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OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE
OF
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ROOM 450
OLD EXECUTIVE OFFICE BUILDING

11:30 A.M. EDT

MS. WHITE: Good morning.

I am Margita White, Assistant Press Secretary to the President.

The briefing this morning, as you know, is on the Mid-Session Review of the Federal Budget for 1976, updating figures for fiscal years 1975 and '76 and setting forth new projections of economic conditions in taking the long-range budget outlook.

The report which you have copies of is by law required to reach Congress by June 1 of each year. Since June 1 this year falls on a Sunday, we are sending the report to Congress and making it public today.

Here to brief you are James Lynn, Director of the Office of Management and Budget; Alan Greenspan, Chairman of the Council of Economic Advisers; Assistant Secretary of the Treasury for Economic Policy, Edgar Fiedler.

Secretary Simon, who returned late last night from meetings in Europe, unfortunately was not able to make it this morning.

MR. LYNN: Let me just start this, if I might, by referring to page 2, the third paragraph, under "Budget Totals," which reads as follows -- it follows the statement that our estimated deficit is $59.9 billion for fiscal year 1976. As you know, this budget presentation shows as an estimate a $60 billion deficit for fiscal year 1976.

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As we say, in the updating these figures reflect Congressional turndowns of $9.3 billion in deferrals and $2 billion in rescissions, adding outlays of $0.7 billion in 1975 and $1.3 billion in 1976.

Unless early action is taken by the Congress on other budget reductions proposed by the President, this estimate of the deficit for 1976 will rise still further. Should the Congress fail to take action on any of these reduction proposals, over $8-1/2 billion will be added to outlays.

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We all want to get the unemployment rate down as quickly as possible. The President wants to restore those jobs that have been lost as quickly as possible, but we are convinced that at this point in time it will be self-defeating toward those purposes if we add more stimulus by way of additional Federal expenditures.

There are bills that are being presented to the President now, that are under consideration on the Hill, which could raise these deficits up $80 billion, $90 billion or $100 billion.

My own views, and I know it is the President's view, that what we could do in this case would be to almost guarantee over a period of time double-digit inflation again followed by even more severe loss of jobs by way of a recession. We have to avoid this. We have to keep the expenditure side under control, and I know the President is committed to doing everything he can to do just that.

With that opening remark, we are all here and let us have your questions.

Q I notice $59.9 billion is curiously just below the President's $60 billion mark. Is the whole figure on that 59.9444?

MR. LYNN: Mr. Pine, I should say, first of all, when the figure came in to me, I said, "Come on now, the darn thing is just too close to the 60." But I satisfied myself there was no way to work the computer backward to go from a 59.9 or a 60 or a 60.1 back into the figures. It happened to come out there.

Now let us put that in the context of precision. These are estimates--and that must be stressed, when they are our figures--examine the exercise that the Congress just went through with their concurrent resolution. They are all estimates, and they can be off $1 billion or $2 billion or more in either direction.

If you are to look at an example of that, there is a difference between the Congressional committees on off-shore receipts and us as to what the estimate ought to be at this time. That is a swing of $4 billion right there. So we cannot attach much to precision by way of $59.9 billion or $60 billion or $60.5 billion.

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Q To follow that up, Mr. Lynn, the people on the Hill say that your accounting methods are quite different from what they are using and that the figure that was agreed upon in the concurrent resolution -- I forget the exact amount, between $67 billion and $68 billion -- really, if you factor out these accounting differences, isn't that much different from the President's $60 billion figure?

MR. LYNN: I am afraid I have to disagree with that quite strongly. As a matter of fact, if you look at estimating differences, the Congress, for example, made a point of showing differences on how we estimate offshore oil receipts.

I think you will find, on analysis, that, on estimates, Congress is higher on estimated expenses to the tune of about $5.8 billion, but is lower than we are by $8.7 billion, so, Congress comes out with almost $3 billion less in outlays in their estimating.

Now, in being fair to the Congress, we have, in our figures, done some further estimating and increases in estimates for so-called uncontrollable programs, such as food stamps, where, with the recession, there have continued to be increases in outlays that were not originally estimated.

Q Mr. Greenspan, in lowering the estimate of real GNP to minus 3.6 from minus 3.3, what does that imply for the path of progress for the rest of this year?

MR. GREENSPAN: First of all, just to follow up on Jim Lynn's remarks about the budget, the difference between 3.3 and 3.6 is negligible, and I think one of the interesting things about that is that, considering all of the economic events that usually go on in a period of between, say, December and January of one year and May of another year, I would suggest to you that that is an extraordinarily small change.

Specifically, in answer to your question, the pattern has not been altered -- namely, very little change in the second quarter with the accelerating rise in real GNP during the second half of 1975.

Q Accelerating to what degree?

MR. GREENSPAN: I think I indicated earlier, to the Joint Economic Committee meeting, that I would look for a real GNP increase of approximately 7 percent, or slightly more, at an annual rate during the fourth quarter of this year.

Q Do you expect a plus or minus in the second quarter?

MR. GREENSPAN: I would say it is very close at this point. One of the difficulties you have -- although I can't see him, it sounds like Bart Rowan -- Bart, it is difficult to judge because we are dealing right on the edge of zero plus, or minus, small amounts, and I wouldn't know how to call it at this point.

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Q What about the third quarter?

MR. GREENSPAN: It is a plus.

Q Large or small?

MR. GREENSPAN: I would suggest to you, you now have enough information to do a little arithmetic yourself on that.

Q Are you able to make any economic projection on how they would affect the budget?

MR. GREENSPAN: I don't quite get the question.

Q I mean receipts and all of that--the level, we are recovering from a recession?

MR. GREENSPAN: You mean, have we estimated receipts on the basis of the GNP?

Q What are your economic projections?

MR. GREENSPAN: Those are the ones that are in, now, page 41, which it shall be irrespective of the document in which it appears. (Laughter.)

MR. LYNN: Now known as the "Page 41 Formula."

MR. GREENSPAN: I think it is on page 4.

Q What are the main items in this $8 billion, there?

MR. GREENSPAN: The data are on page 4 very specifically for 1975 and 1976, and the longer term projections are on page 22.

Q What are the main items in this $8 billion or $8-1/2 billion added to outlays if Congress doesn't act on reductions? I suppose it would include the remaining cap on some sort of retirement pay?

MR. LYNN: It includes, Mr. Dale, the caps--the ceilings on Federal pay and military pay. It includes changed matching arrangements on social services. It includes changing from a categorical to a bloc grant approach on nutritional programs and changes in Medicare and Medicaid.

Q Mr. Lynn, the estimate for Federal employee pay next year is 12.25. Would that be a catch-up after the cap; is that right?

MR. LYNN: What that reflects is -- to give the history -- as you know, the President has proposed a 5 percent cap. The President, at the same time, has stated, in the budget, that he is convening a high level panel to consider the issue of pay in the Federal sector, so that we can come up with Administration proposals for changes, if any, on how Federal pay is calculated.

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Now, that study will not be done until later this year. In the meanwhile, our proposal for the 5 percent cap was through this fiscal year, through this year, so that we had to make an assumption of a return to full comparability for the next year out. This is simply a calculation that, if you took full comparability under current law in the way you determine comparability, you would have this kind of a figure.

Now, that figure might remain the same or be lower or higher depending on the proposals that come out of the pay panel, the President's decisions thereon and Congressional action on the President's proposals.

Q The notion is that, if you held down this year, they would get it back next year, plus whatever they withdraw.

MR. LYNN: You get back to a rate based on the present comparability statutes. But the limitation, of course, would be effective for the year in which it is in.

Q It also would come up in October of 1976, before the November election, the 12 percent pay increase? That just happens to be coincidental; isn't that the way the law reads?

MR. LYNN: The law presently reads that these determinations are made in October. The thing that drove these figures and got us to this point is as I explained it, and that is a fact.

Q Has Vice President Rockefeller been asked to head this pay panel, do you know?

MR. LYNN: The Vice President's Office has been active with us. As to whether or not he becomes the Chairman has not as yet been decided.

Q You do show the 6.4 percent rate on the Treasury Bills through 1976, and you drop that now to 5.1? That seems to indicate that $8-1/2 billion difference you are haggling over with Congress isn't going to have much impact on the borrowing market.

MR. LYNN: I don't understand the question.

Q In your original projections, you said the Treasury Bill interest rate would average 6.4 percent for 1976. You adjusted that down to 5.1 percent. The argument that has been used against a bigger percentage deficit is that it would crowd people out of the market because of high interest rates and inflation. Now, since you have raised that target, does that alleviate any strain on the markets, and are you against holding down the deficit?

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MR. FIEDLER: I believe you are interpreting the target that is not that but rather is a number based on the current rate of Treasury Bills that has been for years and continues to be our practice to use for this year and, indeed, next year the current latest interest rate on Treasury Bills as the projections in this document. That was the way it was done in the budget document in January, and it is the way it is done here. There is no projection of interest rates.

Q Can you estimate the level of Federal borrowing in the second half of this year?

MR. FIEDLER: Yes, the total for the two halves is consistent with the numbers in the area of $70 billion to $75 billion.

Q For what period?

MR. FIEDLER: For the Fiscal Year 1976; that is the fiscal year. That was the question, for the --

Q That is borrowing from the public?

MR. FIEDLER: Yes, total net new funds raised by the Treasury.

MR. LYNN: I should add, in addition to that, of course, there is activity in the market represented by Federally guaranteed obligations, as well.

MR. FIEDLER: That is correct, and that is the net new financing. There is also the refunding of maturing issues.

Q Mr. Greenspan, in your estimate and in your new forecast for 1976, you show improvement as a percentage. In that case, why do the unemployment rates stay at 7.9, as they were forecast before?

MR. GREENSPAN: It is basically a relationship. The problem exists in the early forecasts and not in the current one. I think Ed Fiedler was involved in that one and followed it fairly closely.

Why don't you indicate what that is?

MR. FIEDLER: Back in December and January, when we were making out those forecasts, we were aware of the fact that the relationship between the unemployment rate and GNP, the real GNP, was out of whack, because the unemployment, at that time, was lower than would have been suggested because of what had happened over the preceding period in real GNP.

In making the estimates out through 1976 back in January, we returned that relationship toward normal on a gradual basis. Then, what actually happened in the first quarter was that, the unemployment rate shot up very sharply and made the change back to a normal relationship all at once.

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Therefore, what happens between 1975 and 1976, now, does not have that adjustment in it to get back to normal, since it has already taken place, and it shows an improvement. That is commensurate with the real GNP improvement from 1975 to 1976.

Q I haven't understood what you are saying.

MR. FIEDLER: Well, it is a technical problem, and I am not sure it is easily explainable. I will try it again.

The actual level of unemployment, at the end of 1974, was lower than we would have expected based on historical relationships between GNP and the unemployment rate. We recognized that misrepresentation of the relationship, and we built in a gradual return to a normal relationship in our estimates through 1976. That meant that the improvement from 1975 to 1976 was relatively small.

Now that the relationship has suddenly and abruptly and unexpectedly returned to normal, the improvement in unemployment in 1975 to 1976 can be more normal. That is why it shows a greater improvement or greater reduction in the unemployment rate now than it did then.

There is a second factor, but it is of lesser importance, and that is that, the real GNP growth, between 1975 and 1976, is larger now than was projected in the earlier budget.

Q It would seem to be the other way around, because what you are showing is the higher unemployment rate along with a higher rate of real GNP growth. That seems to be the other relationship than the one you described.

MR. FIEDLER: A higher level of GNP in the calendar year 1975.

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Q You are still forecasting an 8.7 percent unemployment rate, although at this point the GNP is 63 instead of 68?

MR. GREENSPAN: It is the level of real GNP against the level of the unemployment rate which is relevant. I think that you will find that the problem exists in calendar year 1975 and not in '76 on that issue.

Q Can you tell us something of the source of this improvement in your forecasts for real GNP? Is a chunk of that due to the fact that Congress went further than you proposed on the tax cut?

MR. GREENSPAN: No, I would say that it gets to one of the particular quirks that are always involved in economic forecasting and it is one of the biases that gets built into the way forecasting mechanisms occur.

When you start in a period such as we did in January, what occurs is that you are looking at a significant decline in output at that particular point and there are serious questions that one always has when you are trying to forecast both a dip--a bottom--and a recovery. There is a tendency when you get involved in a practice like that, and I think this is probably true of all economic forecasters and it is built in, I might add, in all metric models, there is a tendency when you have a sharp drop of that sort to tamper down the extent of recovery.

I think what has happened in here as we begin to look at the evolving bottom and the nature of the deepness of the inventory recession particularly--what occurred is that you begin to see a far more credible set of elements in the economy which accelerate or tend to give you more confidence in the rate of recovery.

Now, what is involved here--the more important question--is that we have revised upward the real GNP in 1976 calendar versus the old one. It is not much and these are very small changes. I would suggest that it has very little to do with policy differences and these are really, when you look at them, quite small changes considering the type of changes we usually see, even from one month to the next in forecasts.

I tend to look at small changes as being really quite irrelevant and I think we do have a tendency and I think quite mistakenly, to read in very great amounts of importance into what in fact is a very imprecise art.

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I would suggest, John, that what we are looking at here are really quite marginal changes and if I were to describe our forecast as it appears here compared with the forecast that appeared in the budget, I would say qualitatively they are essentially the same forecasts.

Q What are you assuming about the unemployment rate for the balance of the year, Mr. Greenspan, and where will it be?

MR. GREENSPAN: First of all, we do not, of course, as yet have data for the month of May. Looking at the insured unemployment data which we have on a weekly basis which continued to rise, it is likely and, I must say, I would be surprised if we did not have a rise in the unemployment rate in the month of May.

There are also, I might suggest, some technical statistical problems in seasonal adjustment for the month of May which will actually add to the level of unemployment marginally which is not real, but of course it is a statistical problem which is very difficult to get around.

We are seeing now some fairly credible changes in fiscal volume and the elements within the economy which are available on a week-by-week basis including now some-- I would say at this point--a fairly clear downward trend in initial claims for insured unemployment seasonally adjusted carrying through to the week ended May 24, so that this in my view is pretty much in line at this particular stage with a clear down trend through most of the second half of 1975 in the unemployment rate.

We are assuming it will peak modestly above the nine percent level some time in the next several months and then start heading down.

However, referring to my earlier remarks, our degree of accuracy in this type of forecasting is not good and these forecasts are for the purpose of basically constructing a budget document which people can relate and economic forecast to the actual budgetary data, and enable other people to compare one set of forecasts with another.

So I merely wish to caution that that is what we are assuming. It is my best guess at this stage, and so far the evidence of the last several months has been pretty much squaring with this.

Q How low will the unemployment rate drop by the end of this year?

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MR. GREENSPAN: I don't want to give you a pattern. It will be obviously, if you look at the numbers we are showing, on its way down and well below where it is now.

Q On page 1 of this hand-out -- and I will address this either to Mr. Lynn or Mr. Greenspan or whoever wants to tackle it -- you say the estimates reflect changes that have occurred since the 1976 budget was sent to the Congress in February. In view of Congressional inaction thus far on the President's energy program, the starting date assumed has been changed to September 1. As I read this, that means that the revised assumptions do assume that the Congress eventually will pass the President's energy program in toto.

Is that right; and if so, since we are talking about -- as I recall figures in his original proposals, $50 billion or $60 billion of payouts, receipts coming in which would then be redistributed or routed back through the economy -- isn't this a pretty big assumption for you to make considering Congress' attitude so far on Mr. Ford's energy program?

MR. LYNN: If you are suggesting that or predicting what will happen in the Congress with respect to energy is a difficult matter, you are absolutely right.

Q But you are assuming that in this?

MR. LYNN: We are indeed assuming in this document that the President's energy program, the comprehensive program, goes forward.

Q You admit that is a pretty tenuous assumption?

MR. LYNN: Well, I would like to think that seeing the increasing awareness of the severity of our problem -- the vulnerability of this country that is growing -- that we will see the Congress take action when they do return and that is what the President asked for when he gave his talk to the Nation a couple of nights ago.

Q Mr. Lynn, along the same lines, when you say your budget deficit would be $8-1/2 billion higher if Congress doesn't take these actions, aren't you in fact expecting a budget deficit of something like $68 billion?

MR. LYNN: I would put it this way: We have to make budget estimates. Our budget estimates, I think, properly reflect the President's proposals. In this case, the President has proposed restraint.

We already have a large deficit, a deficit of $60 billion. We feel it is totally unwise for that deficit to rise. We go too far into the danger zone, given the economic circumstances that we know now and the signs Dr. Greenspan referred to, of recovery.

I have been in this town for 6-1/2 years. One of the things I have found is that it is extremely perilous to try to predict what Congress will or will not do. I have seen signs here and there, from time to time, of sympathy for things the President is trying to do to hold those Federal expenditures down. As to whether or not with the changing mood of the Congress, seeing that we are reaching bottom and coming around to the other side, seeing the effects that too much stimulus could have with respect to the prospect of double-digit inflation later followed by recession or indeed even choking off recovery, that Congress may take a hard second look at the President's reduction proposals. I would at least hope so.

Q You attributed $1.3 billion of the increased deficit to Congressional inaction on the President's proposal. The other $6.7 billion, what did that come from?

MR. LYNN: There are a number of things. The total amount that is attributable to either Congressional action or inaction is about $4.4 billion, I recall, in total outlay effect. I am talking about 1976, fiscal '76, because your question revolves around the $60 billion deficit, I believe.

Q That is right.

MR. LYNN: Then, in addition to that, the lion's share of the balance or at least half of it or more is made up by re-estimates with respect to having underestimated originally the amount of money that would be required to fund these transfer programs where people are eligible under certain circumstances and, of course, the recession has increased the number of people that have applied for those.

Then, in addition the President has made proposals himself. He has proposed an extension of a level of public service jobs of around 300,000 for the balance of '76 and that cost is roughly $1-1/2 billion in outlays in '76. He has proposed a further summer youth program which again is around $400 million for a total of $1.9 billion.

He did see an opportunity for quick stimulus earlier in the year and also some other advantages in announcing a release of highway monies that could be contracted for and gotten the word promptly in, and the amount that would have an outlay effect of $1 billion. So it is the sum of those three or four different kinds of elements.

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Q The question I have, if the nine percent unemployment rate, or nine-plus you are talking about -- you have estimated the unemployment compensation impact of that?

MR. LYNN: We have taken into account the economic assumptions you see on page 4--I guess it is--in all of our figures, yes, sir.

Q On those figures on page 8, six lines up, you anticipate participation in the program to save $1-1/2 billion, and then at the top of page 10, six lines down, for those not regularly covered, $1.9 billion. I would like to know what figures we should use.

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Q That is about seven lines from the top. The total is $3 billion, is that right, between the two?

MR. O'NEILL: It depends between the Fiscal Year 75 and Fiscal Year 76.

Q It is 1.5 billion in 1975 and 1.9 in 1976?

MR. O'NEILL: In our original estimate.

Q And at 1.1 for the FSD?

MR. O'NEILL: Yes.

Q How would the addition of the $8.5 billion to the budget affect your economic assumptions?

MR. GREENSPAN: That is a question of the relationship really between the nature of the economic outlook and the budget deficit. I think there is no question that in the current dollar GNP it tends to be affected by larger Government expenditures. The basic issue that I think we have to now really focus on is one which I think has not been appropriately addressed; that the greater the deficit, the greater the level of real GNP and the greater the level of employment.

This is a view which presumes that you take a direct relationship, which a lot of people who are putting models together define into their models the relationship that the higher the deficit, the higher the level of employment and the lower the level of unemployment.

I think this is a very dubious concept, and I think that we are beginning to see that these relationships around the world do not really hold. The point that Jim Lynn made with respect to moving out into the danger area is that it is fairly obvious if you have an exceptionally large deficit that the impact will eventually be negative to employment to the extent that you accelerate inflation as a consequence of it. What occurs is you induce distortions in the economy which eventually create a level of unemployment similar to the type of pattern which you have seen in the most recent years.

What I would suggest is that it is not easy to make a specific differential estimate which anyone can really satisfactorily depend upon because we do not fully know the exact impact on the financial markets and the exact timing and impact of inflation.

What we do know is that if we continue this type of level of deficit spending and Government borrowing as the economy begins to rise and as private credit demands begin to rise, we run into a very high-risk situation. And having evaluated the various risks involved, if one takes as the standard of what one wants to do--not only to reduce the unemployment rate as quickly as is feasible but to get it down and keep it down--I think it is important to look not only at what occurs in the months ahead but construct policies which are responsible over the next one, two, three or four years so that what we will have when we have it, when we have achieved what we want to achieve is a non-inflationary growing economy with minimal unemployment.

So as a consequence of this, what we are looking at is a one and two-year pattern, and I would suggest that as we see it at this stage, going as you go, billion dollars or dollar by dollar over the $60 billion deficit, you very clearly increase the risk of reigniting inflationary forces,and those inflationary forces will pretty much make it difficult, if not impossible, to get down over the longer term to a stable -- or to get the unemployment rate down and keep it down, and that is our objective.

MR. LYNN: Let me just add one thing to that, if I might, and maybe it is an OMB perspective where we have to keep track of the bills on the Hill. We tend to focus on Fiscal Years 1975 and 1976, but as I look at the additional stimulus on how it is built up in the various proposals that are pending on the Hill, a fair number of them are of a nature that once the decision is made to spend, the Federal Government goes out and signs contracts of various kinds with people that have an effect not just in Fiscal Year 1976 but 1977 and out beyond that.

The same thing is true with the deferrals and the rescissions. The outlay effect, as shown by this document, is far smaller for 1976 than the amount that we were asking for in the rescission because there are effects in the out years which add to the deficit.

As I listen to the economists debate this issue of how much is too much, the one thing I do hear rather clearly from them is this: If it is too much, there is not very much you can do about it, and I would think that kind of problem is made even worse where the form of stimulus is such that there is no way of controlling it once the contract is let for the dam or the bridge or whatever it might be.

Q Everything you have said is in the table labeled "Economic Assumptions", I gather, except the interest rate, which is a useless number.

Can you tell us what kind of assumptions you are making about monetary policy that would be consistent with the remainder of these numbers?

MR. GREENSPAN: I would suggest that the forecast that appears here is not inconsistent with Chairman Burns' testimony very recently on that question.

Q Do you accept his statement of the likely relationship between his target rate of growth for M_2 and the target rate of growth for M2?

MR. GREENSPAN: I have not looked at it sufficiently to be able to answer that off the top of my head.

Q The relationships between those numbers are totally unlike anyone else's by a couple of percentage points?

MR. GREENSPAN: I would suggest you discuss that with Chairman Burns.

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Q I am asking you though about what your assumption is that you are building in here?

MR. GREENSPAN: Let me put it this way: The assumption of the question is that small differences in M_1 and M_2 have significant differences on economic activity.

I suggest to you that that relationship is sufficiently loose by any method you wish to apply it to that all one can say is that various ranges in the relationships are consistent or inconsistent. I am indicating that whichever set of M_1, M_2, M_3 and M_4 you wish to take, these numbers are not inconsistent with that projection.

Q Mr. Greenspan, you were asked a while ago about the impact on economic assumptions of an $8.5 billion increase in the budget deficit and you responded with a broad discussion of the ultimate horrors if the deficit gets beyond a certain point.

Are you saying that you can give us, as you have in the budget, the economic impact or relationships of a $60 billion deficit but that you cannot give us the same thing for a $68.5 billion deficit?

MR. GREENSPAN: First of all, I would question whether one can accurately give numbers on a $60 billion deficit. Let me tell you why.

The effect of the deficit to a very substantial extent works its way through the economy through the financial system. It is not easy to track small changes in the deficit on the financial system, on the flows of funds, on interest rates, on money supply and on prices.

You can do very broad ranges. So what we try to do is to get estimates as best we can, but we do know the direction, and all I suggest is that while I obviously cannot state within any small narrow range what the impact of differences on the economy are, and I do not think anybody can, I can suggest that we do know that as you move significantly above $60 billion, what you are doing is you are raising or increasing the risk in a significant manner of re-igniting inflationary pressures.

I use the word "risk" advisedly in the sense that we do not know for certain what economic policy and budgetary policy might be, and we must consider what the probabilities are of various different budgets.

All we can do in this sense is try to make judgments on what the risks are, and I would submit that the risks are quite substantial because when you are looking at a $60 billion or $68 billion or $70 billion or $55 billion deficit, you must remember that when you make those assumptions, you are also saying something about Fiscal 1977 and Fiscal 1978. You often see small changes in a budget which is close up to you but you will find if you stretch those assumptions out those numbers take on very substantial proportions. So that when you look at this type of difference, I think it is incumbent upon any analytical worker to ask yourself, what does that do for not only the most immediate period but in the period over which your policies have an impact.

Q It was explained in February that the $52 billion deficit at that time was almost entirely as a result of the recession. Is it fair to now extrapolate out that the recession is ending but that kind of recession cost-spending becomes continuous in '77 and '78 and so forth? Do we not get an automatic stabilizer effect where some of that spending would drop out?

For example, if the unemployment rate were indeed to drop to a 7.9 average in '76, it would imply something considerably lower by the end of the year. We would presumably be saving something like $18 billion on unemployment insurance and other recession-related costs.

MR. LYNN: All I can say in this regard is that we did take the economic assumptions. We did take a look at that kind of favorable development and crank it into the computer and measure the effect through the computer on our unemployment payments and on our other transfer payments for the people that are out of work or have need.

Now again this is not an exact way of doing things. We are doing the best we can but how close we are we will know when it is over and maybe we will learn by the next experience, just the way we do on prior ones. But we think this is our best guess as to our best estimate as to where those figures will come out.

As you can see, they are still pretty high. 1977 looks a fair piece away but you will notice even with the projections, and we are not talking about forecasting now and we are talking about those projections -- extrapolations, I guess it is -- is that the right word excuse me, I am learning, but with those we are talking about a budget deficit in '77 under those extrapolations of $34 billion. That is up $4 billion from what we originally estimated in February.

If you look at some of the proposals that are pending on the Hill there would be major effect in fiscal year '77.

Q The President has no alternative under all of this hypothesizing about Congressional action or inaction increasing the deficit, but to veto any appropriations which come through higher than his budget request, is this not true? He has really no option except to veto appropriations which are higher than the budget request. If he is to say that it is Congressional action or inaction which is likely to increase the '76 deficit, he has an obligation to do so, does he not?

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MR. LYNN: Let us put it this way: I think the President's choice in this regard is made extremely difficult because he gets one bill at a time.

Now, I was very pleased to see that Congress was able to arrive at a concurrent resolution. I wasn't pleased with the amount of it or the make-up of it which is quite different from the budget that we have proposed. But we have no way of knowing at this point whether they will even -- whether each bill that is coming to us is going to add up to a total somewhere between our estimate, the $68.8 billion, or something approaching $100 billion. So that at least in my giving advice to the President, let us put it this way: My advice has to lean toward the veto side quite heavily.

MR. O'NEILL: Indeed there is an additional decision or two that the President has at his command if, say, we have a set of facts where an appropriation bill were to come down and it were to be, say, $100 million over his request. Under the new control procedures he can ask the Congress to rescind funds or to allow him to defer the expenditure of those funds.

Q He can sign it and then ask for a rescission?

MR. LYNN: But again, unless there was some reading on that from the Congress to show receptivity to the deferral or rescission--and there certainly hasn't been a lot to this point--he can't count on using that technique.

Q So isn't the veto, then, the more immediate way of assuring that his level will prevail?

MR. LYNN: All I will say on this point is that it certainly puts me in the position of recommending a lot more vetoes than I would like to, frankly, in the sense of relationships between the two branches.

Q Mr. Greenspan, you said earlier that the changes in the forecasts for 1976 between February and now are really almost insignificant or relatively small. Yet you are talking about a 6.3 rate of growth, of annual rate of growth of real GNP, as opposed to 4.8 or 4.5 percent growth rate. If you still had a 4.5 or 4.8 percent growth rate, would you have a higher unemployment rate on the average of 7.9 percent for the year? Does that increase in the real growth rate make any significant change in the unemployment rate?

MORE

MR. GREENSPAN: On that issue you have to combine 1975 and 1976. Obviously, the level of the unemployment rate is related to the level of real GNP, so to the extent that you lower the level of real GNP for '76 you will obviously increase the unemployment rate.

Q On page 6, table 3, of the fiscal year 1975 individual income tax figures, I have been assuming that you were underestimating the severity of the unemployment when the original February figures were drawn up. If that is the case, why have you underestimated individual income taxes by some $7.1 billion? Wouldn't one assume you would have overestimated the receipts here?

MR. FIEDLER: The unemployment rate was underestimated. The rate of total salaries and wages and the money off of which individual income taxes are paid was not. So that is not an explanation.

Now that doesn't answer why we underestimated the receipts on individual income taxes and we do not know the answer to that yet.

It is a question of the yield that we get out of a given level of personal income. It may turn out that the personal income figures that we were using for 1974 and early 1975 are lower than they were in fact but more likely in my mind it is that we will find that the tax system perhaps due to the inflation is now yielding a higher dollars of tax per unit.

Most of that $7.1 billion increase is a higher yield on final returns on 1974 tax liabilities. We are just getting more or we are getting more in the final returns or paying out less in the refund. Most returns at the end involve refunds and we don't know whether that is essentially taxes on wage and salary income or whether it has a lot to do with capital gains. Maybe capital gains were higher. We will know that in about two years when we get the statistics of income.

THE PRESS: Thank you, sir.

END (AT 12:30 P.M. EDT)