The original documents are located in Box 30, folder "Treasury Department/Simon (2)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

Department of the TREASURY NEWS
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JUL 11 1975

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
ON TAX PROPOSALS CONCERNING ELECTRIC UTILITIES
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., TUESDAY, JULY 8, 1975

Mr. Chairman and members of this distinguished Committee:

I have several topics to discuss with you today.

First, are new proposals relating to electric utilities. They are addressed to problems that are a key element in the total energy problem, with which we have been struggling for some months. I hope very much that these proposals are something on which we can reach quick agreement, and that they can move forward immediately in the legislative process.

Second, I wish to renew our request for basic tax reform legislation. In April, 1973, we requested legislation that would greatly simplify the preparation of tax returns for individuals, that would eliminate tax shelters, and that would insure that individuals with high economic incomes pay reasonable income taxes. Your Committee adopted the substance of these proposals in a major bill which it prepared but did not report in the last Congress. This is unfinished business on which we should act promptly.

Third, I want to outline for you problems which are critical to the future of our country. They concern capital and capital formation. I shall return in the fall with specific proposals in this area.

I want in this statement to discuss a limited package of tax proposals to stimulate construction of additional facilities by electric utilities. The proposals are important to the energy program as they will minimize imports of foreign oil and insure adequate electric capacity in the several years ahead. They are essential to the national economy. They will help put thousands of individuals back to work right now; and in the longer run they will help insure that economic expansion is not limited by energy shortages.

The proposals represent the recommendations of the President's Labor-Management Committee and the President has endorsed them. The President's statement of endorsement is attached as an appendix and includes the text of the Committee's recommendations and a

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roster of the Committee's membership. These distinguished leaders of labor and management are unanimous in recognizing the priority nature of the situation existing in electrical power facility construction today and united in their proposals to deal with it.

The situation, in brief, is that in 1974 and 1975, construction projects involving 106 nuclear plants and 129 coal fired plants were cancelled or deferred, largely because of financing difficulties. Electric utilities have recently been unable to generate sufficient earnings to raise in the capital markets the funds required to finance these major expansions of generating capacity. Expansion of existing facilities is absolutely necessary if we are to have electric power adequate to permit our economy to expand in the 1970's and 1980's. We cannot afford to handicap our economic growth through failure to plan ahead for our electric power needs. In addition, these cancellations have caused substantial cutbacks in employment, both at construction sites and in the industries that supply construction materials and equipment.

This committee is acutely aware of the nature of our overall energy shortage and the adjustments that our economy must make. We cannot sit on our hands and wait for the old days to return. We will never again want to rely on foreign oil, as we did for so many years. That oil has become both expensive and insecure. Therefore, we must greatly increase our domestic capacity for the generation of energy, and we must begin to make progress immediately. The indispensable core of any sensible energy program is the construction of electric power facilities which do not operate on petroleum products--which, today, means primarily coal, nuclear and hydroelectric. But these electric power facilities will not come off the shelf in someone's store. The lead times required to construct these generating plants range up to seven or eight years. Generating plants are complex and their construction cannot be turned on and off without incurring major expense and causing great delay. The coal and nuclear fueled electric power plants that we defer today will be missing tomorrow and will prolong our dependence on foreign oil imports.

In addition to its implications for energy independence, the predicament of the electric utilities is a threat to our entire economy, both now and in the future. We have undergone a serious economic recession from which I believe we are now emerging. It is important that our recovery be as rapid as possible, that it be sustained and that we put back to work the thousands of workers whose livelihoods are affected by the cancellation of electric utilities' construction projects. The resumption of this construction is even more important to economic prosperity in the longer run. If plants are not ready to meet the expanded demands for electric energy which the future will bring, we may expect power shortages, shutdowns, brownouts and unnecessarily high electricity rates. While the personal inconveniences resulting for individual consumers would be major, they would be minor in comparison with the adverse impact on businesses, jobs and the economy. The unavailability of relatively inexpensive electricity on a reliable basis would cause shutdowns of existing plants which, even if temporary, would cost jobs not only in the companies directly involved, but in the other businesses dependent on them. Obviously, insufficient electric power would inhibit the construction of new manufacturing and commercial facilities and would be a devastating shock to our entire economic system. We cannot let it happen.

The proposed legislation would do the following:

-- Increase the investment tax credit permanently to 12 percent on all electric utility property except generating facilities fueled by petroleum products. No change of the percent-of-tax limitation is involved. The increase in the credit is allowable only if construction work in progress is included in the utility's rate base and the benefit of the increase is "normalized" for ratemaking purposes. "Normalized" in this sense means reflecting the tax benefit for ratemaking purposes pro rata over the life of the asset which generates the benefit instead of recognizing the entire tax benefit in the year the utility's taxes are actually reduced. In the absence of normalization, the entire tax benefit would flow through immediately in the form of reduced utility rates for consumers, and no real economic benefit would result for the utility.

-- Give electric utilities full, immediate investment tax credit on progress payments for construction of property that takes two years or more to build, except generating facilities fueled by petroleum products, without regard to the five-year phase-in required by the Tax Reduction Act of 1975. This new provision applies only if the regulatory agency includes construction work in progress in the utility's rate base for ratemaking purposes.

-- Extend to January 1, 1981, the period during which pollution control facilities installed in a pre-1969 plant or facility may qualify for rapid five-year straight-line amortization in lieu of normal depreciation and the investment credit.

-- Permit rapid five-year amortization of the costs of either converting a generating facility fueled by petroleum products into a facility not fueled by petroleum products or replacing a petroleum-fueled facility with one not fueled by petroleum. This amortization is in lieu of normal depreciation and the investment credit, and is available only if (i) its benefits are "normalized" for ratemaking purposes, and (ii) construction work in progress is included in the utility's rate base for ratemaking purposes.

-- Permit a utility to elect to begin depreciation, during the construction period, of accumulated construction progress expenditures, generally the same expenditures as those which qualify for the investment credit construction progress payments under the Tax Reduction Act of 1975. Any depreciation taken during the construction period will reduce the depreciation deductions available after the property is completed. This early depreciation will be available only if the ratemaking commission includes construction work in progress in the utility's rate base and "normalizes" the tax benefits for ratemaking purposes. Construction of generating facilities which will be fueled by petroleum products will not qualify for such depreciation.

-- Permit a shareholder of a regulated public electric utility to postpone tax on dividends paid by the utility on its common stock by electing to take additional common stock of the utility in lieu of cash dividends. The receipt of the stock dividend will not be taxed. The amount of the dividend will be taxed as ordinary income when the shareholder sells the dividend stock and the amount of capital gain realized on the sale will be decreased (or the amount of capital loss increased) accordingly. Dividend stock is deemed sold before other stock.

The proposals we advance today are probaby not the same proposals we would advance if we had the luxury of more time, a less critical problem, and the realistic possibility of an overall solution to our country's economic problems. Some have pointed out that these proposals are exceptions to our theoretical goals for a perfect tax system. But the fact is that we must be practical and must act and act quickly. These proposals have the support of both business and labor, and are, we believe, the most effective tools at hand to deal with the situation. In the aggregate, they will substantially improve the immediate financial position of utilities and permit them to resume the long-range projects critical to energy independence, greater employment, and economic expansion.

We have said many times that the most fundamental problem with respect to electric utilities is the problem of adequate rates. Unless the users of electrical energy are required to pay the full costs of generating it, including a reasonable return to invested capital, investors cannot be expected to invest in the industry. It is apparent that this has already occurred to a substantial degree. Electric utility equities have in many cases been selling at substantially below book value, and many companies have been unable to borrow except at interest rates that are prohibitive.

An important factor is the enormous cost of modern facilities and the long lead times required to construct them. In the past, plants cost tens of millions, took only two or three years to construct, and the interim financing was manageable for the companies. Today the costs run into hundreds of millions, which must be financed over seven or eight years before the plants come into operation. It is essential that these expenditures for new facilities be included in the regulatory rate base as they are made, so that the consumers who will ultimately benefit can help bear the enormous financing costs involved.

We recognize that other problems exist. We recognize, too, the extraordinary political difficulties of facing those problems squarely in 50 different states, as well as the delays and obstacles which are sure to occur under those circumstances. The proposals are designed to provide help through the tax system, but only if the regulatory authorities and consumers cooperate in doing their part. Several of the tax proposals are designed to provide incentives that will make it easier for state regulatory commissions to take the difficult steps which must inevitably be taken. The increase in the investment credit will be a cash contribution by the federal government for the construction of additional electric power plants. But, because of the limitation that the credit may be used only to offset tax liability, the regulatory commissions will have to do their part by setting rates that are sufficient to create a reasonable profit and a tax liability against which the credit can be offset. Similarly, most of the benefits of the bill will not be available unless the commisions include that property in the rate base and provide a return on that investment.

We estimate this program will reduce electric utilities' tax liabilities by $600 million for the fiscal year 1976, and by an increasing amount in subsequent years.

In closing, let me say that members of the Labor-Management Committee would like the opportunity to express to your Committee their views on these proposals and their reasons for supporting them; and the President has requested me to urge that you make these limited proposals the very first item on your agenda and deal with them separately and quickly. They are a key part of the energy program and one on which we hope agreement can be reached quickly. Expansion in this vital industry must get back on track.

oOo

FOR IMMEDIATE RELEASE June 13, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

Today, I am releasing the text of the Labor-Management Committee's recommendations for legislative and administrative measures to increase electric utility construction and output.

Having carefully reviewed these recommendations, I accept and endorse them because they can make a significant contribution in reducing the Nation's dependence on oil imports and in conserving scarce natural gas supplies.

Additionally, an expansion in electric utility construction and production will provide solid, long-range employment which will be highly beneficial to the country. An increase in electric utility capacity will also contribute significantly to economic expansion.

I will take steps promptly to create the task force the Committee recommends to tackle the problem of delays in the completion of utility plants. In view of the long lead time on construction, completion of plants now in advanced stages of planning or under construction must have top priority.

I appreciate the constructive contribution of labor and management working together. The time has come for Government to cooperate in the same spirit in addressing and resolving the Nation's problems. I thank the Committee for its continuing work and appreciate its efforts in the national interest.

(A list of the President's Labor-Management Committee members participating in the formulation of this statement and the Committee's statement on May 21, 1975, is attached.)

# # # #

Members

President's Labor-Management Committee

Labor

I. W. Abel, President
United Steelworkers of America

Murray H. Finley, President
Amalgamated Clothing Workers of America

Frank E. Fitzsimmons, President
International Brotherhood of Teamsters

Paul Hall, President
Seafarers International Union

Lane Kirkland, Secretary-Treasurer
AFL-CIO

George Meany, President
AFL-CIO

Arnold Miller, President
United Mine Workers of America

Leonard Woodcock, President
United Auto Workers

Management

Stephen D. Bechtel, Jr., Chairman
Bechtel Group of Companies

Richard C. Gerstenberg
General Motors Corporation

John D. Harper, Chairman
Aluminum Company of America

Reginald H. Jones, Chairman
General Electric Company

R. Heath Larry, Vice Chairman
U. S. Steel Corporation

Rawleigh Warner, Jr., Chairman
Mobil Oil Corporation

Arthur M. Wood, Chairman
Sears, Roebuck & Company

Walter B. Wriston, Chairman
First National City Bank

May 21, 1975

Electric Utilities

At the end of 1974, it is estimated that electric utilities had deferred or cancelled the construction of 106 nuclear plants (114,000 megawatts) and 129 coal-fired plants (74,413 megawatts). This extensive postponement in construction schedules of coal and nuclear power plants that are needed to meet the nation's energy demands for 1980 and 1985 seriously jeopardizes our national objective of lesser dependence on imported oil. It also threatens continued economic growth, promises to restrain essential job creation and inhibits measures to reduce unemployment. Since electric utilities require a number of years to get new plants on stream, the current slippage of schedules and cancellation of new facilities may be expected to result in future energy shortages and serious restrictions to economic expansion. It is imperative that there be substantial restoration of construction of electric utilities at once. Special measures are needed to shorten significantly the very long lead time which now exists between the design of a project and its completion.

The President's Labor-Management Committee recommends a number of administrative and legislative measures to get this basic and strategic sector of the economy moving.

Special Legislative Proposals

1. The President's Labor-Management Committee earlier recommended that the investment tax credit for utilities be increased from 4 percent to 12 percent a year. The Congress increased the investment tax credit to 10 percent for a two-year period. The Committee still believes the 12 percent figure is appropriate and, in the case of electric utilities, this credit should be extended indefinitely and apply to construction work in progress to stimulate this vital sector which promises to present capacity problems for many years. This proposal is designed to stimulate non-oil and non-gas facilities.

2. In view of the length of time required to complete the construction of electric utility installations, the Federal government should permit depreciation for tax purposes on construction expenditures as made, provided such costs are included in the rate base.

3. The five-year, fast write-off of pollution control facilities should be extended by legislation beyond its present expiration date of December 31, 1975. The fast write-off of pollution control facilities reduces the financing costs of the construction of electric utility units. Fuel conversion costs should receive the same treatment.

4. The Nuclear-Indemnity Coverage law (Price-Anderson Act) should be extended.

5. The urgent need for equity capital in the electric utility industry should be met by a legislative provision that dividends which are reinvested in new issue common stock of the company have tax deferred.

The Committee recommends that the above legislative proposals be incorporated in a single piece of legislation in view of the special need for greater electric utility capacity and the long lead time required to complete plants and get them in operation.

Administrative Action

The Federal government should establish a small task force of experts, with assistance drawn from labor and management with experience in the field of utility construction, to serve as troubleshooters, to discover the impediments to the completion of electric utility plants and to take steps to relieve the particular situation wherever possible. The difficulties will vary from case to case; the problems may include unreasonable environmental restrictions and delays in processing papers, financing, regulatory delay, collective bargaining disputes, production delays in component parts, scheduling of manufactured components, design issues, etc. This task force can expedite the completion of electric utility plants and getting power on stream.

Immediate Improvement in the Policies and Actions Regarding the Usage of Coal and Nuclear Energy

1. Coal

   a. Make a major effort toward increasing the domestic production use of coal to generate power, including the development of economic means of moving either western low-sulphur coal, or the generated power, to the required market areas.

   b. A timetable should be considered for the conversion of oil/gas fueled power plants to coal.

   c. The government should reduce the uncertainties on coal usage by encouraging the development of technology to minimize pollution and environmental concerns regarding coal mining and coal use and by reducing the economic uncertainties in the mining and use of coal. This should encourage increased long-term investment in mining which in turn should stimulate employment.

2. Nuclear Energy

   a. The nation should make every effort to capitalize on the benefits of two decades and billions of dollars of public and private efforts in nuclear power development. While the initial investment costs for nuclear energy are high, it offers the cheapest form of electricity in the long run. Every effort must be made so that the percentage of electric power generation derived from nuclear sources by 1980/1985 is greatly increased from current levels. It is estimated that 10 to 15 million construction labor hours are required for each nuclear unit installed.

b. Specific government action is required in the following areas:

-- Promote the public acceptance of nuclear power.

-- Resolve the uncertainties regarding the nuclear fuel cycle, e.g., long-term nuclear waste disposal, plutonium usage, spent fuel storage and reprocessing.

-- Streamline the nuclear regulatory licensing process to reduce the lead time for getting plants into production. The current lead time is about 8 to 10 years.

Review and Articulate the National Energy Interest with State Regulatory Agencies

a. The Federal government needs to find an appropriate and realistic approach to get the national energy issues and interests before state regulatory agencies when they have their hearings on utility needs.

b. We must provide for prompt and reasonable action on rate applications.

c. New and innovative rate schemes, such as peak load pricing and rates designed to foster conservation, should be thoroughly studied and evaluated to determine the true impact on the various sectors of the economy.

Environmental Considerations

Stretch out, as necessary, present environmental restrictions on energy production and use to reduce energy consumption and facilitate expansion of domestic energy output. This is basically a matter of timetables, not of objectives. The advance of technology and development of clean energy sources can permit realization of environmental objectives.

GPO 890-846

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE NAACP
SHERATON PARK HOTEL
WASHINGTON, D.C.
JULY 2, 1975, 10:00 A.M. EDT

Mr. Wilkins, Members of the NAACP, and Distinguished Guests:

I want to thank all of you for the privilege of speaking to your sixty-sixth annual convention. Like many other speakers who have come before you over the years, I feel it is an honor to be able to pay personal tribute to the men and women whose shoulders have borne so much of the struggle for racial equality in America. Your cause has been just, and you have pursued it in a way that commands the respect and admiration of people the world over.

As you have stressed throughout this year's conference, millions of Black Americans are caught today in a grim, painful vise. All of us know and are distressed when we see:

-- Unemployment among minority workers reaching 15 percent and higher;

-- Unemployment among black teenagers soaring to 40 percent;

-- Nearly one third of all blacks still living in poverty;

-- Crime mushrooming again in the inner cities;

-- And a third of black school children in basically segregated schools.

I can only imagine what some of you must think, and especially what your children must think.

Have the legal barriers that the NAACP spent so many years dismantling now been replaced by economic ones that are even more formidable?

Are the dreams of one generation to become the nightmares of the next?

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Has white America turned its back now that there are no longer riots in the streets?

I did not come here today to propose any miracles or to promise you the millenium in the morning, and even if I did, you wouldn't believe me. Americans of all races and creeds are sick and tired of political flimflam.

I did come here to say that this Administration cares and cares deeply. It is grieved by the human and physical decay we see in so many of our cities. The spirit of decency and honesty that has marked Gerald Ford's Presidency permeates his Administration; you will find no lack of social concern in his Cabinet.

I also came to assure you that all of us here today share the same ultimate goals.

We want full employment, so that men and women can reach their full productive potential, can provide food and shelter for their families, and can live in pride and dignity.

We want a vibrant, growing economy, so that people of every background can raise their standard of living.

We want stable prices, so that workers can make every dollar count.

And we want equal opportunity, so that all Americans can share in the blessings of liberty and prosperity.

These are great goals, and we must pursue them with the same determination, the same tenacity, and the same sense of overriding purpose that you have shown as you have carried forward the struggle for social justice and equal rights.

Yet let us also recognize that just as those who believe in equal opportunity have differed in the past on the best means of attaining that goal, those who believe in full employment may also differ today. There will always be disagreements in a democracy, and let us be thankful for them. In the climate of openness and plain speaking that is gaining favor in America -- a climate fostered and now symbolized by our President -- I think it is good that those who have differing views can come together and talk freely about out hopes and fears for the future. The lamps of freedom may be flickering in many corners of the world, but at least here in this country we can still speak our minds and gather in open assembly without fear of reprisal.

It is in a spirit of openness and reconciliation that I especially welcome the opportunity to speak here today. While we believe that we are on the right track for curing our most fundamental troubles, we do not pretend to know all of the answers or to have a corner on the market of economic wisdom. We welcome fresh ideas and opposing points of view. It is my fervent hope that in the days ahead we can expand upon our discussions here and initiate a new dialogue in this country on the vexing economic problems faced by the poor and disadvantaged. Disadvantaged Americans must never become forgotten Americans.

Let me open that dialogue by talking for a few moments about the economic policies which this Administration believes are the best way for reaching our ultimate goals -- policies that we believe will be effective and lasting. And let me re-emphasize the "lasting" nature of those policies. All of us know of ways to short-circuit the process of recovery, ways that would soup up the economy and speed up the creation of jobs. But experience convinces us that those short-cuts are a mirage. They may bring temporary relief -- though I am even doubtful about that -- but I am absolutely convinced that within a relatively short period of time they will do far more harm than good, hurting most the very people we are trying to help: the poor and disadvantaged.

Indeed, the economic bind we are in today is a direct result of mistaken policy decisions in years gone by. We are determined not to repeat those mistakes again so that we can avoid a sorrowful repetition of the boom and bust cycles of the past.

Let's look back for a moment. Most of you may remember the decade of the 60s, for all its social turmoil, as an era of economic growth. Each year people seemed to be better off; they were able to buy new cars and new homes and appliances.

Yet we were living in something of an illusion; beneath the surface, there was a disease beginning to gnaw away at the foundations of our economy -- the sickness of inflation. In the early 60s, inflation was creeping upwards at just over one percent a year. In the Mid-60s, as we accelerated our efforts in Vietnam, it doubled. Then in the late 1960s it doubled again. Wage and price controls suppressed inflation artificially and only temporarily because as history has shown time and again, controls never end inflation -- they only postpone it. In 1973, prices shot up over 6 percent and last year they climbed over 12 percent -- the steepest jump in our peacetime history.

The results were predictable: the excessive economic stimulation -- which was the basic source of our rampant inflation -- tipped the economy into recession. As rising prices forced up interest rates in 1973 and 1974, the housing market fell apart. Consumers, their real income eroded and their confidence destroyed, began to cut down on their purchases and we experienced the biggest drop in retail sales since World War II. With two leading sectors dragged downward under the pressure of inflation, the economy plunged into the most severe recession in more than a generation.

Thus it was inflation that was at the root of this recession, and if we want to avoid another recession with more human misery, it is inflation that we must cure. As one economist has said, inflation and unemployment are like overeating and indigestion. "Unemployment is the indigestion you get after you swallow the pill of inflation."

But what caused this inflation? Who are the real culprits? Clearly, the quadrupling of oil prices and scarcities of food have had a major impact during the 1970s. As we have seen, however, inflation really began leaping upwards during the 1960s, so that if we want to know the underlying causes of inflation, then we must look back into that decade.

What we find during that period are three rather remarkable developments -- trends that have little paralled in our history as a nation.

First, Federal spending took off like an Apollo rocket and only once during the last 15 years have revenues managed to match expenditures. This Republic reached its 186th anniversary before the Federal budget reached $100 billion. That was in 1962. Yet only nine years later the budget had doubled to $200 billion. Four years later -- this year, in fact -- it crossed the $300 billion, and if current trends prevail, we will cross $400 billion by 1977 or 1978. With revenues running so far behind spending, the Federal Government has been forced to borrow a quarter of a trillion dollars in the last decade -- money that might otherwise have been spent building new homes and plants and creating new jobs in the private sector.

Second, during this same period, we saw a dramatic increase in the supply of money, partly in order to accommodate the Federal deficits. In the decade after 1965, the money supply grew at twice the rate of the preceding decade and much faster than the growth of the economy itself.

Third, over the last 15 years, our record of capital investment -- investment which creates jobs -- has been the worst of any of the major industrialized nations, and our record of productivity increases has also been among the lowest.

There can be no doubt that each of these three developments has contributed heavily to inflation. Huge Federal deficits have added enormously to demands for goods and services, escalating their prices. Heavy borrowing by the Government has forced up interest rates. The rapid injection of money into the system has meant that more and more dollars have been chasing less and less goods. Inadequate investment has meant that many basic industries have experienced bottlenecks, leading to higher prices. And most importantly, as this sickness has eaten away at our foundations, it has eroded public confidence in the government and in its ability to manage the economy.

Within the Administration, we think certain lessons can be drawn from this experience:

-- First of all, as you've heard many times before, there is no such thing as a free lunch. When Washington spends your money, you must either pay the bill through government taxes or through the cruelest and most regressive tax of all, inflation. And who suffers the most from inflation? You know better than I that the hardest hit victims of inflation are the poor and the disadvantaged-- those least able to defend themselves when the prices explode.

-- Nor can we expect the government to provide all of the answers to our problems. We have targetted billions of dollars upon our social difficulties and increased the number of government programs six-fold, but many of the problems seem more difficult now then before. We have drifted perilously close to a centrally managed economy in the United States, but the shores of prosperity seem further and further away.

-- Looking at events in perspective, I believe we have conclusive evidence which demonstrates once again that free enterprise is the most powerful engine for social progress anywhere in the world. Critics of the system bewail the fact that greed and avarice exist under capitalism, that some people do not live as well as others, and that many are unable to find personal fulfillment. Of course all of these things are true, but where can you find a nation which has escaped these conditions? You can't. What we claim about free enterprise is not that it changes human nature and not that it solves all problems everywhere but that it has provided generations of Americans with an opportunity to improve their way of life and has given this country the greatest prosperity known to man. It does not guarantee personal and social freedoms, but it is a powerful safeguard against their erosion. And it does not ensure human happiness, but more than any other system known to man it provides more men and women with the economic security which must serve as the base in their search for fulfillment.

As we begin to see our eonomic troubles in this light -- as we recognize that inflation is at the root of our excessive unemployment, that inflation has been magnified to a large extent by misguided governmental policies of the past and that a return to economic fundamentals is the best way out of this quagmire -- then we can also understand why policies that promote economic growth but discourage more inflation will in the long run do more to help end poverty and unemployment than any known alternatives.

You will hear it said while you are here in Washington that the economic troubles afflicting blacks would vanish overnight if we would only be bold and creative, adopting one fancy program or another. You will be told, in effect, that if the government would only guarantee everyone a job, no one would be unemployed. That's a first cousin to the argument that if the government gave everyone enough money, no one would be poor.

The hole in that argument is that someone would have to pay the bill, and as we have seen, that bill would come either in the form of higher taxes or higher inflation. A vote for higher spending today is a vote for more inflation tomorrow. It is a vote which hurts the very people it is supposedly designed to help. The new programs approved by the Congress recently may have carried alluring titles. They may have sounded as if they would have done something effective about jobs and housing. But in reality the economic pressures we would unleash through a package of such programs could quickly propel inflation back up into the double digits, leading inevitably to a worse recession and still higher unemployment.

Well, comes the response from the other side, if government spending forces up prices, then the way to cure the problem of inflation is to slap on new wage and price controls. There are those who apparently favor some form of new controls. I had hoped we learned our lesson about controls earlier in this decade. If we are foolish enough to place our economy in another governmental straitjacket, it will only be to our sorrow. Controls have been tried over and over again, all the way back to ancient Rome, and not once in human history have they been successful.

Some observers call this negativism. These so-called compassionate people say we are callous and unsympathetic to be against massive new spending, to be against controls, to be against huge deficits, and to be against the government running our economy. I am sorry, but I respectfully disagree. There is no such thing as true compassion without responsibility, and we must recognize that these suggestions are precisely the ways that we got into this mess and to try them again would only get us in deeper. It would be a grave injustice to the people of this country, and especially to the poor and disadvantaged, to go down that same path again when we know from experience that the short-term prosperity we buy now will be replaced by years of even greater hardship and suffering tomorrow. It is time in these United States to put this economy back on a sound footing, to get it all together again so that people may have lasting jobs and lasting hope for the future.

There are short-term immediate steps that can be taken to alleviate hardships and create new jobs and we are taking every responsible step that we can. We intend to continue that approach in the future:

-- Under the President's leadership, the unemployment insurance program has been significantly expanded, providing a safety net for 12 million Americans who would otherwise have had no income protection from unemployment.

-- Again with the President in the forefront, we have just carried out the biggest tax cut in our history.

-- As part of his comprehensive energy program, the President has proposed special tax relief for low-income Americans.

-- Not many people understand that the budget already proposed by the Administration is highly supportive of economic recovery. The spending goals for fiscal year 1976 are actually $90 billion higher than the spending of only two years ago -- a 34 percent increase.

--Included within that budget is the biggest manpower training program in United States history, providing training opportunities for over two million people.

-- Some 840,000 young Americans will be working this summer because of Congressional action on the President's request for summer youth employment and recreation programs.

-- Moreover, the Federal Government has made progress in its own hiring programs for minorities.

At the Treasury Department, I can report that we have experienced a large degree of success with a training and job program conducted in cooperation with the Opportunities Industrialization Centers headed by Dr. Leon Sullivan. OIC helps poor people across the country locate job openings and then where on-the-job training is required, provides it with its own equipment and techniques. When trainees have completed the OIC course, they are "job ready." Our experiences with the young men and women who have come to us through that program have been so noteworthy that last week I sent a personal letter to every member of the Cabinet calling their attention to the OIC effort and urging that they seek out ways to work with Dr. Sullivan's organization.

-- Recognizing the serious hardships that recession was imposing on minority business, President Ford in December of

1974 wrote all members of the Cabinet requesting that their departments make special efforts to assist minority firms. Federal resources earmarked for minority business have grown steadily over the last several years, and of perhaps greater significance, the government is now actively encouraging minority firms to enter relatively new fields such as trucking, shipping and cable television. In addition, major corporations have recently pledged to make one billion dollars in corporate purchases from minority firms during 1977.

Each of these programs is a positive step forward. Yet let us recognize that government alone cannot sweep away the problems of unemployment. The best way to put people back to work is to get the economy moving again. A dynamic, growing economy will create more jobs with greater pay and greater personal satisfaction than any public works program we could ever afford. Eighty-five percent of all jobs in this country are still in the private sector. In the five years before the recession, approximately eight million new jobs were created in the United States. We can equal that record and even surpass it in the next five years if we can adhere to sound and responsible economic policies.

And the way to achieve durable growth is to pursue balanced, even-handed policies -- policies that support and strengthen the natural forces of recovery without rekindling inflation, policies tht warm up the economy without overheating it.

Evidence is mounting that we are moving in the right direction today. Inflation is less than half of the rate of 1974. Most of the key economic indicators -- orders for durable goods, retail sales, housing starts, and the like -- also make it clear that the worst of the recession is behind us. President Ford reviewed several signs of recovery here yesterday. Certainly this is no time for joyous celebration: over eight million Americans are still unemployed. But we can and should take heart from the fact that the downward slide of the economy appears to have ended. We have begun the long, slow struggle back to the top.

There is much work still to be done. The first signs of progress must not mark the last of our efforts to improve economic conditions. Indeed, the time has come to take a longer look at our economic needs and begin building more solidly for the future. We have a responsibility now to lay the foundations for sound, stable growth far into the future.

We must bring a halt to runaway government spending, learning to live within our means. The teenagers who are unemployed today are among the first victims of our irresponsible spending behavior yesterday. Let us vow never to leave such a legacy again.

We must rediscover how much can be accomplished by men and women who are free to determine their own destinies, whose decisions are no longer made for them by nameless, faceless bureaucrats hundreds of miles away. Just as we must lift the dead hand of economic discrimination off the backs of minorities, we must lift the dead hand of governmental regulation off the backs of businessmen, both small and large, so that our private enterprise system will be truly free and vigorous. And let there be no mistake: the freedoms and the benefits of this private enterprise system to which I am obviously dedicated must be available to all Americans.

We must also create an environment which encourages far greater investment in new plant and equipment -- in the bricks and mortar that are the building blocks of a strong economy. Let us recognize that capital formation is really job formation. Economists sometimes make rough estimates that the creation of every new job in the private sector requires about $20-30,000 in capital investment. Unless we meet our capital investment needs of the future -- and our best estimate is that capital investment over the next decade must be three times as large as those of the last decade -- then we will doom ourselves to a stagnant economy and cripple the hopes of millions of men and women who will be entering the labor force.

Let us also bring an end to our habit of electing politicians who promise us everything and give us inflation. As I said before, there is no such thing as true compassion without responsibility. You have had your hopes raised high before by political promises. Other Americans have had their hopes raised. And all of us have tasted the harvest of bitterness and despair as those promises have turned into ashes. It is time to say no to the short-cut artists in the political arena. It is time to begin promising no more than we can deliver and to deliver all that we promise. That is the goal of this Administration.

We must also begin to recognize that our hopes for social justice and racial equality are intricably bound up with our hopes for economic growth. There are those among us who say that we must halt the process of growth in order to protect our quality of life. I think it is abundantly clear from the experiences of the past year that continued growth is the only means we have of improving our living standards and enhancing our environment. If we try to hold down economic growth and to cut different slices in the economic pie that exists today -- as some suggest -- then we will surely generate intense economic and social struggles within the nation that will set back the cause of racial equality for years to come. No, the economic pie must continue growing so that everyone may enjoy a larger share of prosperity.

Finally, let us be absolutely clear about one commitment which is unswerving for both this country and this Administration: the commitment to equal opportunity under the law. All of our efforts to get the economy moving again and to ensure that members of minority groups are fully trained and qualified for employment will become a hollow sham if the door to jobs is slammed shut by racial discrimination. This Administration intends to be vigilant in enforcing the laws against discrimination. We must never forget that before this recession began, millions of blacks were in economic trouble and that one of the basic causes of that trouble was economic discrimination. As the recovery progresses, blacks may remain in trouble unless we reverse the patterns and habits of discrimination. We obviously have a long way to go. Let us pledge today that ending economic discrimination must be one of the foremost goals for the United States in the years ahead.

I recognize that while you may agree with some of my comments today, you will inevitably find areas of disagreement. As I said earlier, I appreciate the opportunity to exchange views with you. I want to maintain a regular line of open communication with you and with other minority representatives. You will always be welcomed in the Treasury Department, and if you come to me with specific ideas, complaints or disagreements, I promise you that your views will receive prompt attention. By talking with each other in a spirit of candor and in the recognition that society does not yet have the answers to all of its problems, we can promote a new dialogue that will perhaps open up more effective means of giving black Americans a greater stake in the future of the country.

Ladies and Gentlemen: In two days time, our Republic will be marking the 199th anniversary of its birth. We look back this year upon one of the most breathtaking chapters in our history:

- A change of Presidents;
- Record inflation;
- Severe recession;
- And the tragic conclusion to one of the most divisive wars in our history.

Yet the real story of these last 12 months has not been one of failure but of success -- the ability of our political and economic systems to perform under conditions of extraordinary pressure and the triumph of our people in coming through these trials stronger and more united.

This is the greatness of America that we will celebrate this week and lights our path into the future. It is in no small measure a tribute to the men and women in organizations such as the NAACP who have struggled so nobly to perfect one of the greatest unions of people every known. You have always recognized that this country had its flaws and that we have made our share of mistakes, but you have never forgotten that it also offers more freedom and opportunity than any other nation in the world.

That is the spirit we must carry forward this July 4th and in the days ahead. Let us recognize how far we must travel to reach our goals, but let us also recognize how far we have come already and let us pledge to work together to complete our journey. Sure, we have our weaknesses; we should never deny that. Racial discrimination has been one of the most glaring of those weaknesses, and we must engage the full efforts of our nation to wipe away its final vestiges. At the same time, let us remember that we also have great strengths and great virtues. Our nation remains incredibly strong, powered by the largest, most dynamic free marketplace in the world and protected by our belief in God and in the inalienable rights of man. Let us dedicate ourselves on this anniversary of our nations's birth to correcting our weaknesses and renewing and building upon our strengths so that America will remain, in Lincoln's words, "the last, best hope on earth."

Thank you.

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FOR IMMEDIATE RELEASE OCTOBER 14, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

BRIEFING BY THE PRESIDENT
WILLIAM E. SIMON
SECRETARY OF THE DEPARTMENT OF THE TREASURY
ALAN GREENSPAN
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS
AND
JAMES T. LYNN
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
FOR 18 NEWSPAPER COLUMNISTS

THE ROOSEVELT ROOM

10:30 A.M. EDT

THE PRESIDENT: I just thought that before Alan and Bill had a chance to answer any questions, that I would come in and indicate for a few minutes my strong personal feeling and my personal identity with this approach that we have taken, and to give you an opportunity, if you want it, to answer some questions before either Bill or Alan respond to any other information that you might want.

Let me put at rest, at the outset, that this was not something that came out of thin air at the last minute. The whole thought really began sometime early this year and has been worked on over a period of several months in some detail.

The thought of really pinning them together, of course, was precipitated by the need to make a decision on whether we would support, or not support, or make revisions in the 1975 tax matter.

I, in a press conference -- I have forgotten where it was -- Omaha--gave the first indication that this was an approach that we were actively considering, but the fact is that approach had been worked on for some time.

Now, there were some, obviously, fine details that had to be put together in the last 72 hours, when we got down to some of the charts and rates and so forth. But, the basic decision was made sometime before.

With that, I will be glad to answer any questions.

MORE

QUESTION: Mr. President, are you saying that you will veto any tax cut bill that comes in unless you have this $28 billion reduction from the anticipated increase in the 1977 budget?

THE PRESIDENT: In the speech I made, I said I would not hesitate to do that. I have since indicated a harder line. I think in all likelihood that would be the net result.

QUESTION: Mr. President, both you and Mr. Greenspan have said the program was not designed to have an economic effect in the shortrun; it was directed more to the longrun in spending. But, doesn't it nevertheless have an economic effect in the shortrun, and what do you anticipate that would be?

THE PRESIDENT: I have to rely on Alan's analysis and that of others who are far more expert than I in that matter, and he can probably better speak for himself. It is his judgment, as I understand it, that the economic impact will be minimal in that nine-month period.

QUESTION: Mr. President, do you find the predicates for the kind of action you are asking Congress to take now, that you have cited in your press conference last Thursday, and that Ron Nessen has cited for you--I guess going back to 1967 1968--do you find them really convincing?

THE PRESIDENT: As I recall the history of those, President Johnson wanted some action by the Congress, and Wilbur Mills said no. Finally, Wilbur came down in putting together things that came to mind. Wilbur came down and finally agreed on the basis that there would be a spending limitation implemented at the same time in both instances.

The Congress, in 1967 in December, and in June in 1968, as I recall, did take action to tie the two together, as I recall. If they could be done, then I see no reason why they can't be done at this time.

QUESTION: Mr. President, that raises the question why you did not consult with Congress at this time, as Johnson and Mills consulted with Congress in 1967 and 1968, and why you just confronted them with a fait accompli in this tax cut.

THE PRESIDENT: I think there is a little differentiation. In 1967 and 1968, a then Democratic President had a substantial majority in both the House and the Senate. In our case, we are confronted with just the opposite situation, and we did do some consulting, or informing, I should say, but there was, I think, a different factual situation.

MORE

QUESTION: Mr. President, you said in response to Bart Rowan's question, that you thought -- or Mr. Greenspan thought -- there would be a negligible impact on the economy. Suppose the reverse happens? Suppose the Congress serves up a tax bill, which you vetoed, but the Congress did nothing about your bill? What would the economic impact of that situation be?

THE PRESIDENT: You have the further assumption that the Congress would sustain my veto?

QUESTION: Yes.

THE PRESIDENT: Do you want to speak to that, Alan?

MR. GREENSPAN: Do you mean override?

QUESTION: No, I mean sustain. Nothing would happen?

THE PRESIDENT: That was my assumption.

MR. GREENSPAN: Do you mean talking about the withholding tax rates rising close to $12 billion? I will be glad to answer that in some detail, Mr. President, after you leave. I wonder if that is acceptable, gentlemen, or do you want to go through it now?

QUESTION: Wouldn't it have a very substantial impact of a negative kind, and doesn't it suggest you are going down a death valley route?

MR. GREENSPAN: Joe, I would say the analysis, which suggests a significant negative impact, requires that you accept the rather questionable rules of thumb which we are now building into our standard econometric models, from which that type of analysis emerges.

I think there is very serious question about the validity of that approach in the sense I would argue the models that we have now built, unfortunately, abstract from reality in a manner which I think is distorting. I think it is important for us to look at the real world as to what is happening and not really automatically assume that the real world is consistent with the models that we build. That is not so.

QUESTION: Mr. President, there has been some speculation as to how you reached that $22 billion level of this transaction --

MORE

THE PRESIDENT: $28 billion.

QUESTION: The question is, whether it is true, as alleged in the Wall Street Journal, that you decided it in a golf course conversation with Mel Laird? (Laughter)

THE PRESIDENT: There is no validity to that latter part, that it was decided on the golf course, no truth whatsoever.

We were trying to find an area where we could believably achieve reductions and at the same time give the kind of tax relief which we believe is necessary, and the net result was we came up with, I think it is, a 7 percent increase in the growth of Federal spending, which takes us from 70 to 395 and, at the same time, gives us the kind of distribution of tax reductions which I think are long overdue to the middle-income people and, at the same time, holds the people at the other end of the spectrum -- they are held harmless.

QUESTION: When do you plan to make the proposed b udget reductions public, Mr. President? There are already reports you are circulating a memorandum among the Cabinet officers with the cuts in them.

THE PRESIDENT: Jim Lynn has gone to the departments, and I can't give you precisely the -- there is Jim over there.

MR. LYNN: What we have done, Peter, is in typical OMB fashion, contacted each department with planning ceilings, which is the regular budget process, and we have also shared with them informally some of the alternatives that were identified in this process that has been going on well over two months with the President-- where it should be examined as to the ways they could be used to achieve this ceiling.

The one thing the President made clear to us in the OMB and made clear to the Cabinet officers was that these are merely suggested alternatives of some ways of doing it. What we want is each department and agency to use their own initiatives and own expertise to come up with the best and most equitable way of achieving the result we are after.

QUESTION: Mr. President, do you think the American public, let along Congress, would be willing to accept substantial reductions in major social programs?

MORE

THE PRESIDENT: First, Allan, you have to understand they are not necessarily substantial reductions. As I said a few moments ago, it is about a 7 percent increase in the growth of Federal expenditures. In actual dollars, it is a $25 billion increase.

Now, there will have to be some tightening up. There may have to be some caps, as we proposed in the 1976 budget. I think the American public is very disturbed about the growth of Federal spending, very disturbed. I think the mood of the Nation is that something has to be done about it.

QUESTION: Mr. President, you said the other day that you expected to propose a $1 billion cut in the present level of about $6 billion for spending on the food stamps in your new bill. Could you tell us how that would come about?

THE PRESIDENT: That is going to be submitted to the Congress the day they come back, and I don't think I should pre-empt it in this gathering this morning. But, we will have a legislative program that will go up to the Congress the day they return from their recess.

QUESTION: Would this be by having possibly tighter rules on eligibility? Is this the general idea?

THE PRESIDENT: There will be a number of significant recommendations.

QUESTION: Mr. President, can I come back to the question of the economic impact of the program? As you know, one of the most persistent criticisms on Capitol Hill is that the tax cuts will take effect at one time and the spending cuts will take place at a point in time nine months later.

The criticism is that you have the tax cuts feeding into the economy, and that will stimulate the economy, and therefore might be too inflationary. Can we get some further guidance on how you respond to that?

THE PRESIDENT: I have been assured by Alan and his associates that that will not take place. I don't have the details.

SECRETARY SIMON: Can I say something in addition to what Alan said before, which is a little sophisticated, Joe, I agree with you. You get to a point, when we talk about stimulus, whether or not a budget deficit of a particular size in excess of that is indeed stimulative or just the opposite.

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What are the financial implications you have heard me speak of so often -- the crowding out, that indeed has already occurred -- which is going to hurt as far as a broad base expansion if it were allowed to continue.

One can't argue, as in the case of other countries that have adopted stimulative measures in the past which did nothing but exacerbate inflation and unemployment, that indeed, at a certain level--which can't be quantified, admittedly, this is a matter of one's judgment--that in the short run it is not necessarily stimulative.

Certainly, if you begin to look, which economic policy makers should look, not at short run considerations-- we are always looking at the immediate impact of what our policies are going to produce--what it is going to be between now and the next election.

The purpose of this is once and for all, as the President said, to get the control over the growth in Federal spending to move toward a balanced budget, and it is our only hope to move toward a balanced budget before the end of this decade. We have to begin by controlling the growth.

QUESTION: Bill, aren't you nevertheless going to have to borrow more money in the first six months of the calendar 1977?

SECRETARY SIMON: Sure. You have what I call a partial -- a partial only, Bart -- Hobson's choice, and let me explain why I say it is partial. I would rather, knowing what my druthers are, finance an additional $5 billion or $6 billion budget deficit during the first period of 1976, calendar year 1976, during the period of obvious economic slack, than I would the very large deficit we were threatened with during 1977, when the economy will be moving back to high economic activity, we believe.

This indeed, at that point, the sustained combined deficits of many years, could then threaten to abort the recovery prematurely.

THE PRESIDENT: I would add this, too, Bart. If the Congress is concerned about this, there is no reason why they can't cooperate in a number of the authorizations and appropriation bills that they and I will be considering between now and January 1, which will have an impact on the spending in the first six months or nine months of calendar year 1976.

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As a matter of fact, we are probably going to have that struggle during that period of time anyhow, and our emphasis will be, as it has been, to hold the line on some of these spending proposals, whether it is an authorization, appropriation, or substantive legislation.

So, in effect, I will be seeking to put some lid on the second half of fiscal year 1976 spending.

MR. LYNN: If I might on that, Mr. President, on even remaining actions from your original $17 billion proposals you made in the January budget that affected fiscal year 1975 and 1976, they still have time to take action on, I think, better than $4 billion worth of reductions on the growth of rescissions and deferrals.

I think the other side of the statement is maybe they will look harder now at what I call the salami tactics of adding a slice here and adding a slice there in the regular appropriation and authorization process.

QUESTION: Sir, if, as you say, the American people are demanding that the Federal Government be reduced, won't Congress get that message during its vacation and other times and help you out there?

THE PRESIDENT: I think it is very opportune that they are home to get that message. We expect to get the benefits of that because it is my distinct impression that the American people are eager for this action, and I think it will be reflected on the Congress when they return.

QUESTION: Mr. President, why do you think it is the American people need this additional tax cut?

THE PRESIDENT: Why do I think?

QUESTION: Yes.

THE PRESIDENT: As we have had inflation, we have had, because of our progressive tax rates, as people have moved up the salary and wage levels, they have been hit by the progressive rates that are in effect at the present time.

I have read a number of articles that make this point very vividly, and the ones who have been hurt most are the ones who have moved into the middle-income group. Unless we do something to modify that, they are going to be hurt the most in the years ahead.

MORE

QUESTION: Mr. President, coming back to the point of economic impact, it makes quite a difference what part of the budget, what kind of spending, you cut. Can you give us in general terms any thoughts you might have on what kind of spending needs to be cut at this point? It makes a difference in impact, as I understand it, whether you go after Social Security or military deployment or building a dam somewhere.

THE PRESIDENT: It is true that certain programs call for an immediate cash outlay and others have a delayed impact. On a long-term military contract, the big payout comes usually in the last 50 percent of the five-year program to build an aircraft carrier, just as an example, whereas some of these income supplement programs come out of the Treasury immediately.

I wouldn't want, at this point, to identify them until Jim's process gets concluded, but I have indicated -- and did in Detroit last Friday -- because we are in the process of now drafting the legislation and the preparation of the message in the area of food stamps.

Now, that is an immediate impact if the Congress acts.

I also said in Detroit that we had to get some better management out of the Defense Department and that some of the frills, as I use the word, have to be eliminated over there in the Pentagon. I repeat that.

I am not going to permit, to the extent that I can, any serious, any erosion of our weapon capability, but I think there are areas in the Defense Department where better management can produce better results.

QUESTION: Mr. President, if the Congress reacts with the same kind of stalemate it reacted on unemployment, do you see this as an important issue that will carry into the 1976 campaign?

THE PRESIDENT: I think the American people could and would make an issue, if my premise is correct, that the American people want a reduction in the growth of expenditures at the Federal level. If the Congress doesn't act affirmatively, I think the American people will make it an issue, which means in 1976 it will be in the political arena.

QUESTION: Mr. President, you used a billion dollar figure in your Detroit press conference, I think, on food stamps?

THE PRESIDENT: Right.

MORE

QUESTION: You also spoke of medical payments. Do you have a rough ballpark figure on medical payment cuts?

MR. LYNN: I think that is very hard to do, Mr. President, until we hear from HEW as to the whole range of what they would propose to stay within their ceiling.

THE PRESIDENT: We have had a tremendous growth in medical payments by the Federal Government for the whole range of services, but the precise amount I think will have to wait until HEW comes back.

MR. LYNN: Let me add, if I might, on that, Mr. President, when we look at the cost per unit of care, in the course of recent years, particularly in the last year or two, it bears absolutely no relationship to inflation or any other indicator we can use. It looks like it is almost uncontrolled, so just as a total issue, even apart from this particular issue, when we get to the $395 billion, it is an area HEW has to look at very carefully, and has been looking at for some time.

This effort, of course, will bring that to a head.

QUESTION: It would require major changes in the law, though, would it not?

THE PRESIDENT: In many instances, yes, it would.

QUESTION: Sir, Secretary Simon and others have mentioned from time to time that inflation depends on the kind of spending that you do: certain kinds of spending cause inflation and some do not.

Obviously, if you have a shortage of something and you spend and increase production, that does not cause inflation and if you spend for things that are in short supply, that does.

Has there been an analysis of that in your proposal so that you take this into account?

THE PRESIDENT: I would defer that to Alan.

MR. GREENSPAN: First, let me say the analyses that have been used, trying to get these different impacts, tends to show the differences are much less than a number of people have originally supposed. I think that the difference between, say, certain types of capital projects, and transfer payments, are there, unquestionably. But I think it is more important to recognize that the differences are really quite small, relative to the issue of the size of the amounts.

In other words, it is an issue of small moment relative to the total size of the type of project in the program which the President has announced.

QUESTION: Mr. President, why did you decide to make the additional tax cut effective January 1 instead of delaying it and tying it to the tax reductions at the beginning of fiscal 1977, October 1?

THE PRESIDENT: That was a decision that I felt was -- in the first place, the American people, based on what the various Congressional leaders had indicated, were going to get a tax reduction; now a kind of a tax reduction that I didn't think was the right one.

Since I have strong views on what is a good and fair and equitable tax reduction, I felt it was the proper thing to join the issue at this time, rather than to have the probability of the wrong kind of a tax reduction going into effect January 1.

It seems to me it was better to fight for what I really believed in at this time rather than to delay it until sometime in 1976.

QUESTION: Mr. President, following that, if Congress were to extend the present reduction at the $12 billion level and say they are willing to talk about a budget reduction of $12 billion, what would your reaction to that be?

THE PRESIDENT: I don't think I ought to speculate on that. I feel very strongly, as I have indicated, about the kind of a tax reduction, and that is as crucial as the spending reduction. I think we have to stand firm on the combination that we have proposed.

I haven't seen any indication on their part they would do it, so I think it is too speculative to really make any judgments.

QUESTION: Mr. President, are you saying there is no room for compromise anywhere on this issue, that it has to be your program or no program?

THE PRESIDENT: We are all realistic enough to know that sometime you may have to, but our position is firm, and I think it is soundly based. To indicate that there is any major area of compromise I think just erodes our position, which is firm.

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QUESTION: Mr. President, do you fear that if there is an extension on these tax cuts, as Senator Long has indicated, without any reduction in the rate of growth, that you will go back to more inflation, possibly double-digit inflation?

THE PRESIDENT: If my recollection is accurate, if we have a $12 billion tax reduction with no limitation on spending, the deficit for fiscal 1977 will be $70 billion. With the prospects of a deficit of fiscal 1976 somewhere between $60 and $70 billion, you will have back to back deficits that will total $140 billion. I think that is an inevitable invitation to reigniting of inflation.

QUESTION: Mr. President, you have said the people who make an issue of this in 1976, so will you yield to the clamor of the public on this and take up the cudgels? (Laughter)

THE PRESIDENT: I also respect the judgment of the American people, and if they want to make it an issue, I will respond.

QUESTION: You won't resist it? (Laughter)

THE PRESIDENT: No.

QUESTION: I am a little confused, Mr. President, as to where these fiscal guidelines leave your welfare reform. With many sides of the Administration moving in that direction, everything you can learn from HEW, would you suggest that maybe it would cost more to go the income route?

THE PRESIDENT: The Vice President is having some hearings which will cover this area, and they will include the total spectrum of those who want to take the present law and modify it to try and tighten it up to those who want junk the present system and substitute another.

We are going to have a broad spectrum of witnesses, and when the Vice President comes back with a consensus, we will make the decision. There has been none made yet.

QUESTION: Would you like to move in January on some kind of welfare program?

THE PRESIDENT: It will depend on what the hearings produce, Charlie.

QUESTION: Mr. President, you spoke of frills at the DOD. Do you tie that also to the other departments and agencies?

MORE

THE PRESIDENT: Yes, none will be immune, Holmes.

QUESTION: Mr. President, speaking of the Vice President, could I ask a fiscally related question? (Laughter) Are you and Mr. Rockefeller now taking different positions on the possible need for some Federal assistance to New York City?

THE PRESIDENT: I would say it is minimal. I couldn't help but be disappointed in what I read this morning, that the mayor's group -- or whatever they call that group -- has come up with only a $50 million reduction of the recommendations that they have to make to the Governor's group, and the total that the Governor's group requires is $200 million, and this is only $50 million out of the $200 million.

I have no way of knowing what the reaction will be of the Governor and his group, but I can't help but raise the question that if the municipal people can't satisfy the Governor's group, it certainly is an indication that they would have a hard time satisfying the Congressional requirements for fiscal responsibility.

Of course, fiscal readjustment or fiscal restructuring or fiscal responsibility at the city level would be a prerequisite, I would think, for any Congressional action.

MR. NESSEN: Mr. President, do you want to leave Bill and Alan to finish?

THE PRESIDENT: Yes. Thank you all.

QUESTION: Thank you, Mr. President.

SECRETARY SIMON: It was interesting at one point. You know the political issue and the clamor of the people, Peter, as I said, and I think that is exactly what this is, and I have felt so for a long time.

What I have read since the President made his proposal is that it is unrealistic, and that implies -- it is quite explicit -- that Congress or anybody who is not going to come to grips with the growth in Federal spending that has occurred, and indeed will continue unless we come to grips with it.

I think the more important question to ask is what happens if we don't control the growth in Federal spending, and we see the continued growth in fiscal 1977 and many fiscal years beyond?

MORE

I will suggest that we have seen a lot of other great nations go to the brink of fiscal collapse as a result of these type policies, and no one suggests that after what we have done for many years -- as Jim Lynn has often said -- our budget today actually has a life of its own.

It increases each year, regardless of what we do, because the number of beneficiaries increase, and so, in that regard, it is, and of course the cost of living escalators as well. It is not going to be easy to change these habits. We don't suggest it is, there is no doubt about that, but I think the most important thing -- and this gets to the politics of it, if you will, regardless of which side of this issue you happen to be on philosophically-- that is, we are at a crossroads in this country today.

You can continue down this path, with the consequences we believe history only too clearly demonstrates, and you can see this by looking at the wreckage of these nations that have gone this route or go back to the route that brought us this great prosperity we have always enjoyed.

Anybody who thinks it is an easy choice, because it does require tough decisions, and a discipline that has been absent in this country for some time --

QUESTION: Bill in that context, the President said that his proposal would actually be a 7 percent budgetary increase of $25 billion but, in fact, would not inflation alone account for more than that. So that instead of caps on programs, there are going to have to be widespread reductions?

SECRETARY SIMON: Our inflation number is approximately the 7 percent, so it is not, as someone suggested, the 10 percent.

QUESTION: Even that will allow for no real growth?

SECRETARY SIMON: As far as real growth is concerned, that again would depend on what areas you are cutting back. You couldn't, just overall.

Alan?

MR. GREENSPAN: That is only one year. Remember, you have had significant real growth occurring in a period when the economy's real growth has been negative. I think to postulate that the real growth of Federal expenditures must be positive, or a large positive every year, will give you an automatic ratcheting effect which inevitably will create, on the average, a much larger proportion of GNP going to the Federal budget.

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So, I think while it is certainly factually true that what is being presented here is for this particular period no real growth in Federal spending, I think to take that out of the context of recent years is to give a false picture of what the actual pattern of Federal spending has been.

QUESTION: Before we get away from history, do you know any example of a country that has reversed this kind of trend without a revolution? Has that ever happened?

SECRETARY SIMON: Without a revolution?

QUESTION: Yes.

QUESTION: Or with one. (Laughter)

SECRETARY SIMON: I had a partner some years ago, Sidney Homer, who believed when chronic inflation took hold that no nation in history has proven its ability through the discipline that is required to reverse it.

We aren't there yet. That is the point. What we are trying to do is reverse this before we get there because the social, political and economic upheaval of attempting to reverse when you have gone too far, as some countries in this world. It is not up to the Secretary of State to name countries. It wouldn't be proper -- the Secretary of the Treasury. It wouldn't be proper for me to be critical of any other country in the economic or financial policies or positions they find themselves in today. That is very clear.

QUESTION: Can I come back to that question? In addition to the discipline issue, there is the issue of equity. How are you going to spread around these cuts and curtailments? I have the impression the present tax law provides special protection for people with incomes under $4,000 a year and up to $8,000.

My impression is that your proposals do not have that same kind of protection.

SECRETARY SIMON: Let's talk about the earnings.

QUESTION: Is that equity?

SECRETARY SIMON: You are talking about the earned income credit. Now, what we proposed, as far as the tax changes are concerned, were consistent with the changes that were made in the 1975 Tax Reduction Act, which was heavily weighted toward the lower spectrum.

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As you well remember, we went for a $1,000 cap, and the Congress loaded it all down below. The earned income credit, as opposed to tax policy, Joe, is an expenditure item, it is a transfer payment, and does not appear in our tax proposals, nor does it appear in the Ways and Means agenda of issues.

That came up last year in the Senate Finance Committee during the last days of debate on that.

QUESTION: I don't think the question goes to the issue of how you account. The question goes to this: Don't people with earned incomes under $8,000 deserve special protection?

SECRETARY SIMON: They have it.

QUESTION: Doesn't this bill not --

SECRETARY SIMON: Under our proposal, an income under $5,00 is basically tax free, Joe.

MR. LYNN: Let me add to that, Joe, one of the basic problems we in the Executive Branch, and people on the Hill, see is we really do not have very good statistics and we should get better statistics on what aggregate income is at that level.

You have all seen Martha Griffith's studies on one, two, three, four, five or 11 different kinds of programs and what effect that is. I guess the first answer to your question is there are a number of programs directed at people at the poverty level or thereabouts and below.

What was done in the last tax bill was to add one more of those. Very frankly, I have to say to you, from what I can see as to how it was devised and with the quickness it was devised, it was really not with a very careful look at the totality of the various programs we have for those people.

Our approach in this regard is that the problems of people at those income levels must be addressed, absolutely. The hearings that the President referred to that the Vice President is holding around the country is addressed at that problem; in other words, that is part of the purpose of those hearings.

It seems to us the way to approach that question is as a matter of what should be done for the poor and near poor in this country, to help them with their lives. It shouldn't be done piecemeal in this manner.

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I would suppose that in the Congress, on the Senate side at least, they are going to come back up with a proposal of some kind. I would urge if they are going to do that, that, (a) I would prefer for that to be part of an overall look at welfare reform and (b) if they were to do something in that area, I would at least hope what they are going to propose, without in any way signaling how I would stand on a reaction to it, is something that wouldn't pre-empt the overall look at the welfare, which it seems to me this country has to take.

QUESTION: Mr. Secretary, you started by saying the program had been attacked as being unrealistic, and you think it is realistic. Yet, when a question is raised as to the budget cuts and how they relate to last year's spending, you fall back on the historical context of years past when the budget growth has been high and the growth of the economy has been negative.

But, isn't the perception that you are looking for, what the President was talking about, is that the people are going to think about this program this year and aren't they going to see this year, at best, a holding even or perhaps reductions? Isn't that what you have to worry about?

SECRETARY SIMON: There again, you are going back and making a judgment, and I happen to agree with the President because the Congress did get the message when they went home for the Easter recess, and they got the message after the debate that was held in the first three months of this calendar year in the Congress on budget deficits that at that time numbers were being thrown around anywhere from $80 billion to George Mahon's $150 billion.

The American people said "enough," and this was illustrated by the way the Congressmen came back and all of a sudden began to change their tune as far as their rhetoric, anyway, on controlling Federal spending.

Admittedly, everybody says yes, we should cut the Federal budget and then the minute they see where the cuts are, you are goring somebody's ox and there is no doubt about the fact that when we are slowing down the growth in spending, which we are trying to do, you are going to gore somebody's ox.

They are going to say to themselves, well, is that the net benefit for me, and that depends on how we are able to sell this about the long-range battle we have got and the fight against inflation and everything else you have heard me talk about.

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QUESTION: Isn't that the problem, though, Mr. Secretary, that you deal in the abstraction of large Federal spending and the Congress has to deal with specific programs which gore a lot of people's ox, and in the aggregate that is a lot more powerful pressure than any argument you might make about what --

SECRETARY SIMON: It is, Peter. It has been in the past. In a political sense, I would say that you are correct. The question is whether the level of economic literacy is indeed rising in this country as a result of the debate of the past year. I would certainly hope so.

Our educational efforts are going to be critically important, but we don't deal with the abstract completely. We do submit a budget. We have tried just about everything. We went the impoundment route and lost in the courts. We went the deferral and recession route and met that effort so far with a ho-hum on the Hill.

The vetoes are working, to a large degree, but that is an unsatisfactory method to attempt to gain control. And while all this is going on, everything just continues to grow in a near out of control way. But we are going to submit specifics of $395 billion to the Congress, yes.

Whether they accept those specifics or decide to accept others instead, Peter, that is the debate that will ensue, and always does.

QUESTION: Mr. Secretary, you are speaking of the economic literacy rising in this country. Yet, in effect, you and Mr. Greenspan are asking the country to accept a program that you claim will have entirely contrary results from what you and Mr. Greenspan would have indicated it would have had, or have indicated, for most of this year.

In other words, it will not be stimulative where you have been telling the country a program of this sort would be too stimulative, too inflationary and crowd people out of the market, and the deficit would be dangerous and so forth.

What changed your mind?

SECRETARY SIMON: No, this isn't a contradiction. Back when we were talking of the economic stimulus that would provide a tax reduction, I mentioned on many occasions -- and I never read it anywhere really, but I said it in Congress every time I testified -- that fine, a tax reduction net will have a supportive effect to the economic recovery that is already underway.

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Everybody pooh-poohed that. They said that is not true. If you look at what happened, the tax rebates were given out in May and in June, and the statistics are going to show as we look back on it that the economic recovery was indeed underway.

As I said, Joe, what we are looking at is the longer term aspect of this entire proposal and the long run benefits of it as it relates to everything that I explained the other day.

We can debate all day -- and I want Alan to talk to that, too -- about how much deficit is required to stimulate before it begins to become counterproductive, and that is a matter of great judgment.

Alan?

MR. GREENSPAN: Actually, I think you have to distinguish between the issues of short-term deficits and longer term deficits. We, at this stage, don't really know -- and I don't think anybody knows, as Bill pointed out -- whether moving toward higher so-called fiscal stimulus is actually productive or counterproductive, in the sense that we are now in an area where it is very difficult to make a judgment as to whether expansionary policies are, in fact, counterproductive.

I wouldn't make a judgment, frankly, either way because I don't think we have the evidence. But, I think there is one important issue here which differentiates a budget deficit expansion in general and one which is created in this particular program.

Remember, there are two aspects to this. One, it is true that as proposed there is a modest increase in deficit for fiscal 1976. But, concurrently, there is a significant decrease in the prospective deficit for fiscal 1977.

Now, the major problem we have with deficits at this point is their impact upon the money markets; specifically, interest rates and eventually on inflation, which tends to be negative toward economic growth.

To the extent that the markets sense that while there is a temporary bulge in financing requirements, but a significant prospective long-term reduction, I think what we would tend to find is that the effect on interest rates will tend to be less because there is an anticipatory element in the way our money markets behave.

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So, the prospective sharp curtailments in the levy of Federal borrowing as we move to the end of 1976 and 1977 will tend to keep interest rates lower now than they would be if a prospective were $70 billion this year, $70 billion next year, $70 billion the year after. You would get a tremendous anticipatory effect.

SECRETARY SIMON: What Alan is saying is that markets always anticipate future events and to a degree discounts those events. If people can look forward to progressively lower budget deficits, with the balance toward the end of this decade, that is a hell of a different expectation and inflationary expectation than looking forward to just a continuation of business as usual and spending as usual.

QUESTION: Has that analysis ever been articulated by this Administration before?

SECRETARY SIMON: Yes, I would say so. I have talked about inflationary expectations, Bart, on many occasions as being a factor as far as the interest rates that prevail, especially in the long-term and the premium that investors demand during periods where they expect inflation to stay at high levels or go even higher.

QUESTION: No, I mean the business of taking a higher deficit in the short run to achieve a lower deficit in the next fiscal year.

SECRETARY SIMON: I am sorry, I misunderstood you. No, that is --

QUESTION: I don't recall you have ever said that before.

SECRETARY SIMON: No, I was talking about the expectation that you had --

QUESTION: Sir, I assume you would rather get results than go down think being right, and it bothers me that you admit in one occasion that this is political as well as economic.

SECRETARY SIMON: No, let's clarify that. I didn't say that.

QUESTION: Well, there is a political problem involved. When you deal with Congress, you are involved with a political problem.

SECRETARY SIMON: I will agree with that. (Laughter)

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QUESTION: Well, let's not get worried about semantics. The point is, if Congress has specific problems, as it does have problems in individual cases, and you have the overall problem, are you not making a serious mistake in not getting closer to Congress and having more dealings with Congress and understanding that there is a way to deal with both sides of the question?

It seems to me in general this Administration, and a number, have stood off from Congress and Congress, in a sense, stood off from this Administration. The problem is not having each guy think he is right, but to get together.

Why can't you get more together?

SECRETARY SIMON: I will tell you, I don't know if you spend much time in Washington, but if I got any closer to Congress, I would have to move up there. I am up there constantly testifying and visits --

QUESTION: I am not talking about.that.

SECRETARY SIMON: -- and we work with the budget committees and we intend to work with the budget committees on the specifics of these issues as well. Why, there has never been doubt that we thought that we could impose our will upon the Congress of the United States. That is impossible, obviously.

QUESTION: After your years in Washington -- I repeat my question -- you are not talking about the same thing I am talking about. It is all very well to go up to Congress and testify on the theory you are right, but we are talking about getting in a room and saying to this Congressman or this Senator what is your problem -- and you know what his problem is -- and this is my problem.

How do we mesh the two together in an informal way?

SECRETARY SIMON: That is exactly what we do.

QUESTION: Apparently, it has not happened. You are not getting the results you are talking about, if you are as right as you believe you are.

SECRETARY SIMON: Our President made this proposal to the Congress three days before they went home.

QUESTION: No, I am talking about --

QUESTION: Could we end the debate and get back to the questions?

QUESTION: Jim, in this connection, there was talk at the time of the Congressional budget committees' reform of having a sort of consultation process as you drew up the budget. Have you worked out any mechanisms which might draw the committee chairman or somebody in Congress into the process of reaching this figure?

MR. LYNN: Say the last part again. Have we what?

QUESTION: It was my understanding the way it was to work was that the Congress would participate, at least as observers, in the final deliberations on the budget, so going into the final stages they would be sort of part of the process and would have a voice in how it all came out.

MR. LYNN: I think it still has to be seen, Charlie, as to how close we get in that regard. We had some initial steps taken that I think are very healthy. For example, there is constant communication between the staff of the Congressional Budget Office and the budget committees, and my own staff, with regard to definitions, techniques of estimating and so on, which was a first step, and are we both dealing with the same numbers as we put them together under existing programs.

I am being called to testify on October 21 before the Senate Budget Committee to testify again on how are we arriving at the estimates that we have been talking about here and also why have estimates floated around so much over the past years, and I think all of that is healthy.

Now, it seems to me, as we developed our own budget proposals, that there will be some give and take with the Hill as to getting their ideas, but as to how formal that will be, how detailed that will be, I think that answer will come in the next month or month and a half.

One of the things we have done this year, which I think is extremely important, is we have been meeting on a staff basis regularly -- I think it is about every week -- between our staff and the new coalition staff, getting their ideas as to how they see changes in programs, what they see as to priorities of fundings and so forth, and I think that has been very helpful.

Whether we will agree, I don't know, but I think the communication is useful. My own personal predilections are that I would love to be able to sit down with that staff on the Hill, or those staffs, and work with them on various kinds of alternatives.

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One of the problems, to put it frankly, is the minute you start doing that, some news of it goes out generally, fairly often, not the complete story, not false by any means, but only that it is one of the alternatives you are talking about, and you get a debate coming on fractionated evidence, on only parts of the evidence, rather than all of it.

I would hope there would be some way of surmounting that kind of problem. Now, a good part of this will be debated in the forums that Nelson Rockefeller is going to be holding around the country. Those are going to be public.

QUESTION: Those are going to be welfare?

MR. LYNN: Not just on that. They are on environment, they are on the economy and so on, but certainly an important ingredient of them is what to do with the social programs we have, the relative priorities, and what to do with these programs that we have for our poor people in this country.

QUESTION: Mr. Secretary, you are really working under a deadline of about 60 days, don't you think--work days between now and Christmas -- to get some kind of a tax bill through both Houses of Congress?

SECRETARY SIMON: You know, one could say we are working on an even stricter timetable than that because it takes the Treasury Department about 45 days to adjust withholding tables to reflect any tax changes that are made.

QUESTION: Don't you think there has to be some kind of -- as a practical matter, realistic matter -- some kind of compromise on perhaps two bills, maybe on the immediate bill to take care of renewing these tax cuts in your bill next year?

SECRETARY SIMON: We recognize the shortages of the time frame, and the mechanical problems involved in this. That is why we said, "Look, let's not get to the specifics. We will debate that together and try to handle that together in the normal process, and let's just go ahead and set a $395 billion spending ceiling now and then proceed at the same time with" --

QUESTION: But you are insisting on the ceiling before you even take up what might be a quickie bill?

SECRETARY SIMON: The specifics, that is correct.

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MR. LYNN: Let me, on that, if I might, make a couple of points, one of which I have made to the Congress when I testified, and that is that I have had a great concern that Congress has been taking various kinds of action and, indeed, has been taking various kinds of inaction on the President's proposals for an expenditure moderation this year without, in my judgment, any kind of an adequate look as to where this is taking their fiscal year 1977 figures.

I think this was true on the education bill. I think it was true on other actions they have taken -- child nutrition. I could bring up a whole lot of these deferrals and rescissions and, in many cases, the 1977 impact is far greater than the 1976 impact.

In education, the 1977 effect is $800 million in outlays, whereas the 1976 impact is $350 million in outlays. What I would ask is how can Congress even consider whether to have any new proposal in place of a temporary 1975 cut, whether to let it drop, whether to do a simple extension or whether to do something more, which is what we propose without looking at where the 1977 numbers are going and coming to at least some tentative conclusions, whether they like that result.

So, whether or not they agree with us on $395 billion -- and I would sincerely hope they would, because I think it is a good ceiling -- it seems to me in a rational process of decision-making somebody up there has to tote up rough numbers as to where they think they are coming out in 1977.

That is true whether you adopt our economic views of this situaton or whether you are somebody who is totally in love with a computer and an econometric model and think the more the stimulus, the better for fiscal year 1977.

At least the American people, it seems to me, deserve to know what kind of assumptions they are making as to what they think is good for this country, both in 1977 and thereafter.

The second thing I wanted to say, Peter, was I hear a lot of how you can get to totals without specifics. That is precisely what Congress this year did in coming to their budget resolutions.

In their budget resolutions, the House came up with certain cuts on priorities among the functional categories. The Senate came up with a different set of priorities. They were fairly close, but they were different.

When they got to the conference report, they didn't go into the specifics, and I don't blame them. I can understand why they didn't, but all they did was come up with total numbers.

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Now, that is all we are asking that they do this time. All we are asking them to come up with is that expenditure total.

QUESTION: Would it have been more politically believable if you had come up with a $401 billion ceiling instead of a $395 billion one so you wouldn't have been accused of trying arbitrarily, according to the accusers, of keeping this under $400 billion?

MR. LYNN: I have made two points to that, Peter, and one is that if you look at our midsession review and you look at the forecast -- not forecast the extrapolations out into fiscal 1977 and thereafter, based on the President's proposals, I mean all of the moderation proposals that he still had alive as of May 30 of this year -- when you look at his other proposals in the area of energy and so on, we showed for fiscal year 1977 an extrapolation base is $497 billion.

What we are trying to do is not only affect where we are going to be in fiscal year 1977, but for once in many, many years set a path that gets us to a balanced budget within three years. You know, I read Joe Peakman's teachings, out of Brookings, when he says that on capital formation one of the most important things you could do is get to a balanced budget is in the outyears get to having less involvement of the Federal Government in these markets.

I agree with Joe in this regard, and what we are trying to do is set a ceiling this year that sets a path for us to get to that balanced budget in three years. But, if you look at our midsession review, that figure was $397 billion. My own judgment, in this connection, was it ought to be a little bit lower than that.

THE PRESS: Thank you, gentlemen.

END (AT 11:32 A.M. EDT)

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE ASSOCIATED PRESS MANAGING EDITORS ASSOCIATION
WILLIAMSBURG, VIRGINIA, OCTOBER 15, 1975

As a public figure who spends a good deal of time talking with reporters, I very much appreciate the opportunity to address such a distinguished gathering of journalists.

Six months ago, I had the pleasure of speaking to the American Newspaper Publishers Association in New Orleans where we talked extensively about the state of economic reporting today. I told them that in my view the state of the art was much higher now than in the old days. You may recall that only a few years ago, the Chairman of the Council of Economic Advisers under President Johnson, Gardner Ackley, was so vexed with reporting that he urged that every economics reporter be required to meet two standards:

-- First, that he had taken an introductory college course in economics; and,

- Second, that he had passed it.

Fortunately, times have changed and reporters have changed for the better. There is far more economic sophistication among the writers in Washington today, and I think a large portion of the credit belongs to the Associated Press and the other wire services. By emphasizing the need for accuracy and straight, factual reporting, the Associated Press is not only enhancing its own reputation but is performing a valuable service for the American people. I congratulate you for your performance.

Let me turn now to my theme for this address: Government spending and inflation.

WS-413

"The credit of the family depends chiefly on whether that family is living within its income. And that is equally true of the Nation. If the Nation is living within its income, its credit is good.

"If, in some crises, it lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates.

"But if, like a spendthrift, it throws discretion to the winds and is willing to make no sacrifice at all in spending; if it extends its taxing to the limit of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy."

That's strong language--the fire and brimstone you might expect from a Bill Simon, or as the New York Times called me this weekend, the Cotton Mather of fiscal orthodoxy.

But that statement was actually issued more than 40 years ago and it came from the Democratic candidate for President in 1932, one Franklin Delano Roosevelt. To Mr. Roosevelt it was unconscionable that the Hoover administration has permitted the National debt to increase by more than $3 billion.

One can only wonder what the FDR of those early days before the New Deal would think of all that has come to pass in the Nation's fiscal affairs since then. Consider just a few of the most salient points about the growth of government spending:

* Under FDR's predecessor, government spending at all levels amounted to 10% of our Gross National Product. Today it accounts for fully one third of the GNP and by the year 2,000, if recent trends in transfer programs were to prevail, it could be nearing 60% of the Nation's economic activity.

* It took 195 years of our history for the Federal budget to reach $200 billion. Now we are threatening to double that amount in only 6 years.

* To those who say that the economy is growing rapidly so that higher spending can be accommodated, it should be pointed out that over tha past decade, Federal spending has increased by 175% while the economy has grown by only 120%.

* Prior to the New Deal, this Nation during its peacetime years kept its Federal budget in surplus for four years out of almost every five. Since the beginning of New Deal, the Federal budget has been in the red in nearly 4 years out of every five, and over the last 15 years we have had only one budget surplus.

* It took 74 years for the Nation to accumulate a national debt of $1 billion. Now our national debt is climbing at the rate of more than $1 billion a week.

* Paying interest on the national debt has now become the third largest item in our budget--ranking behind only national defense and social security. In fact, paying interest on the debt now costs us more than $160 a year for every man, woman and child in the country--$36 billion a year and climbing.

* As large-scale deficits have mounted in the regular agencies and departments as well as the off-budget agencies--the creatures set up in recent years partly to avoid the discipline of the regular budgeting process--the Federal Government has been forced to borrow extraordinary amounts of money in the private money markets--money that would otherwise be available to private enterprise to expand their operations and create new jobs. In the past 10 fiscal years, the Federal Government has borrowed over a third of a trillion dollars from those markets. Last year, four out of every five dollars borrowed in the long-term capital markets--excluding housing--were borrowed by an agency of the Federal Government.

* Growth in federal programs has accompanied growth in spending. In 1960, at the end of the Eisenhower years, there were approximately 100 Federal programs for domestic assistance. Today there are 1009.

* And with the growth of government, there has also come a growth in governmental bureaucracy, especially at the state and local level. Today one out of every six people in the labor force works for the Government.

By citing the growth of government in recent years, I do not mean to suggest that all of these spending programs have been ill-advised or that they ought to be abolished to the contrary, it is clear that many of the actions taken by the government have been progressive and helpful. The human hardships resulting from the recession, for instance, would have been much more painful had their impact not been cushioned by expanded benefits for unemployed workers. The poor and disabled people of this country are also much more secure than they were a few years ago.

Yet, it is time to recognize that this explosive growth in government spending, in government deficits, in government bureaucracy, and in government regulation is exacting a higher and higher toll within our nation. Unless we change direction soon, we will drift relentlessly--even aimlessly--into a society that is run and directed out of Washington and in which the freedoms we once enjoyed will be nothing more than a page in our history.

One of the most pernicious results of the horrendous growth in government spending during the past decade--and a result that now lies at the root of many of our economic problems--has been the persistent rise in prices.

When the Federal Government increases its spending and runs deficits year after year, especially during periods of high economic activity, it becomes a major source of economic and financial instability. The huge increase in Government spending in the 1960s and 1970s has added enormously to the aggregate demand for goods and services and thus has been a major factor in the upward pressures on price levels.

In addition, the heavy borrowing by the Government has been an important factor in forcing up interest rates and in the strains that we have seen in the financial markets. With the Treasury Department standing at the head of the credit line with oversized borrowing needs, interest rates are naturally driven up, some private needs go unfulfilled and private investment suffers. This is the essence of the "crowding out" problem that has become so apparent now in the financial markets. Even with a considerable degree of slack on the economy, access to the capital markets today is for all practical purposes limited to only top-rated companies. Marginal companies, new growth companies, and even solid companies with less than A-ratings have almost been totally shut out from the long-term sector. And interest rates today are more illustrative of the terminal stages of a boom that the early months of economic recovery. To be sustainable, the recovery must be broad-based; the credit system must be capable of putting funds into the many and diverse sectors of the economy. That is why it is essential that as the recovery progresses, the Government must play a less dominating role in the financial markets.

And even worse result of recent budgetary practices is the erosion of public confidence in the ability of our Government to deal with inflation. As Government spending and deficits continue year-in, year-out and inflation mounts, inflationary expectations are built into the very frabic of our economy. There is a growing public perception that those who promise the most tend to deliver the least--except for inflation.

Closely related to these excessive fiscal policies in recent years have been excessive monetary policies. Our printing presses have been churning out more and more currency that is worth less and less. Indeed, the monetary supply during the past decade has grown more than two and one-half times as rapidly as in the decade before when we enjoyed greater price stability. Ultimately, this monetary growth has increased the upward pressure on the rate of inflation and interest rates. And one prime reason for this monetary growth, I might add, has been the need to accommodate the chronic budget deficits.

Thus, excessive spending policies and excessive monetary policies lie at the very foundation of much of our inflation--an inflation that in turn rose so high that it tipped us into recession. Economists did not agree at first that it was excessive inflation which forced us into a recession, but now there is widespread recognition of that fact.

I do not mean to suggest that excessive government policies are the only factors behind inflation. Higher food and energy prices have plainly had an impact, especially in most recent years. Devaluations of the dollar and other actions have also played a role. But I would argue that the underlying causes of the past decade of higher and higher inflation are the clearly excessive fiscal and monetary policies that began back in the 1960s.

I believe the American people are fed up: they are fed up with a government that spends more and more of their money with so few results; they are fed up with massive deficits; they are fed up with overzealous bureaucracy; they are fed up with unemployment and under-employment; and most of all, they are fed up with inflation. They know something is seriously wrong in Washington--and believe me, they're right.

Sometimes when one is looking at the national economic picture, it is possible to lose sight of what inflation has come to mean for the average working family in this country.

The housewife going to the supermarket last year must have felt that she was wandering through a mine-filed, with prices exploding on every side. Indeed, at 1974's inflation rate of 12 percent, the bill for a bag of groceries costing $10 would triple in only 10 years--to $31. Even at today's inflation rate of 7-8 percent, the bill for that bag of groceries would double in 10 years. How many can continue to make ends meet under those conditions?

While everybody suffers from inflation, those who are hardest hit are those who can least afford it: the poor, the unemployed, the retired, the disabled and the dependent. At last year's inflation rate, a person retiring on a $500 monthly check would see the purchasing power of that check cut by two thirds in only 10 years--to only $161. Even at the current rate of inflation, the value of the check would be sliced in half in 10 years. How can a retired couple be expected to live in any kind of comfort with that kind of shrinking dollar?

And I'm sure you need few reminders of what's happened to the cost of running a newspaper -- or what inflation has done to any businessman who has to replace worn-out equipment and machinery. It's like the bag of groceries all over again. If you bought a printing press for $1 million, today's inflation rate would mean it would cost you $2 million to replace it in 10 years. It's small wonder that with the persistent inflation of the past decade, we have suffered from underinvestment and that more and more serious observers are becoming worried about the prospects of future "capital shortages" and more unemployment than we should have.

Even this listing of the consequences of inflation is far from complete, for it does not take into account the far-reaching social and political implications of chronically high inflation rates. Indeed, such inflation would place the entire free enterprise system in this country in peril. If our financial markets remain under the strain they are today, if utilities have trouble obtaining necessary financing to keep up with inflation, if money flows out of the thrift institutions because of inflation, if the housing industry suffers along with the thrifts, and if the airlines, the real estate investment trusts, and others go to the wall, who will be called in to the rescue? If the retired people of this country cannot protect themselves against inflation, who is it that can serve as a rescuer? You know the answer: Government. Clearly, continued inflation would bring a massive expansion of the public sector and would threaten the very survival of large areas of the private sector.

Those who are so liberal in spending other people's money are fond of quoting from the economist John Maynard Keynes. I suggest to them that they not forget a very critical passage in the book by Lord Keynes on the Versailles peace conference:

"Lenin is said to have declared that the very best way to destroy the Capitalist System was to debauch the currency ... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one in a million is able to diagnose."

Some observers call this message negative and hard-hearted. These so-called compassionate people say we are callous and unsympathetic to be against massive new spending, to be against huge deficits, and to be against the government running our lives. I am sorry, but I respectfully disagree. There is no such thing as true compassion without responsibility; to show true concern, we must take into account not only the short-term effects of our actions but the long-term as well. The suggestions that we simply spend and spend are precisely those which have over the years hurt the poor and the disadvantaged the most. It would be a grave injustice to the people of this nation, and especially to those who deserve a helping hand, to continue down that path when we know from experience that the short-term prosperity we buy now will be followed by years of even greater hardship and suffering tomorrow. It is time in these United States to put our economy back on a sound, steady footing so that people may have lasting jobs and lasting hope for the future.

Inflation has been and remains today the most fundamental economic problem in the United States. It is inflation that caused the recession and it is the reapperance of persistent high inflation that could jeopardize our future. Despite what some may say, it is not necessary to make an agonizing choice between fighting inflation and fighting unemployment. They are part of the same economic challenge, and must be faced simultaneously. The real choice is between policies that work and policies that don't work.

It was against this backdrop that President Ford acted last week in announcing his proposals to seek a $28 billion reduction in the projected levels of government spending during fiscal year 1977 and to return the savings, dollar for dollar, to the American people. The benefits in this program are concentrated among the working people of the country -- the men and women who have borne so much of the burden of high taxes and high inflation, and who badly need and deserve some relief. It is a program designed to place the Federal budget in balance within three years. And it is a program which presents a critical choice to the American people: Whether we will continue down the path toward Big Government or whether we will finally change course before it is too late.

As the President pointed out in his October 9th press conference, this package is not proposed simply as a stimulant for the early part of 1976.

The major economic thrust of the President's program is its longer-run impact on our economy and hence on our society. It is an attempt to blunt the underlying inflationary momentum that we face, which -- if not accomplished -- is likely to prevent an early attainment of full economic recovery. Unless the growth in Federal spending is markedly slowed, the choice in future years will be between higher taxes or highly inflationary budget deficits followed by significant distortions which are inconsistent with a stable prosperity.

The President's proposal is focused on reducing the rapid growth in expenditures and reducing the tax burden imposed upon the American people -- and in a manner which would reduce the risks of inflation. We have become too accustomed to looking at the near term and to assessing only the short-term benefits of what government policies do. As a consequence, we have often lost sight of where we are heading and the ultimate costs that we are imposing upon the productivity of our economic system. It is long past time that we stood back and took stock of where we are going.

As the President pointed out in his State of the Union message last January, "Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of government benefits and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

"One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is a dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

"It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget."

You have hear it said -- as I have -- that it is unrealistic to ask the Congress to set a ceiling on 1977 expenditures as low as $395 billion.

Is it really? The implication of that statement is that Congress cannot come to grips with the problem of accelerating Federal spending -- that spending is now beyond our control -- and that this must somehow be taken for granted when we formulate tax and spending and spending policies.

The critical question is not what will happen if we succeed in slowing the growth in spending but what will happen if we fail. What happens if we remain on the "spending as usual" path through fiscal 1977 and beyond? To me, if we fail, we will have surrendered control over our own economic destiny and we will be struck in the same quicksand that has pulled down other great nations in the past.

It will be exceptionally difficult to hold expenditures to a $395 billion level in the next fiscal year, as the details of the President's budget will clearly indicate, but if we value the future of the country's economy and society we must do so. We do not have the luxury of "spending as usual." Remember: this is not a reduction in spending but a slowing in the growth of spending. Our expenditures will still grow by 7%, high by an historical standards.

As the President said last Monday night: "For several years, America has been approaching a crossroads in our history. Today we are there ... I deeply believe that our nation must not continue down the road we have been traveling. Down that road lies the wreckage of many great nations of the past. Let us choose instead the other road -- the road that we know to be tested, the road that will work."

I have said this once before and I repeat it to you now: what we face in the United States is the classic choice between socialism and freedom.

Thank you.

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