted. We must ask the fundamental questions--Why have we permitted a remote Federal bureaucracy largely to determine not only what our social and economic objectives will be but also specific, detailed means by which they will be achieved? achieved. To what extent can we counter this trend toward bureaucratic domination with increased competition, more information to consumers and increased individual participation in policy decisions?

We must also look more critically at the way we are attempting to fulfill certain necessary and desirable social gaols--improved quality of the environment and the health and safety of workers and consumers. It is my belief that there are often more efficient, less expensive ways of accomplishing these objectives. By creating a new coalition of informed consumers,

responsible businessmen public-minded Congressmen and a concerned Administration, I believe we can reduce the Nation's dependence upon ponderous, expensive, and often ineffective government.

The State of the Union Address

Economic Regulation

Traditionally, this country has relied on individual initiative and competition as the basis of our economic system. Over the years, however, we have increasingly come to rely on government to solve our economic and social problems. The Federal Government has exploded through adoption of programs promoted by organized interest groups. The increased costs of these programs, both direct and indirect, must be borne by the already overburdened American taxpayer.

Government activities have expanded geometrically at all levels. We have built a governmental structure which has undermined individual choice and initiative. The creative talents of American businessmen and consumers-long the hallmarks of our free society--have become entangled in a web of government programs and controls which no longer achieve their intended purposes. In many areas, outdated legislation gives government agencies the power to make critical economic decisions affecting the lives of all our citizens. Rather than supplementing competitive markets, government regulators and bureaucratic decisionmakers have supplanted competition with controls.

My Administration has established a program to free our economy from costly, inefficient, and outmoded government policies and regulations. The beneficiaries of this program will not be just business and the regulated industries as some critics allege; the real beneficiaries will be the consumers and taxpayers of this country who will enjoy lower costs and better services as a result of my program. I want to ensure that the greatest variety of goods and services are available at the lowest possible prices. To accomplish this, three legislative proposals have been signed into law and I have submitted a number of other proposals to the Congress:

. Last June, I signed the Securities Act Amendments which restored competition to the securities markets after nearly two hundred years of fixed fees.



- . I have also signed legislation that establishes a commission to reduce the extraordinary burden of Federal paperwork. Finally, I have directed the Executive Branch agencies to conduct inflation impact analysis of major activities and legislation proposals they support.
- Recently, I signed into law a bill which repeals State Fair Trade laws so that consumers could benefit from discount pricing on "brand name" merchandise. The cooperation between the Congress and the Administration on this bill should serve as an example for all regulatory reform legislation.
- . In transportation, the Omnibus Rail Bill signed into law on carries out the most significant reform in rate setting by the railroad industry in fifty years. From now on, competition will, in large part, govern freight rates, and collusive rate fixing will not be condoned by ICC regulation.
- . I have also forwarded bills to the Congress to reform regulation governing the airline and trucking industries. If enacted, these would promote greater competition in these industries, resulting in lower fares and a greater variety of service.
- . In the financial field, I have proposed legislation to ensure that competitive interest rates are paid to small depositors or investors and more diversified services are provided to all customers.
- . In the energy field, I have proposed legislation to deregulate the price of natural gas to provide incentive for more abundant supplies. The present shortages of ______ percent of total demands should be eliminated in five years, putting an end to shortage-caused disruptions in production. More than ______ jobs are in jeopardy because of regulation-induced shortages of gas.

Concomitant with these substantive measures, I proposed legislation to sharpen the legal tools and resources of the antitrust activities of the Justice Department. This will serve to protect the public from that small minority of the business community that might attempt to take advantage of deregulation to engage in illegal business practices at the expense of the consumer.

These measures constitute important first steps. They represent a fundamental change in the relationship of government and business. I intend to work closely with the Congress to see that this legislation is passed and I will continue to hold a public dialogue on additional areas needing reform. I also intend to develop specific proposals for other areas where government regulation is inappropriate or excessive.



THE WHITE HOUSE WASHINGTON

January 9, 1976

Jack:

I spoke with Bob Hartmann ... went through the explanation behind the requested insertion of the Agency Task Force Group on Indians in the SOTU. Bob agrees completely. Have passed word of prospective success to Ted. Latter very pleased.

RUSS

Note: Paul O'Neill has no objection to the above. Have given language to Hartmann.

Russ

THE WHITE HOUSE

WASHINGTON

January 9, 1976

MEMORANDUM TO:

PAUL O'NEILL JIM CAVANAUGH

FROM:

RUSS ROURKE

The attached is a proposed insert in the SOTU. It has been suggested that the Interdepartmental Task Force referred to herein will cost very little, and will be staffed principally with detailees.

We are quite anxious to get this proposed language to Bob Hartmann early this afternoon in Williamsburg, and would, therefore, appreciate a rapid response on your reaction.

Many thanks.

cc: JMarsh 🖌



It is my intent to establish an Interdepartmental Task Force to work with Indian people during the Bicentennial year - to insure equity for Indians in the specific areas of health, education, housing and government -- as well as to attain economic and cultural security. This Task Force will provide continuity and coordination by insuring that the Federal departments handling Indian matters work together in the implementation of the policy of self-determination.

In recognition of the essentiality of Indian participation, there will be Indian members included in the Task Force. There will also be an advisory body made up of members chosen by elements of the Indian community in a manner determined by them.

Additionally, I am asking each Cabinet member to review his departmental authority in order to insure that the First Americans receive the benefits to which they are entitled under the law. I am also asking Congress to insure action on legislation concerning Indians.

REVISION - 1/9/76

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Indian related legislation.

concerning Indians,

INPUT FOR STATE OF THE UNION MESSAGE

Indian relationships to the United States Government are unique and complex. They revolve around a responsibility for resources, funds and personal well-being of what is now estimated as one million people of whom five hundred thousand are on reservations. This is based on trust, treaty, law, Presidential edict, responsibility, tradition and expectation. The most significant recent commitment was to "self-determination without termination." Minus the bareque, this means responsiveness to Indian tribes which are willing and able to manage their own affairs in a given area.

Meeting the resultant Federal responsibilities is complicated by the involvement of multiple Departments and Agencies, intra-departmental priorities and the number and variety of Indian governments.

Also, it must be kept in mind that there are marked differences in educational status, culture, resources, polities, economy, motivation and readiness for self management as you move from one tribe to another. One must also be conscious of the fact that we are dealing with a situation which has been changing with increasing rapidity during the past ten years. There have been important advances and there is strength and urge to grow, but there is a marked ing behind national levels in many social and economic aspects of life.

Finally, continuous land disputes and resource rights are being brought a to a head by the priorities of natural energy interests and sensitivities to the traditional and legal rights of Indian people.

my long

Based on these factors, is my intent to establish an interdepartmental task force to work with Indian people during the Bicentennial year to insure equity for Indians in the specific areas of health, education, housing and government - as well as to attain economic and cultural security. This task force will provide continuity and coordination by insuring that the Federal departments handling Indian matters work together in the implementation of the policy of self-determination.

In recognition of the essentiality of Indian participation, there will be Indian members of the task force. There will also be an advisory body made up of members chosen by elements of the Indian community in a manner determined by them.

Additionally, I am asking each Cabinet member to reconsider his departmental authority in order to insure that First Americans not be last to receive benefits for which they are qualified and entitled under law. I am also asking Gongress to insure a bipartisan effort in considering Indian related legislation.

In this spirit we can move toward the ultimate objective of self sufficiency for all Indian people. As a first step, I ask Congress to again consider passing a concurrent resolution which would repeal the termination policy established by the 63rd Congress in House Concurrent Resolution 108.

- 2 -

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THE WHITE HOUSE

WASHINGTON

January 9, 1976

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revised again

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REVISION - 1/9/76

DRAFT: M.D. 1/15/76 (SOTU - Intelligence)

Just as the preservation of the powers of the Presidency is not a partisan issue, the preservation of an effective United States foreign intelligence capability must transcend party politics. As your President, I will do everything in my Constitutional power to prevent the dismantling of our intelligence capability, which is essential if we are to preserve the security of the United States.

I have consistently pursued two fundamental goals in dealing with foreign intelligence matters over the past year: First, the United States must have a strong and effective capability to gather and evaluate foreign intelligence and conduct necessary covert operations. Second, this capability must never be directed at our own citizens.

We must be as vigilant in protecting the Nation as we are in protecting the individual rights of each American.

As you know, when initial allegations of abuses in the intelligence agencies was brought to the Nation's attention, I moved quickly to establish independent investigations within the Executive Branch, and I have ensured that all the agencies

cooperate fully and with unprecendented candor and openness fe with the appropriate Congressional committees.

I have issued clear orders to stop these abuses and to ensure that they do not reoccur, as long as I am President.

After an intensive and comprehensive review of the entire Intelligence Community, I have reached A conclusion that I must make significant changes to make these agencies, and the public servants that run them, more accountable to my objectives. The changes I am making, exercising Presidential powers, will enable the American people to know that the intelligence agencies are_{Λ}^{and} will continue to act within proper legal and moral bounds. These changes will also make the Intelligence Community stronger. The quality of intelligence should improve, and we will be able to better utilize every tax dollar spent for foreign intelligence purposes.

There are/two specific issues I wish to address directly: covert operations and the role of Congress in the foreign intelligence area.

This Nation is free and strong because we have been willing to deal with real-world problems forthrightly and with realistically. For America, the real world is not benign and safe. We have enemies, as we have friends.

It is the avowed policy of the Soviet Union to export its Communist ideology by a variety of means, including subversion and military intervention. New threats to peace include terrorism and economic warfare.

My intention is to seek resolution of the problems these threats pose through negotiation and diplomatic means. However, if we effectively deny ourselves the ability to conduct covert operations, we will do so at an unacceptable cost to the national security. We will have limited our ability to respond to Soviet expansionism, terrorism and other threats, in a manner which may force us ultimately to choose between drastic military action Just as our range of military options must or capitulation. include conventional as well as nuclear response; so, too, must we have other alternatives to deal with problems abroad, such as covert operations. / I recognize the great sensitivity of operating abroad covertly and conducting other foreign intelligence Congressional sight is not only Constitutionally activities. required, but I welcome it, as Congress should be a willing partner with me to strengthen and control this activity. Howhave russed servin problems concerning how counts of ever, the past year has demonstrated that the Congress cannot. handle intelligence secrets this area. Unilateral publication of highly classified information and leaks from Congressional sources have taken a severe toll by damaging our foreign intelligence capability and our efforts to achieve foreign policy objectives. I will actively seek repeal of the so-called

Hughes-Ryan Amendment which requires briefings to six committees of the Congress in a "timely fashion" concerning covert operations. This has given, to many members of the Congress, a one-man veto over the actions of the United States. All a person has to do is leak information concerning the operation, and that effectively destroys its usefulness. This is a dangerous perversion of the Constitution which was carefully structured to balance the powers of the individual, the President, separate br against the Congress as a whole. Only by two-thirds vote of the Congress can actions of the President be overruled under the Constitution. However, a whisper to one unauthorized source by one member of Congress can effectively stop covert operations. and this must be changed.

Although I will exercise my duties and responsibilities under Article II of the Constitution to strengthen and control the foreign intelligence agencies, I must have a constructive partnership with the Congress in the area of Congressional oversight. Shortly after I announce my comprehensive changes in the Intelligence Community, I will apear to consult with the Leaders in an effort to seek bipartisan support for effective and responsive Congressional oversight of the Intelligence Community.

[conclusion - Church quote and "revelations have disconcerted our friends and delighted our enemies" quote]



THE WHITE HOUSE WASHINGTON

Jack -

A poor effort, but mine own.





Til15/767

STATE OF THE UNION

I. Introduction

- A. There is historic importance and symbolism in the journey of the President to the capitol to speak to the State of the Union, an event I have witnessed many times.
 - 1. As one travels through this city and throughout the country one sees reminders that this is our Bicentennial - souvenir shops will be selling mementos of that event this year.
 - 2. In Washington perhaps more than any other city we live with the monuments of our peoples' history - the great physical monuments to Washington, Jefferson and Lincoln; the White House and the Capitol Building.
 - 3. The Bicentennial is more than a birthday party. It is the celebration of the example that the United States can give to the rest of the world.
 - 4. In making this speech this evening, I asked myself what could I add on such an historic opportunity? How could I, a single individual brought to this place by an unpredictable and improbable series of events discribe to you and to the rest of the country my feelings for this great country.
- B. My solution is to let the country and its people speak for themselves.
 - 1. Our history focuses both on the activities of prominent men and women and also the achievements of common people.
 - 2. In our first century, the United States was concerned with building a new country, creating new institutions.



- a. The most important of the initial documents, the Declaration of Independence, signified the first time in history that a group of men representing the people through rational processes declared their political bonds together and their freedom from despotism.
- b. The Revolutionary War was fought to defend that liberty and freedom, a small country with limited resources against one of the greatest powers on earth.
- c. The Constitution then established the foundations for the government of laws and not of men which has lasted now for 200 years.
- d. We must not forget that the great American experiment was watched carefully by all observers. To **de Tocqueville** it was 'a great democratic revolution.'
- e. The first century ended climacticly with the Civil War and the Emancipation Proclamation which forged a new national identity while granting freedoms under law.
- 3. Our second century saw the unprecedented and still unparalleled expansion of wealth, industry, standard of living and productivity.
 - a. The industrial revolution continued and spread westward pushing back the frontiers.
 - b. The country was crisscrossed with canals, roads and railroads.
 - c. The United States came of age when it renounced its isolationism in World War I and brought moral leadership to the creation of man's first international parliment, the League of Nations.
 - d. Through the Depression and the New Deal, the instruments of government were turned toward solving the problems of the needy and to rebuilding the country.
 - e. Then in the second World War many Americans died to preserve freedom far away from their own shores because as in Jefferson's words, this is a country where "every man, at the call of the laws, would fly to the standard of the law, and would meet invasions of the public order as his own personal concern."

- f. With the great civil rights struggles of the '50s and '60s, we established again the principle that each individual is important no matter his race, color or creed.
- g. Finally with the landing of the man on the moon, Americans established once more that they are living at the frontiers of modern civilization.
- C. The simple truth is what the United States does matters in the world.
 - 1. In spite of our shortcomings, in spite of our failures, the United States still exercises moral leadership.
 - 2. The United States is still the most envied and most advanced democracy in the world.
 - a. Since we live with the protections of the Bill of Rights and particularly the First Amendment every day, we take them for granted, and we can not conceive of other countries where such freedoms are not known.
 - b. Our material wealth and our standard of living are available on such an unprecedented scale that it is beyond the comprehension of the world's less fortunate.
 - 3. Our advantages and our history have brought us to the limits and imposed their own responsibilities.
- D. What are the challenges we will face in our third century?
 - 1. We will develop the freedoms of the individual, given the institutions of our first century and the material progress of our second.
 - 2. We will learn to reconcile the demands of progress with the limits imposed by nature and the environment.



- 3. We will learn to establish the equity and the humanity which are the responsibilities of rich countries, at home and abroad.
- 4. And finally, the answers we seek to the questions of what a person does with his life and how his government interacts with him will be watched closely as the rest of the world examines our experience.
- E. On the basis of my reading of this history it is clear that we must use common sense when dealing with our problems and in defining courses of action.
 - 1. We must sort out our national issues, building on the structure which has proven so adaptable and resilient.
 - 2. We must be grateful that our institutions have triumphed. In recent tragedies, such as Vietnam and in Watergate, with as little damage to the **fabric** of the country, no matter how great it seemed at the time.
 - 3. We must take a more realistic view of our abilities and our resources.
 - 4. And finally, we must recognize that Americans for justifiable reasons are losing confidence in their institutions, and particularly in government.
 - a. Government fails and becomes part of the problem.
 - b. Government is perceived as deceitful and untrustworthy.



- F. My experiences that people are realistic, tough minded and just, as were the signers of the Declaration of Independence.
 - 1. They are not swayed by out of date slogans or political extremes, by labels "liberal or conservative".
 - 2. They realize (refuge is not to be found in well-meaning causes or dreaming of the good old days.
 - 3. They want above all government to quit kidding them and to live by the common sense rule that honesty is the best policy.
 - 4. In January '75 I spoke of a new direction for the country. Today I speak of America's desire for a new realism.
- G. It is in this vein and with these lessons that we must now turn to the examination of high priority federal programs and problems with which this country must deal.
- II. The Economic Situation.



III. Protecting the Lives and Personal Safety of Citizens.

- 8 3
- IV. The State of the World in which we Live.

(These sections can be taken from the most recent draft

but should be roughly half of their present length.)

V. Conclusion.

- A. It is now taken as an accepted fact that Americans are increasingly alienated from all big institutions.
 - 1. They are losing confidence, not just in big government, but in big business, big labor, big education, and even big churches.
 - 2. Are we satisfied with this state of affairs? Can we take steps individually and collectively to make these institutions work?
 - 3. These are questions we must ask in the years ahead.
 - a. I don't have all the answers, nor does the government, nor does Washington.
 - b. Government must reach out to the people for answers.
 - c. We must enlist the private sector and the voluntary organizations in seeking answers .

- B. I propose a new partnership of common sense. A partnership between levels of government certainly, but also between institutions of government and citizens.
 - 1. We must emphasize the function of governing; the United States Government does not need to tell people what to do.
 - 2. Government must be opened up to citizens of all walks of life making it more accessible and more understandable.
 - 3. It is the responsibility of the people to be skeptical of government and their leaders; equally it is a responsibility of government to overcome that skepticism by its deeds and its good example.
- C. As we begin our bicentennial year, let us not lose sight of the historic nature and mission of the United States.
 - 1. We are still the world's best hope."
 - 2. If we do not succeed in "translating from despotism to liberty" who else can if they do not enjoy our advantages and resources?
 - 3. We can not ignore the hard realities of the modern world but our real effect in the world must be our example, not our force of arms or our diplomacy.
 - 4. It is my honor to fulfill the historic role of the President to speak to the Congress to report on the State of the Union as required by our Constitution. I have tried to convey some of the importance and depth of feeling that accompanies me and I hope will envigorate our third century.

RJW 15 Jan 76

QUOTATIONS

" It is evident to all alike that a great democratic revolution is going on among us, but all do not look at it in the same light. To some it appears to be novel, but accidental, and, as such, they hope it still may be checked; to others it seems irresistible, because it is the most uniform, the most ancient, and the most permanent tendency that is to be found in history."

> Alexis de Tocqueville Democracy in America Volume I Introduction

"But would the honest patriot, in the full tide of successful experiment, abandon a government which has so far kept us free and firm, on the theoretic and visionary fear that this government, the world's best hope, may be possibility want energy to preserve itself? I trust not. I believe this, on the contrary, the strongest government on earth. I believe it is the only one where every man, at the call of the laws, would fly to the standard of the law, and would meet invasions of the public order as his own personal concern."

> Thomas Jefferson First Inaugural Address, 1801

" They (the institutions of the United States) represent an experiment in the rule of the multitude, tried on a scale unprecedented vast, and the results of which everyone is concerned to watch. And yet they are something more than an experiment, for they are believed to disclose and display the type of institutions toward which, as by a law of fate, the rest of civilized mankind are forced to move, some with swifter, others with slower, but all with unresting feet."

> Lord James Bryce The American Commonwealth, 1888

