

JANUARY 22, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

TEXT OF REMARKS
BY THE PRESIDENT
TO THE CONFERENCE BOARD

SHERATON PARK HOTEL

I welcome this opportunity to meet and speak with this leadership group representing the American business community -- to discuss our common problems.

In that regard, your invitation could not have been better timed.

Last week, I spoke to the American people and to the Congress about the State of the Union. And, in the circumstances in which we live today, the state of the Union really boils down to the state of the economy.

I outlined a fair and balanced program of economic measures -- a 16 billion dollar tax cut, a ceiling on increases in Federal salaries and cost-of-living related-Federal payments, and a moratorium on new, non-energy Government spending programs.

I urge the Congress to begin the active consideration of these proposals at once so that the jobless, hard-hit industries, and the beleaguered American consumer and taxpayer can begin benefitting from them at the earliest opportunity.

In this connection, let me address myself to one of the aspects of my program that has stirred some controversy.

I have said repeatedly that the main burden of recession must not fall upon those least able to afford it -- our low income citizens. But, at the same time, we must take care not to penalize middle-income citizens just because they may have been more financially successful than others.

I am mindful of the criticism from some quarters of my plan for a proportionate tax rebate for middle-income as well as for lower-income citizens. Some critics contend that rebates should go only to those with low incomes. I believe it would be a mistake to seek a solution to the problems of the recession by penalizing middle-income Americans. Nothing would more effectively put a lid on the ambitions and enterprise and hard work of this important segment of Americans to continue up the economic ladder -- for the sake of their children, if not themselves.

Here are the facts: Half of the families in this country earn between 10,000 and 25,000 dollars per year; one-third have earnings in excess of 15,000 dollars. Although it is a little known fact, more than half of the personal income taxes in this country are paid by people with incomes over 20,000 dollars.

What I am saying -- so there will be no misunderstanding -- is this:

We need fair tax relief -- the tax relief that will help not only the poor, but also the middle class -- the skilled workers, farmers, teachers, reporters, editors, secretaries, salespeople, truck drivers, policemen, firemen and other hard-working, middle income Americans who have seen their earnings and future eroded by inflation and recession.

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In short, let us not strip incentives from these upward bound millions who are struggling to improve their lives and their childrens' lives by serving notice that America no longer rewards those who make it from low to middle income status--and beyond.

However, I did not come here this evening simply to repeat my State of the Union Address. In this forum, I will not discuss the past. It is beyond our control. Instead, I will discuss where we are heading--because there, we have a real choice.

To use an economic term, I believe that there are several vital trend lines running through the American Government and the American economy that are headed in the wrong direction. And the time to redirect them is now.

This is what I meant when I referred to new directions in the economy--a series of critical, long-range changes that can put our domestic house in order and prepare us for the challenges of the future.

Tonight, I will address myself specifically to three of the many areas where the trends need to be redirected: Federal spending, defense policy, and profits and investment.

All three are closely related. All three, and the way we approach them, will vitally affect the quality of life and government in America in the years ahead.

Foremost among these is Federal spending. More than a generation ago, a trend was set in motion by politicians and pundits who began to advocate massive Federal spending as a sure way to social progress.

This massive spending took the form of income redistribution programs such as food stamps, Social Security, Federal retirement benefits and so forth--programs under which a qualified citizen is automatically entitled to specified benefits.

These programs, sometimes known as "transfer payments," will total 138 billion dollars in fiscal 1975 and constitute 44 percent of our 1975 expenditures. In terms adjusted for inflation, these payments have been growing at an annual rate of nine percent for the past 20 years. In 1955 and even in 1965, these programs were still only a modest part of the total Federal budget. But even small numbers become large after compounding 20 years of nine percent per year.

The continuation of these programs at anywhere near this rate of growth--which is more than twice that of the gross national product--is ominous.

In fact, even if other sectors of the Federal budget and state and local expenditures grow modestly in real terms, this trend will mean that within the next two decades Government expenditures at all levels could eat up more than half of our gross national product. They already account for close to one third.

Think of what this would mean to the average American.

If Government were to take more than half the gross national product, this would be a profoundly different country. The tax burden on the average American family and business would be staggering. To control the economy that much, Government would have to exert ever increasing direction over the daily lives of its citizens.

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Much of our incentive and enterprise and freedom of choice would be stilled and private business efforts would be largely stifled. Our economy would stagnate.

We cannot allow this to happen. We must turn this trend around. That's what I intend to do.

In that regard, I repeat here the pledge I made to the Congress last week -- except for energy, I will ask for no new spending programs and will fight to reduce the growth of Federal spending before it is too late.

That sounds logical enough. In purely economic terms, it is. But in the real world, where politics, idealism, emotionalism and confusion all mix together with economics, it is not as easy as it seems.

Americans are a generous people, a compassionate people. We have always prided ourselves on our responsiveness to those in our society less fortunate than ourselves.

But as we are now beginning to realize, we cannot give away more than we have. The Government cannot overspend year after year without doing drastic damage to the economy and harm to every citizen.

Now, I fully realize that many in the Congress will find it difficult to support spending limitations in programs they have advocated and believed in over the years. But it must be done.

As a starter, I will invite to the White House at their earliest convenience members of the Budget Committees of the Senate and House to confer with me on the problems we all face. To continue the course we are on is wrong. We need re-direction.

This brings me to the second of the three trends -- the direction of defense policy. There is a fashionable line of thinking in America today -- as widespread as it is false -- that all we need to do to get Federal spending back in line is to hack away at our defense establishment.

There is nothing new about this approach. Unfortunately, it is an error that seems to be endemic to western democracies in time of peace. Again and again, while totalitarian powers of one kind or another have maintained or expanded their military strength in peacetime, the democracies of the West have neglected strong national and allied defense -- hoping for the best, but seldom preparing for the worst.

In our own case, defense outlays have remained virtually level in constant dollars from 1969 to 1974. Since 1969, our military manpower has been reduced by over 40 percent.

In 1968, at the peak of the Vietnam war, personnel costs for the Department of Defense were only 42 percent of military expenditures. This fiscal year, personnel costs have risen to 55 percent of the 85 billion dollar defense budget.

This dramatic shift in how we allocate our defense dollars has prevented us from doing all we should in research and development and procurement of modern weapons and equipment. In many areas, as a consequence, our military services are faced with bloc obsolescence in arms and material.

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The fashion is to deride excessive defense spending. The fact of the matter is that defense outlays have been a dwindling part of our gross national product, falling from 8.9 percent in 1969 to less than 6 percent by 1976.

If the current declining defense trend continues, we will soon see the day, and so will others, when our country no longer has the strength necessary to guarantee our freedom and security in an uneasy world.

We cannot let this happen. The defense budget I am about to propose will not let this happen.

This brings me to my third area of discussion this evening. For just as a strong defense establishment protects our way of life, a strong, free economic system provides the goods, the jobs and the chance for upward mobility that have made us a land of opportunity and abundance.

But if our economy is to continue to grow and prosper, we must encourage investment. A rising standard of living implies rising output per man-hour and that requires even more investment per worker. To support every new job, business must now add more than 25,000 dollars of equipment and plant. That requires adequate profit and adequate investment.

Profit margins have been gradually declining since the end of World War II. Cash flow, as a consequence, has been less than adequate, especially in recent years. This has meant that corporations have had to borrow heavily to finance capital investment. The financial capability of many corporations has accordingly become strained.

All of this is especially discouraging since output per man-hour has fallen steadily for the last two years.

If we are to maintain our productivity, we must provide each worker with the machinery and equipment he needs to do his job with pride and efficiency. But in order to insure adequate investment we must end the long-term down-trend in corporate profits.

My tax program moves in this direction, by leaving more business earnings in the private sector, where they can be invested in increased productivity and new jobs.

I call on you to join with me to change these basic trends in our economy. And the first step is to get the process of Congressional action started now. Once the momentum for national recovery begins, we can resolve differences in details as we move along.

I deeply believe that the economic and energy programs I have proposed to the Congress can turn a period of danger into an era of opportunity. Through it, we can change our course -- we can put the unemployed back to work, we can increase productivity and output, we can achieve energy independence and, through our own renewed economic vitality, we can help bring prosperity and stability to a troubled world.

We have faced hard times before and met great challenges.

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I can remember a few Christmases in my own youth when about the only thing we had to offer each other was the love we felt in our hearts and the faith that, together, we would see things through to better times. It made us work harder, study harder, and in a way, I think it brought out qualities of strength and character that we didn't even realize we had.

Now this may sound like an exercise in nostalgia rather than economics.

But if economic problems could be solved by dry theories alone there would not be any economic problems left--just a lot of surplus theories and a lot of unemployed economists looking for new ways to ply their trade.

I believe in our free economy. I believe it unquestionably has the stamina and the resiliency to recover if we act sensibly and decisively and promptly to get through this crisis.

I said in my State of the Union address that there is a vital need for partnership. There must not only be partnership between the Congress and the Executive Branch, but also between the Federal Government and the American people. I also called for a continuing strong program of voluntary action.

I would like to emphasize that point again. My plans for economy and energy rely on freedom of choice--freedom for every American to decide how to conserve while still meeting basic needs. Without the voluntary cooperation of every American, no government plan can really work. It's that simple.

Each of you, as an outstanding member of the American business community, has a key part to play in this great national undertaking. We need your knowledge, your resourcefulness and, most of all your faith and confidence.

With faith in ourselves and confidence in our country, we have performed what amounted to miracles in the past. We need no miracle today--just the kind of calm willingness to work and sacrifice which has carried us through much tougher times before. And will again.

Together, we can turn these misdirected trends around and see America on a new course toward prosperity and progress.

Thank you.

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