

**The original documents are located in Box 2, folder “Budget FY1977 - General” of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.**

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**TO THE CONGRESS OF THE UNITED STATES:**

My total fiscal year 1977 Budget request for national defense, including amendments, is \$114.9 billion in budget authority. This budget request is based upon a careful assessment of the international situation and of the contingencies we must be prepared to meet. The request is substantial, as it must be to provide what is necessary for our national security.

When I submitted my budget last January, I pointed out that the request might need to be increased for three reasons: (1) in the event that the Congress did not approve legislative proposals necessary to reduce spending in lower-priority areas involving manpower and related costs and sale of unneeded items from the stockpile; (2) in the shipbuilding area, where a National Security Council study then under way, could lead to an increase in the shipbuilding budget; and (3) a possible increase later in the year depending on the progress of the SALT II negotiations and our continuing assessment of Soviet ICBM programs. Indeed, there have been changes in these areas and they have been reflected in my revised budget request.

On July 14, 1976, I approved legislation authorizing 1977 appropriations for procurement and for research and development programs. At that time I indicated that in a number of important respects the Congress has not fully faced up to the nation's needs. First, the Congress has not approved a number of essential Defense programs. Second, the Congress has added programs and funds which are of a lower priority. Finally, the Congress has not yet acted upon certain of my legislative proposals which are necessary to restrain manpower cost growth and to achieve other economies. These three areas require remedial action by the Congress.



Therefore, today I am advising the Congress that failure to take the necessary remedial actions will result in a revised 1977 estimate for National Defense of \$116.3 billion. This revised estimate reflects the following adjustments:

	<u>Budget authority (\$ Billions)</u>
Amended budget request .....	114.9
Congressional adjustments, net .....	<u>-1.8</u>
Congressional action to date ....	113.1
Adjustments in this Message:	
(a) Resubmission of Congressional authorization reductions .....	+2.4
(b) Deletion of programs added by Congress .....	-.6
(c) Congressional inaction on Defense Management economies .....	+1.4
(d) Additional recruiting require- ments (\$39 million) .....	<u>---</u>
Revised National Defense estimate	<u>116.3</u>

Resubmission of Congressional Authorization  
Reductions

I am having resubmitted authorization requests for \$2.4 billion in program reductions imposed by the Congress.

Shipbuilding. Congress has not thus far authorized \$1.7 billion requested for new ship programs that are needed to strengthen our maritime capabilities and assure freedom of the seas. In particular, funds have been denied for the lead ships for two essential production programs -- the nuclear strike cruiser and the conventionally-powered AEGIS destroyer -- and for four modern frigates. The 1977 program was proposed as the first step of a sustained effort to assure that the United States, along with our allies, can maintain maritime defense, deterrence, and freedom of the seas. Therefore, I am submitting a supplemental authorization request for 1977 to provide for these ships as well as for the research and development to upgrade U.S. ship capabilities in the near-term and to create longer-term alternatives to conventional surface forces.

Other Programs. The Congress has also failed to authorize over \$900 million requested for other Defense procurement and research and development programs. While some of these adjustments can be accepted due to fact-of-life program developments, I must request a supplemental authorization of \$759 million for programs which are urgently needed. In particular, I reaffirm the need for the following programs, and request restoration of the indicated amounts to the Authorization Act;

- \$19 million for the Defense Agencies research and development appropriation, principally to provide the needed resources for the Defense Advanced Research Projects Agency.
- \$20 million for civil aircraft modifications, clearly the most cost-effective option for enhancing our airlift capability. These modifications should be a part of any airlift improvement program, and the needed funds should not be denied while other airlift improvements are under consideration.
- \$171 million for the Air Force research and development appropriation. Our most urgent needs here include funds for the MAVERICK missile needed to start engineering development for advanced warhead and single rail launches and advanced ICBM technology funds needed to identify the most cost-effective option for full-scale development.
- \$136 million for the F-16 fighter aircraft, to provide full funding for 1977 in accordance with sound budgetary principles. Since Congress approved the full program, this cut is illusory and would serve only to complicate management and make potential foreign buyers less confident of this program.

- \$122 million for the Army research and development appropriation to cover urgent programs such as the STINGER missile, where the Authorization Act would impair the development effort for an improved target-seeking technique. This effort is critical to achieving the needed improvements over the current REDEYE missile.
- \$211 million for the Navy research and development appropriation to provide what is needed for several essential programs, in particular the Navy cruise missile program. The Authorization Act would prevent our moving forward at the pace needed to assure that sub and surface launch options can be operational by 1980.
- \$66 million for production of the US-3A carrier delivery aircraft, necessary to replace aging aircraft and to provide the necessary numbers of aircraft with sufficient operating range to support our carrier forces. The Authorization Act does not meet our military needs, and would provide an uneconomical production rate.
- \$15 million for the MK-30 mobile target, critically needed for anti-submarine warfare training.

#### Programs Added by Congress

While the Congress disapproved several programs which are essential to our national security, \$1.1 billion was added to the budget request for items for which I did not request funds for 1977. Although I continue to believe that all of these programs are unnecessary at the present time, I specifically urge the Congress to delete \$584 million for the following programs:

- Conversion of the cruiser LONG BEACH (\$371 million) which can readily be postponed.

repair and modernization of the cruiser BELKNAP (\$213 million) damaged in a collision, for which funds should be authorized in the Transition Quarter as I have requested.

I proposed that Congress authorize funds for repair of the BELKNAP in the current transition quarter, and delete the funds for the LONG BEACH, which is of lower priority than the conventionally powered AEGIS destroyer and the STRIKE CRUISER which the Congress reduced. If the Congress does not act favorably upon this request, funds would have to be added on top of my revised 1977 Defense budget request.

#### Congressional Inaction on Defense Management Economies

My 1977 Defense budget estimates were based upon the assumption that the Congress would act favorably upon a number of specific legislative proposals, thereby achieving major economies. These savings involve pay costs and related compensation areas and sales of certain materials from the national stockpile.

In these areas alone, the budget reflected savings of \$4.0 billion for FY 1977. For the five-year period FY 1977-81, my proposals would save \$27 billion. Of these savings, nearly \$11 billion can be realized by administrative action in revising the pay comparability process for general schedule and military personnel. I am taking the required actions. Over \$16 billion of the savings are dependent upon Congressional action, however, and these are the items which I wish to address. Let me summarize these savings proposals requiring action by the Congress:

- \$4.7 billion (including \$276 million in FY 1977) would result from revisions in the Federal wage board pay system to provide pay rates that are truly comparable with those in the private sector.
- \$1.1 billion (including \$163 million in FY 1977) would result from changing pay practices in the Reserve and National Guard, modifying training and assignment policies, and transferring 44,000 Naval reservists to a different pay category. My proposals provide the levels of reserve readiness needed, and they are equitable.
- \$1.7 billion (including \$61 million in FY 1977) would result from holding future increases in military retired pay to changes in the cost of living, eliminating the additional increment which present law provides. I am aware that the Congress has approved this change for military retirees contingent upon Congressional approval of this change for civilian retirees as well.
- \$1.4 billion (including \$92 million in FY 1977) would result from reducing the subsidy in military commissaries on a phased basis, while still providing much lower prices than are available in commercial stores. This proposal is entirely equitable considering current levels of military compensation and other relevant factors.
- \$2.6 billion (including \$746 million in FY 1977) would result from sale of items from the national stockpile, which are excess to our requirements.
- \$4.7 billion (including \$384 million in FY 1977) would result from a number of proposals which appear to be well on their way to enactment. These include employment cutbacks, a move toward a fair-market-rental-system for military personnel, and revisions in certain payments for leave.

I am deeply concerned by the apparent intent to reject a large portion of these proposed savings, and to make up the difference by cutbacks in urgently-needed defense programs. The conference report on the first budget resolution states, in fact, that other defense cuts will be made if these proposed savings cannot be realized. This would be a totally unwarranted course of action. If Congress is unwilling to enact the necessary changes to end these unjustifiable outlays, then we must pay for these items from our pocketbooks -- not by slashing our national security. We simply cannot sacrifice our national security to provide for unproductive fringe items and unwarranted levels of compensation.

Once again I urge the Congress to take the necessary actions I have proposed in order to achieve real economies in the national defense program, and not to add the new requirements now under consideration. While I am not now requesting additional appropriations for these items, I want to make it clear that if the Congress fails to take the proper action, I will request again that the additional appropriations be provided. Failure to do so would result in an unbalanced national defense program.

#### Additional Requirements

Finally, I have approved an amendment in the amount of \$39 million to the 1977 Defense budget to provide additional funds for enlistment bonuses to recruit the required numbers of high school graduates for the Army. Recruiting success, particularly as measured in terms of quality, has proven to be sensitive to the level of resources available, and any significant reduction of resources reduces program effectiveness in the long run. We must reverse the recent practice of curtailing budget dollars devoted to recruiting and invest this amount as a contribution towards the relatively small additional resources necessary to maintain a successful program over the long term.

Submission of Legislative Proposals and Appropriation Requests

Proposals for authorizing legislation and appropriation requests will be submitted to the Congress as necessary to provide for these requirements. Requests covering weapons procurement, RDT&E and recruiting activities are being transmitted now. The remainder of the additional appropriation requests -- principally those relating to the compensation area -- will, in accordance with the normal budgetary cycle, be transmitted in January 1977. There is yet time for the Congress to act upon my restraint proposals so that this large additional January submission will not be necessary. Once again, I urge the Congress to act. If the Congress does not take the necessary action, the additional funds will be required and I will request that the Congress provide them.

In withholding my approval from the Military Construction Authorization Bill (H.R. 12384), I noted several points that are also germane here. Section 612 of that Bill would impose severe restrictions and delays upon base closures or employment reductions at certain military installations. As I stated at that time, the nation's taxpayers rightly expect the most defense possible for their tax dollars. Provisions such as Section 612 would add arbitrarily and unnecessarily to the tax burden of the American people. We must have the latitude to take actions to cut unnecessary defense spending and personnel. Congress should reenact this otherwise acceptable legislation without the objectionable base closure provision.

As I have consistently indicated, I am determined that the national security efforts of the United States shall be fully adequate. This message indicates what is necessary to ensure that adequacy. It is up to the Congress to act promptly to provide the resources necessary to do the job.

/s/ Gerald R. Ford

THE WHITE HOUSE,

*Budget message.*

~~Chairman~~  
*Lesson -- Comments  
today to Lyndon or O'Neill.*

To the Congress of the United States

It is unfortunate that we have not yet found a way to make the Budget of the United States colorful, interesting reading, so that it attracts the close attention of the general public. I say that because <sup>the budget</sup> ~~it~~ captures as well as any other single book where we have been, where we are and where we are going as a people.

What we in government perceive as the proper roles of the Federal Government and the priorities to be given to these roles is measured by the facts in the budget, not by passionate speeches about how much we care about one thing or another.

Accordingly, I have devoted a considerable part of my own time over the last several months to shaping the budget for fiscal year 1977 and laying the groundwork for the years that will follow.

In thinking about the budget it is necessary to understand that the budget has three important dimensions. On the one hand the budget is an element of our economic policy. That is, the total size of the budget and the deficit or surplus that results can substantially affect the general direction of our economy -- in a good way or in a bad way. If we try to stimulate the economy beyond its capability to respond we will reap the whirlwind of inflation. Let us hope we have learned that lesson.

I believe the budget I am proposing for fiscal year 1977 and the direction I am suggesting for the future meets the test of responsible fiscal policy. The combination of tax and spending changes I am recommending will set us on a course that will allow us to achieve a balanced Federal budget within three years and at the same time keep our economy ~~back~~ on a stable growth path that we can sustain -- a path that will provide more and better jobs and progress on beating inflation. This is not a fiscal policy that promises to eliminate inflation and unemployment overnight but it is an honest, achievable policy. No one wants to lower unemployment and inflation faster than I do. But I will not risk the future of the country against the possibility that a bigger budget, a bigger deficit might produce statistics that look good temporarily, and that is all it would be -- temporary.

The second important dimension of the budget is what it tells us about how we choose to divide responsibility and decision-making in our Nation between Governments; Federal, State and local, and private institutions and individual citizens.

Over the last twenty years, Federal, State and local Governments have combined to increase their share of our gross national product from 28% to nearly 38%. The growth in Government's share has been gradual and uneven but the trend is unmistakable.



Although the predominant share of the growth has taken place at the State and local level, the Federal Government has contributed to the trend too. It is a trend we must not continue. The driving force of our two hundred year history has been our private economy. We should rely on it and nurture it and it will continue to grow, providing new and better choices for our people and the resources that are necessary at all levels of Government to meet our shared needs. If instead, we continue to increase Government's share of our economy we will have no choice but to raise taxes and, in the process, dampen further the forces of competition, risk and reward, that have served us so well. With stagnation of these forces, the issues of the future would surely be focused on who gets what from an economy

~~of little or no growth rather than, as it should be, over the use to be made of expanding incomes and resources.~~

My budget proposals seek to cut the rate of Federal spending growth to 6% -- less than half the average growth rate we have experienced in the last four years. With adoption of this budget, the Federal share of our gross national product will decline slightly in fiscal year 1977. At the same time, I am proposing further, but permanent, tax reductions so that individuals and businesses can spend and invest these dollars instead of having them spent by the Federal Government.



The third important dimension of the budget is the priorities it reflects within its overall totals. In forming the priorities of my budget, I have tried to achieve a sense of fairness and balance between our many competing needs and principles.

-- Between the taxpayer and those who will benefit by Federal spending.

-- Between national security and other needs.

-- Between the shorter term needs and the longer term need to invest in our future.

-- Between our own generation and the world we want to leave to our children.

-- Between helping everyone in some need and focusing our aid on those most in need.

-- Between energy development and environmental protection.

-- Between the programs we already have and those we would like to have.

-- Between aid to individuals and aid to State and local governments.



- Between immediate implementation of a good idea and the need to allow time for adjustment.
- Between the desire to solve our problems quickly, and the realization that for some problems, good solutions will take more time.
- Between Federal control and direction to assure achievement of common goals and the recognition that State and local governments and individuals are often closer to the real problems.

Among the high priorities I see for our Nation, I have sought first to insure that <sup>the</sup> Federal Government meets its single most important test -- providing fully for the defense of our freedom. In this function there is no alternative. If we at the Federal Government level fail in this responsibility then our other objectives are meaningless for we could not long survive as an independent, free nation.

Accordingly, I am recommending an increase in defense spending for the next fiscal year. If I could propose less in good conscience I would, because I see as do many others, great good that could be accomplished with these dollars in other areas. My request is based on a careful assessment of the world situation and the contingencies we must be prepared to



meet. Enactment of my request will provide the national defense it now appears we need. We dare not do less. And if our efforts to secure international arms limitation falter, we will need more.

While providing fully for our defense needs, I have imposed in the budget process the same discipline here that I have applied in reviewing the other spending programs of the Federal Government. We cannot afford waste in our defense spending any better than we can afford it in other programs.

In our domestic programs, my objective has been to achieve a balance between the heart and the mind -- a balance between what we would all like to do and what we can realistically afford to do. I believe I have found a good balance. The

hundreds of pages that spell out the detail of my program proposals tell the story, but some examples illustrate the point.

I am proposing that we take steps to address the haunting fear of our elderly that a prolonged, serious illness could cost them and their children everything they have. Under my medicare reform proposal, no elderly person would have to pay over \$500 per year for covered hospital care and no more than \$250 per year for covered physician services. However, as part of an effort that must be made to slow down the runaway



increases in federally-funded medical expenses, I am recommending adjustments to the Medicare program so that beneficiaries contribute more to the costs of their care than they do now until they reach the new maximums.

My budget proposes a full cost-of-living increase for those receiving social security or other Federal retirement benefits. However, I am also asking the Congress to raise Social Security taxes, effective January 1, 1977, and to adopt certain other reforms of the system so that we can reestablish the integrity of the Trust Fund. Higher social security taxes and the other reforms I am proposing may not be the popular thing to do, but they are the right thing to do and reflect the respect I have for the average American's understanding that we must pay for the things we want. And I know that those who are working now want to be sure that the Social Security Fund will be able to pay them their benefits when their working days are over.

My budget proposes that we replace \_\_\_\_\_ narrow categorical grants with broad block grants in four important areas:

- A health block grant that will consolidate Medicaid and 15 other health programs. State matching fund requirements will be removed and States will be able to make their own priority choices for use of funds in helping low-income people with their health needs.



- An education block grant that will consolidate 24 separate grants for education into a single flexible grant to States, without matching requirements, primarily for use in helping disadvantaged and handicapped children.
- A block grant for feeding needy children will consolidate 15 complex and overlapping programs. Under existing programs, 700,000 needy children receive no benefits. Under my program, all needy children will be fed ~~and~~ while subsidies for the non-poor will be eliminated.

The existing social services program will be converted into a true block grant by eliminating the State matching requirement and by removing requirements that restrict the flexibility of States in providing services to the needy.

The proposed consolidations will distribute funds more equitably and provide greater State discretion and responsibility. These reforms are urgently needed, but my proposals recognize that they will, in some cases, require a period of transition.

In our public service jobs program I am proposing now that full funding be provided to continue the current number of jobs throughout calendar 1976, and that, as our economy continues to



improve, we phase them down so that by October 1977 we are back to the pre-recession levels of 1974.

For the Federal Government's own employment, I am proposing a slight decrease as compared to this year. I have made a rigorous review of Federal employment in forming this budget, starting in the White House.


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Many departments and agencies have been held level or decreased, but for some I have proposed significant increases. For example, the Veterans Administration medical program, the Social Security Administration and our air traffic control system clearly require people to perform the services we expect of them. I am asking the Congress to provide those people.

These are only examples of the multitude of recommendations I am making to the Congress. Taken together, all of these decisions reflect my view of the forthright approach we must take to our problems. I believe in the American people and I



believe they already recognize that promises that the Federal Government can do more for all of them every year cannot be kept. I make no such promise. I offer no such illusion. This budget does not shrink from hard choices there necessary, even where conventional political wisdom might have suggested some other course. Notwithstanding those hard choices, however, I believe this budget reflects a forward looking spirit that is in keeping with our heritage.



Congress approves of the President's determination to reduce spending levels in order to reduce the national deficit.

*Conroy*  
Congress affirms its commitments to the *contin* procedures established by the Budget Control and Impoundment Act of 1976-77.

If the Congress recommends a continuation of the tax reduction, provided by this measure for the remainder of the calendar year 1976 Congress shall provide for reductions in the level of spending which would otherwise occur by \$1 for each \$1 of ~~spending which would otherwise occur~~ tax reduction (from the 1974 tax rate levels), provide in the Fiscal Year 1977, provided, however, that nothing shall preclude the right of Congress to pass a resolution containing a higher or lower expenditure figure if Congress concludes that this is warranted by changing economic conditions or other unforeseen circumstances.



DEADLINES FOR BUDGET INFORMATION

MONDAY, JANUARY 19, 4:30 to 6:00 PM:

Printed Budget material (5 separate items) available for news organizations who have signed up for it in the Mezzanine, New Executive Office Building.

TUESDAY, JANUARY 20, 9:30 AM:

Briefing on the Budget by OMB Director James Lynn, and others. Accredited news persons only. State Department Auditorium.

TUESDAY, JANUARY 20, AFTERNOON:

Specialty briefings at various Departments and Agencies.  
(SEPARATE OMB LIST WILL BE POSTED WHEN AVAILABLE)

WEDNESDAY, JANUARY 21, 10:00 AM:

All budget material is released, as the budget is delivered to Congress.

FOR FURTHER INFORMATION, OR FOR ANSWERS TO MORE SPECIFIC QUESTIONS CALL THE OMB PRESS OFFICE:

395-4747 Allen Wade



4/24/74  
--film & writer -- 5/1/74 *R. Moore*

First, all material is embargoed until 10 a.m. Wednesday, tomorrow. including the President's statement and questions and answers.

Second, because the President may ask some of the Cabinet to answer some of the questions, he would like them to hear the questions without having to repeat every time so he asks that you please use the microphones.

Third, on materials--

Budgets in Brief came off the press this mornign and are available ~~xxxxxxvxxx~~ on the mezzanine of the New Executive office building.

~~Additional information on the President's statement will be available at the mezzanine of the New Executive office building.~~

~~One of the main reasons for the President's statement is to provide information on the President's statement.~~

If anyone has folo-up questions during the day they can talk at OMB to:

Alan Wade on 395-474 or Whit Shomekar on 395-4854.

At Treasury, call Charlie Arnolds operation at 964-2041.

~~Assuming~~

We will have some technicians from OMB ~~xxx~~ available if you can't get through to any of the above and they are on telephone number 395\_\_\_\_\_.

~~Transmittal of the President's statement~~

*B. B. A. J.*



Bob Schieffer (CBS) Report On President's Budget Briefing:

"The selling of the budget began this morning at a huge new conference at the State Department where the President, flanked by his Cabinet and standing before a massive bank of charts and graphs took questions on the budget for an hour and a half. Under the ground rules set up by the White House, Mr. Ford's comments cannot be released until tomorrow when the budget is officially unveiled. The budget briefings are an annual occurrence in Washington and are usually conducted by lower-ranking officials. But Mr. Ford's aides urged him to do this one personally, feeling it would be good politics in that it would demonstrate what they call the depth of Mr. Ford's knowledge about the federal government. By midday the charts and the sales campaign had been shifted to the White House where selected governors and mayors from around the country were invited in for lunch, given a preview and then invited later to say a few words about the budget. Predictably those selected as spokesmen by the White House seemed to like it. Later in the day the routine was repeated as selected congressmen were in for their preview. Tomorrow the budget will be officially released to the public and that will be the cue for another annual occurrence around here, that will be when the budget critics will launch their own campaigns."



Re: Budget embargo

Art Pine - 347-8250

Walter Means - 833-5300

Budget  
fill





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

January 2, 1976

MEMO FOR RON NESSEN

FROM: Alan B. Wade *A*

SUBJECT: Budget Release

This is just to confirm that we plan the general press briefing on the budget Tuesday, January 20 at 9:30 a.m. in the State Department Auditorium.

The material will be embargoed for release at 10:00 a.m. Wednesday, January 21.

*Rm -  
all of our staff  
knows this  
cy*



NOTICE

There Should Be No Release of This Document

Until

10:00 A.M. (E.S.T.) Wednesday, January 21, 1976

RON NESSEN,

Press Secretary to the President.



Tentative 1/8/76

Proposed Major Media/Public/Hill Events Surrounding the  
STATE OF THE UNION, THE BUDGET AND THE ECONOMIC REPORT

<u>Date</u>	<u>Time</u>	<u>Place</u>	<u>Event</u>	<u>Participants</u>	<u>Action Office</u>
Monday Jan. 19	All Day	Departments	Departmental Briefings for 140 Federal Regional Council members		Departments and Agencies
		White House Press Brief- ing Room	Possible embargoed SOTU briefing for White House Press	Siedman Cannon Lynn	Nessen
			Mailing of SOTU, <u>Budget in Brief</u> and <u>50 Issues</u> to editors		White
			Mailing to special interest groups		Baroody
	9:00 pm	Hill	STATE OF THE UNION ADDRESS delivery	PRESIDENT	
Tuesday Jan. 20	am		Morning TV shows	Simon on Today	Rhatican/Treasury
	9:30 am		Briefing on Budget for press (also 140 Federal Regional Council members)	PRESIDENT, Lynn, Cabinet	Nessen, Wade/OMB
	Noon to 5:30 pm	Department Auditoriums	Budget briefings by each Department for constituency press	Cabinet	Department PIOs/Cabinet
	4:00 to 5:00 pm	East Room	Briefings for Subcabinet and Presidential spokesmen (distribution of material)	PRESIDENT Lynn, Siedman	Jones/Nicholson
		Raleigh, NC	Address before Chamber of Commerce	Simon	Treasury
		Columbia, NC	Address before Chamber of Commerce	Simon	Treasury

<u>Date</u>	<u>Time</u>	<u>Place</u>	<u>Event</u>	<u>Participants</u>	<u>Action Office</u>
Wed. Jan. 21	am		Morning TV shows		White
	All Day	Hill	Congressional Briefings on Budget (See Tab A)	Lynn, O'Neill	Friedersdorf OMB/Wade
	10:00 am		BUDGET release		OMB/Wade
	10:00 am	450 OEOB	First of six 2-hour constituency group briefings		Barody
	2:00 pm	450 OEOB	Constituency Briefing		Barody
Thurs. Jan. 22	am		Morning TV shows	<i>LYNN-TODDY</i>	White
	pm	160 OEOB	Columnist Briefing on SOTU and Budget	Seidman, Lynn	White
	10:00 am	450 OEOB	Constituency Briefings		Barody
	2:00 pm	450 OEOB	Constituency Briefings		Barody
Friday Jan. 23	am		Morning TV shows		White
	10:00 am	450 OEOB	Constituency Briefings		Barody
	2:00 pm	450 OEOB	Constituency Briefings		Barody
		D. C.	Address before U.S. Industrial Savings Bonds	Simon	Treasury



<u>Date</u>	<u>Time</u>	<u>Place</u>	<u>Event</u>	<u>Participants</u>	<u>Action Office</u>
Sat. Jan. 24	p.m.	450 OEOB	CEA briefing on Economic Report (embargoed for Jan. 26) (NOTE: Maybe put off to Jan. 26 if copies not yet available)	Greenspan,	White/Davis
Sunday Jan. 25			Sunday TV talk shows		White
Monday Jan. 26			Morning TV shows		White
			ECONOMIC REPORT release		Davis/CEA
			PRESIDENTIAL signing ceremony transmitting Economic Report to Congress		Nones/Davis
			Mailing of Economic Report material to editors		White
			Provide Administration spokesmen with Economic Report and fact sheets		
	All Day	New York	Meetings with <u>Wall Street Journal</u> , <u>New York Times</u> and <u>New York Daily News</u> editorial boards; lunch with Financial Writers Association; 1/2-hour Time-Life TV interview; interview on WOR-Radio with Arlene Francis; evening meeting with <u>Business Week</u> editors	Lynn	Wade/OMB

<u>Date</u>	<u>Time</u>	<u>Place</u>	<u>Event</u>	<u>Participants</u>	<u>Action Office</u>
Tuesday Jan. 27	am		Morning TV shows	Greenspan	White
		Hill	Testimony before Mahon Committee	Lynn, Simon Greenspan	
		Baton Rouge, Louisiana	Address before Business and Industry Advisory Committee	Simon	Treasury
		Los Angeles California	Address before Town Hall	Morton	Commerce
Wed. Jan. 28		Hill	Testimony before Mahon Committee	Lynn, Simon Greenspan	
		Irvine, California	Address before Greater Irvine Industrial League	Morton	Commerce
Thurs. Jan. 29		Hill	Testimony before Joint Economic Committee	Lynn, Simon	
		Atlanta, Georgia	Address Southeastern Poultry Manufacturers	Seidman	
Friday Jan. 30	am	White House	Possible briefing for Republican Mayors (in D. C. for mid-winter meeting of U.S. Conference of Mayors, Jan. 29-30)		Delaney
	Afternoon	450 OEOB	Briefing for 180 members of Radio and TV News Directors Association, followed by 5:15 pm Presidential reception	PRESIDENT Seidman, Lynn, Simon & others	White

<u>Date</u>	<u>Time</u>	<u>Place</u>	<u>Event</u>	<u>Participants</u>	<u>Action Office</u>
Friday Jan. 30		Milwaukee, Wisconsin	Sheboygan Economic Club	Simon	Treasury
		Philadelphia, Pennsylvania	Address Ruritan National Convention	Morton	Commerce
Sunday Feb. 1			SUNDAY TALK SHOWS	Greenspan	White
Tuesday Feb. 3		Hill	Testimony before Senate Budget Committee	Lynn	
Wed. Feb. 4		Hill	Testimony before Senate Budget Committee	Simon, Greenspan	
Feb. 23 or 24			Governors mid-winter conference		Delaney



A



PROPOSED CONGRESSIONAL BUDGET BRIEFING SCHEDULE

Wednesday, January 21 - 8:30 a.m.

Breakfast with the President, the Director and Deputy Director of OMB, and the Congressional Leadership.

Attendees: Senators Scott, Griffin, Eastland, Mansfield, Byrd, Muskie, Bellmon, McClellan, Young, and Congressmen Rhodes, Michel, Albert, O'Neill, McFall, Adams, Latta, Mahon, and Cederberg.

10:00 a.m. (to 11:00 a.m.)

Lynn briefing of Senate Budget Committee (their hearing room).

11:30 a.m. (to 12:30 p.m.)

Lynn briefing of House (and Senate if they decide they want a briefing) Appropriations Committees (room H-140).

1:30 p.m. (to 3:00 p.m.)

Lynn briefing for Members of House only. (All 435 invited, but there will be a separate briefing on Thursday for the House GOP Conference). Cannon Caucus Room.

3:30 p.m. (to 4:30 p.m.)

Lynn briefing of House Budget Committee (their hearing room).

5:00 p.m.

Lynn briefing for Members of the Senate only. (We will seek a room in the Capitol.

Thursday, January 22 - 9:30 a.m. - Room 2168 Rayburn HOB.

Lynn briefing of House Republican Conference.

11:00 a.m. - Room 2168 Rayburn HOB.

\* Lynn (or O'Neill\_\_\_\_) briefing of House Committee staff.

12:00 Noon - Room 2168 Rayburn HOB.

\* Lynn (or O'Neill\_\_\_\_) briefing of House personal staff.

\* Paul tells me that in past years the briefing for the House Republican Conference has been the "roughest." If this remains true, you may want to consider taking a breather and letting Paul do the briefings which immediately follow the House Republican Conference.

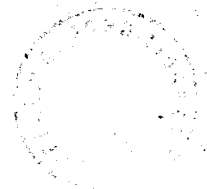


2:30 p.m.

Lynn (or O'Neill) briefing of Senate personal and  
Committee staff. (Room to be determined).

Friday, January 23

We are holding this day free to handle individual briefings  
as requested, e.g., the Black Caucus or the Democratic  
Study Group, etc.



1-15-76

Ron Nessen

Standard Answers

(Re decision to change distribution from Monday night to Tuesday ~~xxx~~ 7-am)

Q. Why is the Budget distribution being delayed?

A. So as not to conflict with the State of the Union.

Q. But I have nothing to do with writing the State of the Union

A. I know that, but many reporters do. We cannot have two distribution schedules.

Q. What makes you think there is a conflict?

A. That is a judgment that has been made.

Q. Who made the decision.

A. Actually, it really results from Congress' decision to force both State of the Union and Budget Messages the same week.

Q. Who can I appeal to.

A. The decision has been made.

Q. Why don't you delay the press briefing till later in the day Tuesday?

A. Because there are several cabinet members who have to leave town immediately after the briefing (Rumsfeld has to go to Europe, etc.). Also, there are a series of departmental and agencies holding briefings later in the day, some in the morning.

Q. Some people have been given advance copies, why can't I get one?

A. That might be, but we can't control every single copy.

Q. Who gave out these early copies.

A. I cannot answer that.

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Mike Mansfield - Today Show 1/20/76

"He says that he wants a reduction in expenditures and I'm all for that. I think we'll cut his \$394.2 billion budget request as we have all his and Nixon's and Johnson's and Kennedy's. As far as the reductions are concerned I think it is a good ideas but so far he hasn't given us the specifics."



PROPOSED BUDGET DISTRIBUTION

Monday, January 19

~~4:30 P.M. -- Embargoed distribution to press.~~

~~Issue: Should anyone on Hill receive embargoed copies simultaneously with the press?~~

~~Recommendation: No -- not before the State of the Union.~~

Tuesday, January 20

*7:00 am -- Budget distributed to press*

9:30 A.M. -- PRESS CONFERENCE

Late Morning -- OMB delivers advance, embargoed copies to the Leadership, to the Chairman and Ranking Minority Member of each standing Committee, and bulk distribution to the "budget-oriented" Committees.

Noon -- GPO delivers advance, embargoed copies to the Senate and House Document Rooms -- individual copies will then be delivered by the Document Rooms to each Senate and House office by close of business.

Issue: Should deliveries to individual Members be delayed until Wednesday morning?

Recommendation: Since many individual Members may be called upon by their local press for comments on Wednesday morning, the individual Members ought to have the benefit of perusing the budget overnight.

Early Afternoon -- OMB delivery to the Congressional Budget Office.

Wednesday, January 21

Mid-Morning -- GPO delivers an additional 1000 copies to the Senate and House Document Rooms to be retained in the Document Rooms and used to fulfill requests as received from individual Congressional offices.





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

BUDGET DISTRIBUTION

LAST YEAR:

Friday

Embargoed copies to press.

Advance, embargoed copies to Congressional Leadership; the Chairman and Ranking Minority Member of each standing Committee; and bulk copies to those dozen Congressional Committees which are "Budget-oriented." (For example, the House Appropriations Committee received 120 copies and the Joint Committee on Reduction of Federal Expenditures received 5 copies).

Saturday

Press briefing.

GPO delivered 80 copies to the Senate Majority Leader and 80 copies to the Senate Minority Leader. (These copies were delivered to individual Senate offices on Saturday. Some of the offices were indeed open, many were closed). GPO delivered 470 copies to the House Document Room. (These copies were not delivered to the individual House Members' offices until early Monday morning).

Monday

BUDGET OFFICIALLY TRANSMITTED.

Additional copies delivered to "Budget-oriented" Congressional Committees. (For example, 50 more copies to House Appropriations).

300 copies to Senate Document Room and 700 copies to House Document Room to use in filling additional requests from Congressional offices.



## CHANCELLOR COMMENT

January 21, 1976

And finally this evening, an oddity from Washington. Depending on your point of view, you may think that we present oddities from Washington nearly every night. But the one that you are about to see is an unusual oddity. Two-hundred reporters were assembled today in the State Department auditorium. They took notes and pictures of a briefing given by none other than Gerald Ford, whose office is over on Pennsylvania Avenue. He brought along most of his Cabinet members. Rarely does the press see so much power on one stage.

Everyone took down everything that was said. The President spoke at length. Our problem is: we can't tell you what was said. It was a briefing on the President's new budget. But the budget will not be released officially, until tomorrow. Now, the White House said that we could show you silent film of the President talking about the budget, but we are forbidden to say what he said.

Such are the wondrous ways of Washington.



# Ford and Truman Briefings on Budget: How a President Takes a Case to Public

By EILEEN SHANAHAN  
Special to The New York Times

WASHINGTON, Jan. 21 —

When President Ford conducted his press briefing yesterday on the new budget, he was the first President to do so since Harry S. Truman, and the event put into focus some changes that have occurred in 23 years.

The changes are not so much in what the Government and the President do, but rather in how they present and explain themselves to the American people.

Those who attended one or more of Mr. Truman's budget briefings as well as Mr. Ford's, perceived major similarities between the two events. Chief among them was the sense that both men conveyed of being on top of their jobs and enjoying it, displaying detailed knowledge of countless facets of the Government's activities and their costs.

## The President's Case

Mr. Truman may have come closer to demonstrating that he knew literally everything about the Federal budget, but everything was a lot less than it is now.

The big difference that was noted in the two sets of press briefings was thus not in the personalities or abilities of the two Presidents or even in their programs.

The big difference was in their perceptions of how the budget could and should be used as a vehicle for taking the President's case to the people.

In brief, Mr. Ford used

modern public relations techniques to put on an extravaganza for public viewing, with his Cabinet members lined up beside him for the television cameras and his aides passing out pounds of documents, in addition to the budget itself, aimed at explaining his programs and converting everyone to the belief that they were good programs.

Mr. Truman's budget briefings, in contrast, were matters of stark simplicity.

First, there was the locale and the audience. The Truman briefings were held in a place called the Indian Treat Room in the Old Executive Office Building. It would hold scarcely more than 200 persons. Except for the President, his Budget Director, his Secretary of the Treasury, and perhaps 10 experts from the Bureau of the Budget, there was no one in the room except members of the working press.

Nowadays, the working press fills no more than a third of the big State Department auditorium, and the rest of the seats are taken by officials from various agencies and some specially favored lobbyists.

## Visitors Applaud

These visitors are not allowed to ask questions, but they can and do applaud, thus possibly creating the impression for radio and television audiences that it is the press that is applauding the President. Yesterday, it was Vice President Rockefeller who initiated the applause on the two occasions that it occurred.

Mr. Truman's Budget Director and staff were present for the briefings solely as backstops in the event that some question came up that the President could not handle. They were rarely needed.

Mr. Ford, on the other hand, called on many of his subordinates to supply, in their own words, the arguments for and the philosophy behind his programs. He had to turn to a lieutenant for a fact only a couple of times.

The change from the essentially factual content of the budget briefings of the early 1950's to the more public-relations oriented ones of today has been a gradual one, rather than something that Mr. Ford can be accused of starting.

In fact, Mr. Ford eliminated one aspect of the press-agentry that was an established part of the briefings in the Nixon years—a slide show of charts and graphs making whatever analytical points about budget trends that the Administration wanted to emphasize.

Just why the briefings have come to consist so largely of questions designed to elicit the

Administration's philosophy, rather than factual information, is not clear.

One explanation may be that as more and more information has been provided about the budget—separate books of special analyses, "fact sheets," chart books, separate presentations by every Government department and agency—members of the press corps find their answers in documents, rather than by questions a President or a budget chief.

Other possible views are that the press has become so accustomed to receiving persuasive versions of the official Administration "word" that it accepts them without further inquiry.

Still another possibility is that the press is overwhelmed by the pounds of materials that flow from the White House, the Office of Management and Budget and all the other agencies and assumes that the factual answers are in there some place and to be found later, when needed.

Not that budgets or budget briefings were ever without their political side.

One of the main themes of Mr. Truman's last budget, which he presented in January 1953, just 11 days before Dwight D. Eisenhower took over the Presidency, was a discussion of all the liberal Democratic programs that the voters needed, but were not going to get, according to Mr. Truman, because they had elected a Republican President.

## Federal 'Welfare Czar' Is Under Study, Ford Says

WASHINGTON, Jan. 21.—The Administration is considering a plan to name for the first time an interagency welfare coordinator, President Ford indicated yesterday in his briefing on budget proposals.

In response to a reporter's question whether the Administration had plans to name a "welfare czar," with powers comparable to those of Frank G. Zarb, the Federal energy administrator, the President said:

"That of course, is a possibility, although no specific decision has been made as yet. In order to achieve our welfare reform, which is needed and necessary, we have to get some additional authority, some flexibility, from the Congress.

"We will ask for the authority and once that authority is given—and I hope the Congress will respond—it is conceivable that we will appoint a so-called welfare czar."

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## **NOTICE**

**There Should Be No Release  
of This Document Until  
10:00 A.M. (E.S.T.)  
Wednesday, January 21, 1976**

**RON NESSEN,  
Press Secretary to the President.**

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# **PART 1 THE BUDGET MESSAGE OF THE PRESIDENT**

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M1



## BUDGET MESSAGE OF THE PRESIDENT

*To the Congress of the United States:*

The Budget of the United States is a good roadmap of where we have been, where we are now, and where we should be going as a people. The budget reflects the President's sense of priorities. It reflects his best judgment of how we must choose among competing interests. And it reveals his philosophy of how the public and private spheres should be related.

Accordingly, I have devoted a major portion of my own time over the last several months to shaping the budget for fiscal year 1977 and laying the groundwork for the years that follow.

As I see it, the budget has three important dimensions. One is the budget as an element of our economic policy. The total size of the budget and the deficit or surplus that results can substantially affect the general health of our economy—in a good way or in a bad way. If we try to stimulate the economy beyond its capacity to respond, it will lead only to a future whirlwind of inflation and unemployment.

The budget I am proposing for fiscal year 1977 and the direction I seek for the future meet the test of responsible fiscal policy. The combination of tax and spending changes I propose will set us on a course that not only leads to a balanced budget within three years, but also improves the prospects for the economy to stay on a growth path *that we can sustain*. This is not a policy of the quick fix; it does not hold out the hollow promise that we can wipe out inflation and unemployment overnight. Instead, it is an honest, realistic policy—a policy that says we can steadily reduce inflation and unemployment if we maintain a prudent, balanced approach. This policy has begun to prove itself in recent months as we have made substantial headway in pulling out of the recession and reducing the rate of inflation; it will prove itself decisively if we stick to it.

A second important dimension of the budget is that it helps to define the boundaries between responsibilities that we assign to governments and those that remain in the hands of private institutions and individual citizens.

Over the years, the growth of government has been gradual and uneven, but the trend is unmistakable. Although the predominant growth has been at the State and local level, the Federal Government has contributed to the trend too. We must not continue drift-

ing in the direction of bigger and bigger government. The driving force of our 200-year history has been our private sector. If we rely on it and nurture it, the economy will continue to grow, providing new and better choices for our people and the resources necessary to meet our shared needs. If, instead, we continue to increase government's share of our economy, we will have no choice but to raise taxes and will, in the process, dampen further the forces of competition, risk, and reward that have served us so well. With stagnation of these forces, the issues of the future would surely be focused on who gets what from an economy of little or no growth rather than, as it should be, on the use to be made of expanding incomes and resources.

As an important step toward reversing the long-term trend, my budget for 1977 proposes to cut the rate of Federal spending growth, year to year, to 5.5%—less than half the average growth rate we have experienced in the last 10 years. At the same time, I am proposing further, permanent income tax reductions so that individuals and businesses can spend and invest these dollars instead of having the Federal Government collect and spend them.

A third important dimension of the budget is the way it sorts out priorities. In formulating this budget, I have tried to achieve fairness and balance:

- between the taxpayer and those who will benefit by Federal spending;
- between national security and other pressing needs;
- between our own generation and the world we want to leave to our children;
- between those in some need and those most in need;
- between the programs we already have and those we would like to have;
- between aid to individuals and aid to State and local governments;
- between immediate implementation of a good idea and the need to allow time for transition;
- between the desire to solve our problems quickly and the realization that for some problems, good solutions will take more time; and
- between Federal control and direction to assure achievement of common goals and the recognition that State and local governments and individuals may do as well or better without restraints.

Clearly, one of the highest priorities for our Government is always to secure the defense of our country. There is no alternative. If we

in the Federal Government fail in this responsibility, our other objectives are meaningless.

Accordingly, I am recommending a significant increase in defense spending for 1977. If in good conscience I could propose less, I would. Great good could be accomplished with other uses of these dollars. My request is based on a careful assessment of the international situation and the contingencies we must be prepared to meet. The amounts I seek will provide the national defense it now appears we need. We dare not do less. And if our efforts to secure international arms limitations falter, we will need to do more.

Assuring our Nation's needs for energy must also be among our highest priorities. My budget gives that priority.

While providing fully for our defense and energy needs, I have imposed upon these budgets the same discipline that I have applied in reviewing other programs. Savings have been achieved in a number of areas. We cannot tolerate waste in any program.

In our domestic programs, my objective has been to achieve a balance between all the things we would like to do and those things we can realistically afford to do. The hundreds of pages that spell out the details of my program proposals tell the story, but some examples illustrate the point.

I am proposing that we take steps to address the haunting fear of our elderly that a prolonged, serious illness could cost them and their children everything they have. My medicare reform proposal would provide protection against such catastrophic health costs. No elderly person would have to pay over \$500 per year for covered hospital or nursing home care, and no more than \$250 per year for covered physician services. To offset the costs of this additional protection and to slow down the runaway increases in federally funded medical expenses, I am recommending adjustments to the medicare program so that within the new maximums beneficiaries contribute more to the costs of their care than they do now.

My budget provides a full cost-of-living increase for those receiving social security or other Federal retirement benefits. We must recognize, however, that the social security trust fund is becoming depleted. To restore its integrity, I am asking the Congress to raise social security taxes, effective January 1, 1977, and to adopt certain other reforms of the system. Higher social security taxes and the other reforms I am proposing may be controversial, but they are the right thing to do. The American people understand that we must pay for the things we want. I know that those who are working now want to be sure that the money will be there to pay their benefits when their working days are over.

My budget also proposes that we replace 59 grant programs with broad block grants in four important areas:

- A health block grant that will consolidate medicaid and 15 other health programs. States will be able to make their own priority choices for use of these Federal funds to help low-income people with their health needs.
- An education block grant that will consolidate 27 grant programs for education into a single flexible Federal grant to States, primarily for use in helping disadvantaged and handicapped children.
- A block grant for feeding needy children that will consolidate 15 complex and overlapping programs. Under existing programs, 700,000 needy children receive no benefits. Under my program, all needy children can be fed, but subsidies for the nonpoor will be eliminated.
- A block grant that will support a community's social service programs for the needy. This would be accomplished by removing current requirements unnecessarily restricting the flexibility of States in providing such services.

These initiatives will result in more equitable distribution of Federal dollars, and provide greater State discretion and responsibility. All requirements that States match Federal funds will be eliminated. Such reforms are urgently needed, but my proposals recognize that they will, in some cases, require a period of transition.

These are only examples. My budget sets forth many other recommendations. Some involve new initiatives. Others seek restraint. The American people know that promises that the Federal Government will do more for them every year have not been kept. I make no such promises. I offer no such illusion: This budget does not shrink from hard choices where necessary. Notwithstanding those hard choices, I believe this budget reflects a forward-looking spirit that is in keeping with our heritage as we begin our Nation's third century.

JANUARY 21, 1976.



GERALD R. FORD.

# TRANSCRIPT

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CBS NEWS  
2020 M Street, N. W.  
Washington, D. C. 20036

FACE THE NATION

as broadcast over the

CBS Television Network

and the

CBS Radio Network

Sunday, January 25, 1976 -- 11:30 AM - 12:00 Noon, EST

Origination: Washington, D. C.

GUEST: ALAN GREENSPAN  
Chairman of the President's  
Council of Economic Advisers

REPORTERS:

George Herman, CBS News

Art Pine, The Baltimore Sun

Robert Pierpoint, CBS News

Producers: Mary O. Yates

Associate Producer: Joan Barone

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HERMAN: Mr. Greenspan, since you prepared the economic assumptions which are a part of the heart of the budget, the figures on the gross national product have shown a slightly disappointing turn; the stock market has soared. What do you now think is going to happen to the economy--a little better or a little worse than you projected in the budget?

MR. GREENSPAN: Mr. Herman, we haven't changed our forecast since then, since we had pretty much the types of gross national product figures you're talking about. The information we've had, which is really in the last month, has not altered our forecast from that which appeared in the budget document itself.

HERMAN: Isn't the stock market trying to tell us something?

MR. GREENSPAN: I think it's merely trying to tell us that our forecast is probably correct.

ANNOUNCER: From CBS News, Washington, a spontaneous and unrehearsed news interview on FACE THE NATION, with Alan Greenspan, Chairman of the President's Council of Economic Advisers. Mr. Greenspan will be questioned by CBS News White House Correspondent Robert Pierpoint, Baltimore Sun Washington Correspondent Art Pine, and by CBS News Correspondent George Herman.

HERMAN: Mr. Greenspan, do I gather from your earlier answer that you think the budget forecast of growth in the gross national product of around 6.2 per cent, and unemployment averaging above 8 per cent, is something that should make the stock market soar the way it has?

MR. GREENSPAN: Well, first of all, our forecast is for 6.2 per cent in growth in real GNP, as you point out, but it is 7.7 per cent so far as the unemployment rate on average, and it would be declining

pretty much all year through 1976, 1977 and thereafter. I think that the reason the stock market is reacting as it did--and I must say that it's very difficult to figure out all the time what it's doing--is more that I think it is sensing that the inflation which has been so devastating to our economy is now simmering down, and the disruptive effects which the 12 and more per cent inflation rate of 1974--is probably likely over, or at least on its way down. As you know, our last figure was about 6 per cent inflation rate.

PINE: Mr. Greenspan, the 1976 forecast the administration has put out seems to be in line with those of private economists, but many on Capitol Hill are questioning whether your assumptions for a continued recovery at a vigorous pace in 1977 are realistic in light of the cut-back you propose in the amount of stimulus from the budget to the economy. What is it about the nature of the economy now that leads you to believe that the momentum can be sustained that long?

MR. GREENSPAN: Well, first of all, Mr. Pine, let me just say that our forecasts are not goals--especially so far as the unemployment rate is concerned. The President's goal is to get the rate of unemployment down as quickly as possible in a manner which will be lasting; so that when I give you a projection, I'm trying to give you the best judgments we have with respect to how current events are evolving. We hope it will do better, and it may well.

Specifically with respect to your question, as we evaluate the economy at this point, it appears to be in the relatively early stages of recovery. Inventories are down, price inflation is receding, and a number of other elements suggest that we still have in front of us some very significant increases in the capital goods markets, and in other

markets, which looks to us to keep the recovery going for a very long period of time in the future.

PIERPOINT: Mr. Greenspan, you talk about goals, but you say the President's goal in unemployment is simply to get it down. Do you have a full employment goal of some kind, and if so, what is it and when do you think it can be reached?

MR. GREENSPAN: We don't have a specific number per se, because I don't think that is really what one should be shooting at. I think what you want to do is to get to a condition in which everyone who is seeking a job can find one readily, easily, and have the type of economy--one which has sufficient types of growth and vitality in it, which means there are vast job opportunities from which people can choose. There are a number of people, as you know, Mr. Pierpoint, who say that perhaps a five per cent unemployment rate is as low as we can get; I think we can get lower than that. My best guess, numerically--and it's really a very rough estimate, is somewhere between four and five per cent. But clearly, it's that level, which, when we get it down to, can be kept there without causing disruptive inflationary forces to reignite in the economy.

PIERPOINT: But when do you project that, under the President's budgetary policies and economic policies, that goal might be reached?

MR. GREENSPAN: Well, clearly, it's not going to be this year, and very likely not 1977. However, whether it's reached in the late '70s or in 1980, I don't know, but let's recognize, it's taken us many years to cause the type of economic disruption and extraordinarily high unemployment which we now suffer. It's a mistake for us to believe it can be remedied very quickly, and I think it's absolutely essential

that what policies we put in place in order to achieve a viable economy and a low rate of unemployment be the types of policies which can get us down in a safe and sure way, and not have within them the seeds of a further massive recession and more inflation.

PIERPOINT: But isn't it then the case that a budget, after all, and is a political document,/Presidents' economic programs are political documents--that you're saying that this administration, the Republicans who are in control, can live with rather high unemployment because the people who are unemployed, and their families, don't vote for Republicans anyway?

MR. GREENSPAN: No, Mr. Pierpoint, I think that it's always easy to look under any particular policy for economic motives. But I will merely say to you, having been involved in this whole policy process right from the beginning, the essential goal and criteria of policy-making is what's good for the American people as a whole. And the type of policy which I think the President has initiated meets that goal.

PINE: Mr. Greenspan, the budget of almost every President has a little category in it called contingencies, which is in effect a cushion, particularly for financial reasons. Does the President's budget also have a political cushion, where you have a willingness to allow for some erosion if Congress decides to go the other way on how much stimulus should be in the budget?

MR. GREENSPAN: Do you mean, Mr. Pine, are we stipulating a budget which we would just as soon didn't happen that way, or do you mean that we expect it not to be achieved, or it's something other than what we would like to occur--the answer is no. The 394.2 billion dollar budget

was constructed and put forth to the Congress as the President's best judgment as what actual expenditures should be. Returning to your earlier comment, it is a budget which moves towards increasing fiscal restraint, and the reason for that is that we envisage a significant improvement, as I indicated to you before, in a number of other areas in the private sector; and in our judgment, it is essential that we keep this type of budgetary restraint in place in the years immediately ahead, if we're to restore a vital economy.

PINE: Well, the reason I asked that is that last year, in discussing his tax cuts and spending cut proposals, the President took a rather rigid line that not signing any sort of spending increase bills until Congress adopted a rigid budget ceiling--and in fact he vetoed several bills. Last week in a briefing for reporters, the President was asked whether this would continue, and he would settle on the same sort of rigid line this year, and he said, well, there are a lot of uncertainties this year, and we have to have some sort of flexibility. Does that indicate a sort of softening of his position on that?

MR. GREENSPAN: No, I think that the difference really is in the time-frame involved. You may recall that what the President was endeavoring to do was to point to the principle--which is terribly important--that federal expenditures are not unrelated to federal receipts, and that one must keep in mind that when you have a dollar of expenditure, something or somebody must pay for it. Obversely, if you're going to get a tax cut, you should also look in terms of reducing the level of expenditure. And I think the Congress has agreed to that general principle. Now another point is that--recall that when the President raised this issue in his speech of October 6, we were fairly close to

this whole question of an extension of the 1975 tax cut. The reason the President said there were increasing uncertainties--we are now a good deal farther away in time from the July 1 expiration of the tax code which now exists, or the temporary tax extension--or the six-month tax extension, rather. And I think that one really cannot make commitments, or should not, of any very explicit form, other than stating the general policy, which is what the President has said. He is in favor of dollar for dollar relationship between expenditures and tax cuts; it's the principle he's interested in, and at this stage, not very much focused on the very great details of it, as yet.

HERMAN: Mr. Greenspan, a moment ago when you were answering Mr. Pierpoint's question, you said your program is based on what's good for the American people as a whole. Now the whole is the sum of parts, and sometimes when you have a plan that is good for the people as a whole, some of the parts get hurt in the process. You must be aware of some of the studies that the tax cuts laid out in the budget, and the Social Security tax increases, would hurt some people in the lower working levels. Is that a correct fact?

MR. GREENSPAN: Well, first remember that whenever you are involved in an attempt to adjust a type of budgetary and tax policy which is sort of getting out of hand--that is, if we just allowed everything that's going on in the last four or ten years, depending on what particular period you want to look at--to extend indefinitely into the future, you have the makings of severe economic disruption. What the President has done is to come to grips with this very important, fundamental, underlying erosion in our fiscal policies; and whenever you do that, whenever you attempt to stop anything which is proceeding in a way,

clearly, some people are affected differently from others. However, if you're saying to me, do--is this a budget which in effect is favoring some over others, I would say not.

(MORE)

HERMAN: I wasn't saying, I was asking whether it is true, as charged in a number of reports, that this budget -- the tax proposals in this budget will hurt the working poor -- in some cases will actually decrease their tax relief, and will increase their taxes rather than helping them.

MR. GREENSPAN: Well, when you have this many taxpayers in any tax plan there are unquestionably some individuals whose taxes, including the Social Security tax and a few other items, will go up, but there are very few.

HERMAN: And in this case, it is the lower middle income group?

MR. GREENSPAN: Let me go a little further than this, because the implication is that when you have this sort of situation, and I think you really are talking not only with respect to taxes but what we call the earned income credit, which is sort of an interesting question, whether it is taxed or not --

HERMAN: That's what I'm talking about, but I was not implying anything -- I was just asking.

MR. GREENSPAN: Well, no, but I think it's important to recognize something very fundamental about this question. If we look at so-called business as usual, and we project the economy under existing types of spending and tax procedures, especially in Social Security area, what you find down the road is such an erosion in the economy, a re-ignition of inflationary forces underlying loss of vitality of the economy, that everybody, all incomes groups, suffer, and especially those who are least able to cope.

HERMAN: I'm not sure I understand you, Mr. Greenspan. Let me ask this, to clarify my own mind -- are you saying that getting rid of

some of this tax relief for the working poor, that increasing their taxes, as I gather from what you're saying, this combination of taxes does, that that is what would lead us to this terrible --

MR. GREENSPAN: No, I think you're -- there's really one only -- there is really one explicit issue, which is really what we call the earned income credit, which is what is causing this statistical problem that you mention--glitsch--

HERMAN: Which?

MR. GREENSPAN: This is a particular innovation in the tax law which came in in 1975. It's a highly debatable type of tax legislation. The President thinks it's poor tax legislation, and that if you are endeavoring to do what that particular thing is endeavoring to do-- I don't want to get into the details -- it will take us all day -- it should be done by other means, so that when you raise the question, should this or should this not be in the tax code, I think the President's view is it should not be, it's the wrong type of tax legislation. But what I was saying more fundamentally is that if you set into place an economic policy, which puts the economy back on track, gives us the type of growth and standards of living, gives us the declines in unemployment which we want, then everybody benefits.

PINE: Mr. Greenspan, the \$10 billion a year additional tax cut that the President has recommended is skewed, I believe, mostly toward the \$10,000 to \$15,000 a year income bracket, and for the working poor or the lower income workers they would be hit hardest by the \$4.2 billion Social Security rate increase that the President has proposed. On the Social Security rate increase, the President had a couple of other options; one would have been to increase the amount of earnings

on which the Social Security tax is calculated; another might have been to turn to the general income tax for financing either part or all of the Social Security bill. Since this tax rate increase hurts the poor proportionately more than others, and since it also raises the unit labor cost more than the other alternatives, why did the President choose this particular method of financing the Social Security system strain?

MR. GREENSPAN: Well, Mr. Pine, the alternate of so-called increasing the Social Security tax base has another very important problem to it; it causes the existing people who are paying these taxes to significantly increase their potential benefits; so that while it is certainly true that you could raise additional incomes that way, you actually worsen another very important Social Security fund problem, namely, the long-term difficulties which we have in keeping the Social Security system sound. So that the President had to balance in this process, as he has, one, solving the short-term problem with respect to receipts, which as you know would cause the Social Security fund to run out by 1980, but, secondly, to do it in a way which would not aggravate an already quite difficult problem in long-term benefits and receipts. And it turns out that the only way to resolve the question is on the side of increasing taxes. Now the President believes that if we were to use so-called general revenues to solve this problem, it undercuts the whole concept of Social Security. It undercuts its original meaning, and turns it into an income maintenance type program of a much different sort.

PINE: Well, isn't it, <sup>but</sup> pardon me, /isn't it just that now? I mean, we don't have -- it's really a myth, and I think most economists



have recognized this publicly, to say that someone gets back from Social Security precisely the interest or whatever it is that's accrued on what he's put in. Social Security is financed by relatively current revenues, and the benefit levels bear no relationship really to what somebody puts in in dollar terms. Isn't this a rather costly way to perpetuate the myth that we get back what we put in, plus a little?

MR. GREENSPAN: Well, first of all, it's not -- it is -- I agree with you, it is generally true that you don't get exactly what you put in, but to say there is no tie actually is also untrue. It is related in a sense to what your wage levels <sup>are,</sup> so that there is a tie, and in that sense I think the President's longer term proposals are endeavoring to make it more of a Social Security system than it is, and I certainly would acknowledge there are very major questions with respect to this, and I think the President's proposals are endeavoring to make it what it originally was supposed to be, at least more so in that direction.

PIERPOINT: Mr. Greenspan, earlier you mentioned earned income investment tax credits. That kind of problem leads me to ask you about the discussion that has recently arisen, and I think Secretary of the Treasury Simon is one who favors the idea of doing away with all personal income tax deductions in order to simplify the system, and then simply lowering the rate of income tax. How do you feel about that idea?

MR. GREENSPAN: Well, Mr. Pierpoint, I think that most economists are or should be in favor of the principle. I think as you look at the incredible complexity of the tax code, one cannot but be intrigued

by moving in that direction. However, I think that it is fraught with very considerable problems as you begin to get towards trying to resolve this, because remember what you are eliminating is the interest credit on mortgages on homes, you are eliminating a whole series of types of deductions for charitable contributions --

PIERPOINT: What you're saying is you are facing problems in Congress and political problems?

MR. GREENSPAN: I would say the political problems are exceptionally large.

HERMAN: Let me turn you away from that and turn you toward the problem -- we've been reading so many headlines lately about what's wrong with banks, problem banks, banks in serious difficulties. Why are banks in trouble when the economy is recovering?

MR. GREENSPAN: Well, in that sense, Mr. Herman, bank's problems are improving, that is, much of our information indicates that some of the problems to which you allude actually peaked out in the spring of 1975 and have since improved quite a bit. I must say that there is something of an over-emphasis on these problems, and there is a tendency to overplay their nature, and I think that any presumption that there is something really fundamentally wrong with our banking system is false.

PIERPOINT: Do you think the public should have the right to know more about whether the banks are in trouble or not, or do you think that's something the public has no business knowing?

MR. GREENSPAN: I think it's a difficult question, and I would put it --

PIERPOINT: That's why I asked you.

I realize that.

MR. GREENSPAN: /The way I come out on that is that I would like to see a good deal of information coming out, and I think most of the banks do it themselves in a very considerable way. What I have trouble with is sort of an ex post facto type of disclosure which sort of catches banks who are in the process of working their way out and not knowing in advance a good deal of this adverse publicity is going to hit them. It causes some, I think, potentially irrational reactions on the part of a number of people, which I don't think would help our banking system. It is a very tough question though.

PIERPOINT: Has it caused problems for some of the banks that have been named as being in trouble?

MR. GREENSPAN: None that I can see, because the banks have pretty much made public themselves, and one way to test is in the cases of the larger banks whether they are having difficulties selling their certificates of deposit, and there has been no evidence whatever on this issue.

PINE: Mr. Greenspan, along with these other tax proposals, the President has --

HERMAN: I'm going to have to choke you off and say that we're running out of time, so thank you very much, Mr. Greenspan, for being with us on Face the Nation.

ANNOUNCER: Today on FACE THE NATION the Chairman of the President's Council of Economic Advisers, Alan Greenspan, was interviewed by CBS News White House Correspondent Robert Pierpoint, Baltimore Sun Washington Correspondent Art Pine, and CBS News Correspondent George Herman. Next week Secretary of Defense Donald Rumsfeld will FACE THE NATION.

