

\$195 - lower than

Budget surplus overestimated -

Inflationary

1970 - Expenditures lower than present (but)

CONGRESSIONAL LEADERSHIP AGENDA

March 25, 1969

- 8:30-9:00 a.m. I. The Budget
- 9:00-9:30 a.m. II. Surtax
- 9:30-9:45 a.m. III. Senate Report
- 9:45-10:00 a.m. IV. House Report

Below - 1970 significantly below HBJ of budget

Agencies -
Wage & Price controls
never

1968 - 25.2
 1969 - 2.4
 1970 - 3.4

1969 - Exp - \$183.7 $\frac{\$185}{+1.3}$ reduction



Up - Agencies + \$100 BOB - \$100
 Down - - 200
 Saving - \$200 net

Expenditures

1970 - Exp \$195.3 $\frac{\$199.4}{+1.4}$ reduction in surplus.

Up - Agencies + $\frac{199.4}{2.4}$ BOB $\frac{1.2}{-1.2}$
 Down - - 1.4
 Military Pay
 welfare

DIARY OF WHITE HOUSE LEADERSHIP
MEETINGS -- 91st CONGRESS

March 25, 1969

Upon entering at 8:35, RMN announced that a message is scheduled for delivery to the Congress tomorrow calling for both budget cuts and extension of the full amount of the surtax for another year. Quoting from memory from the message draft (which Harlow later read in full), the President said that careful studies now show that the Johnson spending budget for FY69 was underestimated and the surplus overestimated for FY69 by \$1.3 billion and for FY70, the figure is \$1.7 billion.

Referring to what he called "Mel's very effective testimony last week," he said that the public understands the need for major defense expenditures. The cuts that are being made in defense were carefully selected so that they could not be interpreted at home or abroad as cutting our muscle while Russia is flexing her muscle. "Inflation psychology" has gripped the business community. Since inflation is now in its fourth year, businessmen are assuming that government intends it to continue, and they project their business plans, both capital and operating, with that factor in mind. This in turn feeds the flames of inflation. Searching for checks on inflation, RMN said that we must discard the technique of interest rate increases because rates are already as high as they can be if they are to operate as a restraint without producing an undesirable counter effect. He said that so far as monetary supply is concerned, there is nothing more the Federal Reserve can reasonably do. He also rejected the device of calling upon business and labor to follow artificial guidelines. Where self-interest is involved, neither business nor labor pays much attention to the President or anyone else. This leaves only one alternative solution to the inflation problem and that is a strong budgetary policy of holding down expenditures and continuing surtax revenues.



He said that this year is the time to make budget cuts rather than next year. He recalled that the cuts made in 1954 and 1958 precipitated mild recessions which cost Republican seats in Congress. It is better now to take the heat and get our house in order for next year.

Kennedy complimented the President's statement and agreed with him that guidelines are not workable. A busy businessman will understand the policy which this decision seeks to implement and he feels that it will be warmly welcomed by the foreign financial world.

McCracken said that the economy is moving entirely too fast, currently at an annual rate of 8%. This is compared to an increase in the capacity to produce of only 4%. The differential is inflation. He called guidelines "jaw-boning" and the "open-mouth policy."

Mayo used charts prepared by the LBJ Administration showing the anticipated changes from a deficit budget to a surplus budget. The first Nixon Administration chart showed the conclusions flowing from agency reappraisals of the Johnson budget. For FY69, the Johnson budget showed \$183.7 billion in spending. This is underestimated by \$1.3 billion, bringing the total of the real budget to \$185 billion. The underestimations principally are in farm price supports and national debt interest payments and the overestimation of revenues from offshore oil royalties. The goal for FY69 will be \$184.7 billion. While this is less than the real Johnson budget, it is \$1 billion more than the printed Johnson budget.

For FY70, the Johnson budget was \$195.3 billion. To this must be added \$1.7 billion of underestimations. For the funding of new programs previously authorized, the agencies are asking increases of \$2.4 billion. Set off against this are agency cuts of \$1.4 billion and Bureau of the Budget cuts of \$1.2 billion, making a net cut of some \$200 million. The goal is to get total spending under the \$195.3 billion Johnson printed budget.



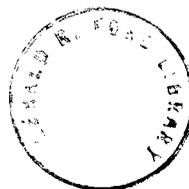
The next chart concerned FY70 budget authorizations. The LBJ budget authorization figure was \$210.1 billion. The underestimation raises that to \$211.5 billion. Agency requests for increases total \$3.4 billion, offset by agency cuts of \$3.3 billion and Bureau of the Budget cuts of \$2.1 billion. The net effect would be to increase the \$3.4 billion surplus projected by Johnson.

Byrnes inquired if the Aid to Dependent Children Program was included on the charts as part of the underestimation in the Johnson budget or as a part of the agency requests for increases. Mayo replied that it was the latter. Byrnes suggested that the figure more properly belongs in the former on the grounds that it was unrealistic for the Johnson budget to expect that these funds would be frozen in FY70.

Arends asked the President how he stood on wage and price control. Firmly, RMN said that he would not resort to them; that they worked poorly enough in war time and not at all in peace time; and that he was adamant in his position.

The VP suggested that attention be given to the semantics involved in redirection of program expenditures, particularly in the welfare categories. Instead of calling the old discredited programs by their old names, we should talk about funding new programs with new directions and with new names.

Ford inquired if there wasn't an inconsistency in two newspaper headlines in the morning paper, one of which speaks of a freeze on public works while the other concerns a HUD demand for a substantial increase. RMN and Mayo said that there would be no new starts in public works. Cramer suggested that here again semantics is important. It is not necessary to talk about "no new starts," which inflames constituents. If the policy is to be no new starts, it can be accomplished quietly by careful money cutbacks. Rhodes said that an



announcement of no new starts would kill the party in the West. Young suggested that any announcement make it plain that emergency exceptions could be made.

RMN said that the budget plan is tight and that the figures are as hard as they can be made. However, he reminded us that the financial picture could improve if the economy remains strong and revenues are greater than anticipated or if programs in foreign affairs permit a more dramatic reduction in defence expenditures. Bow asked if the \$1 billion commodity price support plan under debate on the Floor today had been taken into account in the budget charts. Mayo said that it had and that its passage would not unbalance predictions. Bow asked if Members of Congress should begin publicizing the Johnson budget as a false budget. RMN answered in the affirmative and said, "You don't mind being that political, do you, Frank?" Bow also asked Mayo to come to the Hill and brief ranking Members.

Young called attention to the fact that about \$1.5 billion in the Commodity Credit Corporation spending schedule goes to alleviate hunger. Taft said that ADC is unpopular and urged the President not to defend it but to announce in the budget message that it would be restructured. The VP asked if he should write to the Governors asking their advice about ADC. RMN answered "yes." Ford inquired what level had been given to foreign aid in projecting the budget. Mayo said that they had tried to recognize the realities of Congressional life.



Dirksen suggested that instead of talking about a blanket moratorium on public works, we should speak about selective cuts. RMN agreed and said that this rationale would give the Democrats no obvious targets and leave us some running room. He said further that the issue of economy in government was not much of a factor in close races. Aside from politics, he said that we simply have no option but to do the responsible thing, to make the hard decision simply because it is right. RMN is at his most effective when he speaks in this vein.

In response to the President's invitation, Tower said that he felt that whatever arrests cost-of-living increases is good politics. Wilson said that the people want to keep the economy moving even when taxes are burdensome. He cited a personal experience he had with a Life magazine reporter some years ago when the reporter asked 100 constituents in his presence whether they favored a reduction in income taxes. Only 1 ~~out~~ of 100 answered in the affirmative.

Parenthetically, RMN commented that Perkins is trying to force out a bill extending OEO for 5 years rather than 1 year, as the President recommends. He urged the Leadership to fight it.

Discussing the message the Leadership would give to the news conference to follow, Dirksen suggested 3 main themes, viz, 1) inflation must be controlled; 2) this requires both spending cuts and surtax extension; and 3) the cuts will bring the spending budget for FY70 below the Johnson printed budget and substantially below the true Johnson budget. RMN spoke his gratitude for the sizeable Republican vote in the House in support of the debt ceiling increase. He said that he admired those who had the courage to "turn around and stand up" to the realities of the problem. He further said that the Presidential-message-to-Congress-flow would begin in earnest next week. The first Reorganization Plan can be expected within 3 weeks.

After the President had thanked the Leadership and rose, he remembered to report on President Eisenhower's condition. The present prognosis is bleak.



RICHARD H. POFF

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE
PRESS CONFERENCE
OF
SENATOR EVERETT MCKINLEY DIRKSEN,
AND CONGRESSMAN GERALD R. FORD
THE ROOSEVELT ROOM

AT 10:30 A.M. EST

SENATOR DIRKSEN: We had a two hour fiscal and monetary session. Everybody sat quietly for two hours. That is in violation of what I saw in "Nation's Business," by the doctor who said, "Don't sit longer than 30 minutes without getting up and walking around your desk." But everybody stayed right in place for two hours.

The emphasis this morning was, of course, upon inflation and how you effectively restrain it. I think there is general agreement that that is a foremost problem and that it can be restrained only by finding cuts in spending and protecting your revenue. In other words, dealing with existing taxes, including the surtax.

Now then, in order to do the job effectively, you have to start with a budget, of course. I go on the theory that you have got to have a refined sense of the budget. It has to be a true budget. And therein lies the problem. Taking the last Johnson budget, it is a true budget in one sense, but in another sense it isn't.

When I say this, I impute nothing to the Johnson Administration or to the predecessor President with respect to that budget. I simply say that in the making of the budget, you may have your choice of one, two or three figures: as for example, the interest on the public debt.

At the time of making the budget, they will come up with a figure, and they may stay with that figure and then you discover, because of a rising interest rate, that you are a couple of hundred million dollars out of line. Well, you have to compensate for it, because events simply overtake theory, and overtake calculations, and you are going to be \$200 million in the hole.

That would be true, I suppose, about receipts, like oil leases, where they have not actually been issued. It would be true in the case of the commodity credit corporation, and price supports. If you underestimate and you find that you have got to add to it, there it is. That is why I say you have to find a true budget from which to work. That is what we are in process of doing.

MORE

(OVER)



Then, of course, you determine where you can cut and what you are going to save. I give you no figures this morning. I simply say to you that there will be a substantially larger saving, larger surplus, after we get through than the one that was estimated by the prior Administration.

So, generally, that is the whole story.

Q You are talking about fiscal 1970 when you make that statement?

SENATOR DIRKSEN: 1969 and 1970.

CONGRESSMAN FORD: I would simply add that it was the feeling on the part of the President and his advisers that we had reached the high-water mark of inflation in this country last year. As you know, it was about 5 percent.

The whole effort from the fiscal point of view is to try and moderate and reduce the inflationary impact. In the process of going through the budget and taking a realistic look at the anticipated revenues, and taking a more realistic look at the expenditures through the various agencies and through the Bureau of the Budget, there will be significant savings in fiscal 1970. There will be some savings in fiscal 1969.

These will be reflected in the various actions taken by the agencies and will be reflected in the message that will come to the Congress tomorrow in reference to the fiscal picture.

The whole attempt is to do what the Administration can in the area of fiscal control through the budgetary process.

Q What is the message tomorrow, Mr. Ford?

CONGRESSMAN FORD: The message tomorrow will be the request for an extension of the 10 percent surtax, but at the same time pointing out that there are adjustments, and significant adjustments downward in fiscal 1970, related to the anticipated and hoped for extension of the surtax.

The net result is that we hope to have a budget surplus and realistically as much as that anticipated in the January budget sent up by former President Johnson.

Q In what areas do you expect these significant savings?

CONGRESSMAN FORD: The specifics were not laid out. They were lumped in as to reductions that had been achieved or hoped to be achieved by the various agencies and the add-on reductions that would be imposed by the Bureau of the Budget.

MORE



Q Mr. Ford, how long will the request for the extension of the surtax be -- for a year or more?

CONGRESSMAN FORD: The request will be for fiscal 1970.

Q For the full amount, sir?

CONGRESSMAN FORD: Yes.

Q Senator, you said that there will be substantially larger surplus by the time we get through. Who do you mean by "we"?

SENATOR DIRKSEN: I mean those who are charged with the responsibility of the budget and the fiscal affairs of this Administration.

Q You didn't mean the Congress as opposed to the Administration?

SENATOR DIRKSEN: The Congress is a part of this operation; for after all, they will have to be passing on authorizations, and on appropriations. Insofar as they relate to this whole picture, they have a responsible role just as well.

Q Congressman Ford, you pointed out last year there was a 5 percent inflation rate, and that this year the high-water mark had been reached. Do you have an estimate for how much inflation there may be this year?

CONGRESSMAN FORD: That was not discussed at the meeting this morning, but I have seen other comments and I have talked to some of the people in the Administration, and it is hoped it would be 3 percent or less in 1970.

Q Along that line, are there any signs at present which point to a reduced rate of inflation -- specific signs?

CONGRESSMAN FORD: I think the general attitude, and I can't give you any specifics, but 4.8 to 5 percent was the figure in calendar 1968. But the economists as a whole, indicated from a variety of the economic indicators, there will be this drop off from the figure of 1968 to a lower figure.

Q Would the Congress --

SENATOR DIRKSEN: Let me respond a little further. I don't believe those figures are very significant, because what you have to do is to siphon off some spending, and at the same time use whatever tax devices are at hand for the purpose of adding to it, so that you take that out of the economic blood stream. Where will it finally land? You can't tell. You can only tell after it happens.

MORE

(OVER)



Q Would the Congress sit still for a major cut in public works spending?

CONGRESSMAN FORD: I don't believe that the Congress will reduce the budget requests of the previous Administration or the programs of this one significantly. There will be some selective changes. Those programs or those projects which have an emergency nature, those projects which are in the mill, half way through, obviously ought to be continued. But there will be a selective pruning both by the Congress and, I think, by the Administration.

Q Will the message tomorrow reflect this?

SENATOR DIRKSEN: Let me illustrate just a little, whoever asked that question.

I saw the Weather Bureau forecast the other day for what they anticipate by way of floods in the Northwest, and in the Middlewest. Evidently it is going to be a rough season. There you are going to have an emergency, and you will have to do something about it. That you can call selective.

On the other hand, you may have something in the mill that is not nearly so urgent, and there again you can be selective in holding down one and raising the other. But in every case, you try to keep the whole public works picture in balance.

Q Was there any indication about any steps the Administration might take to discourage business expansion, as an example, the 7 percent interest rate?

SENATOR DIRKSEN: It was discussed in the Senate Finance Committee yesterday morning.

Q In light of that, and in light of the housing and the interest rate, and the whole current inflation picture, do you accept the validity of these predictions that we have peaked on inflation, and it will drop to 3 percent?

SENATOR DIRKSEN: I don't know. I don't attach too much significance to a figure, as such. You do what you can and you just want to be sure that you are going in the right direction to diminish and restrain inflation, then let the chips fall where they will. Then, if that isn't enough, you have to resort to something else.

Q Senator, may I clear up something that just appears as a technicality? This message will be from the President to the Congress and not from the Secretary?

SENATOR DIRKSEN: It will be from the President.

MORE



Q Gentlemen, we were told last week, I think, by some of the people who were at the meeting, that the Administration's figures on the budget, as you suggest, show some areas where there were underestimates of what it is going to cost, and overestimates, perhaps of income, such as user charges and other things that will hike the thing up may be \$1 billion, from which you have to find corresponding money.

Now, the Johnson budget called for a very substantial surplus, reasonably substantial, in fiscal 1969.

SENATOR DIRKSEN: 2.4

Q In view of these underestimates and so on, how are we to get to a situation where we actually have a larger surplus, as you suggest, in fiscal 1969, with three quarters of the year already over?

SENATOR DIRKSEN: I didn't mean to imply for a moment that what we will save will be as big as we expect to save in 1970. We will certainly save what we can over and above that figure, if that is possible.

Q Do you think it will be possible?

SENATOR DIRKSEN: I think so. They have been going all through the budget, and it is only after they come up with hard figures for every expenditure item that you will know.

Q If the Administration feels, and you say they do feel that the high-water mark in inflation has been reached, they must have given you some supporting data or evidence of this. Can you give us some idea of that?

SENATOR DIRKSEN: I don't know that we subscribe particularly to where you did reach the high-water mark in inflation. It depends on when these remedial forces come into play, that you can say, "All right, you can now see statistically that it is tapering off."

Q Did you discuss the situation in the light of the war, the possibility of the war ending or continuing?

SENATOR DIRKSEN: Only in a very modest residual way. It was alluded to, expressing a hope that if we can get out from under that expenditure, then, of course, it becomes a new ball game, as the Budget Director said.

CONGRESSMAN FORD: I think the feeling was in the light of the current situation in Vietnam, and the economic problems we have of trying to fight inflation, that this message was needed and necessary. But if there were any changes in either the economic situation or in the war in Vietnam, it would certainly give a great deal of additional running room as far as the tax picture and the expenditure picture was concerned on some of our other problems.

MORE

(OVER)



SENATOR DIRKSEN: Let me make one observation there. The previous Budget Director under the previous Administration went up here to some college to make a commencement speech, and strangely enough it was a speculative speech on what was going to happen if and when we concluded this disagreeable business in Vietnam.

He started out with this premise: He said there are those who feel that once we bring an end to it, there will be \$20 billion to spend on all manner of domestic social programs. He said, "I am sorry that I have to disabuse the public mind of that impression."

Then he went on to tell what a hole was plowed into our inventory of weapons of all kinds, knocking helicopters out of the sky, planes, ammunition, and everything. Contrary to what our experience was in Korea, it will be quite the reverse now, and there will be gaps in our whole security pattern.

Those will have to be filled up. Well, how much will be left out of the \$20 billion, if you take that as an estimate? Well, he dropped it way down.

Q Mr. Ford, did you mean to suggest that the message tomorrow will be qualified on the basis of possible changes? In other words, ask for an extension provided that certain things don't change in the next year?

CONGRESSMAN FORD: Yes. In other words, it is predicated on the present circumstances, looking down the road as far as the economy is concerned, and as far as the war in Vietnam is concerned. Really, it reaffirms that part of the budget message that came up from President Johnson, where he said it was needed and necessary to have an extension of the surtax because as far as he could foresee at that time, these circumstances would prevail in fiscal 1970.

Q And the full 10 percent is needed for the full fiscal year?

CONGRESSMAN FORD: Based on these assumptions, of which any one of the several could change.

THE PRESS: Thank you.

END

(10:45 A.M. EST.)



THE WHITE HOUSE

Ford

Budget Authority - 1970

Agencies -

Up 3.4

Down 3.3

NOA

BOB -

Down \$ 2.1



Totals - Up \$ 3.4

Down \$ 5.4

WH Leadership Meeting 3/25/69

PERIOD - March 18 to March 24, 1969 (inclusive)

HOUSE ACTION

Tues. March 18 - Five Suspensions -- ONE DEFEATED

The House by voice vote suspended the rules and passed the four following bills:

1. S. 1058, to extend the period within which the President may transmit to Congress plans for reorganization of agencies of the executive branch of the Government (by a record vote of 334 yeas to 44 nays), clearing the measure for the White House.
2. H.R. 7206, to adjust the salaries of the Vice President of the United States and certain officers of the Congress (by a division vote of 181 yeas to 64 nays). A demand for yeas and nays was refused.
3. H.R. 2669, to amend section 213 (a) of the War Claims Act of 1948 with respect to claims of certain nonprofit organizations, amended, and the title amended.
4. H.R. 8438, to extend the time for filing final reports under the Correctional Rehabilitation Study Act of 1965 until July 31, 1969.
5. The House defeated H.R. 2171 relating to national observances and holidays by roll call vote of 164 yeas to 212 nays. (Two-thirds required to suspend rules.)

Wed. March 19 - Debt Ceiling

By a vote of 313 yeas to 92 nays the House passed H.R. 8508 to increase the permanent to \$365 billion and the temporary debt limit to \$377 billion through June 30, 1970.

Thurs. March 20 - School Lunch -- Child Nutrition Act

The House passed by voice vote H.R. 515, the National School Lunch Act and the Child Nutrition Act of 1966 after adopting the following two amendments:

1. Requires State revenue to be used proportionately between regular school lunch programs and special school lunch programs.
2. Requires for cooperation and coordination between the Secretary of Agriculture and the Secretary of HEW in the development of nutrition aspects of the bill and provides for evaluation of school lunch programs.



PROGRAM AHEAD

Monday -- No legislative business.

Tuesday and balance of week

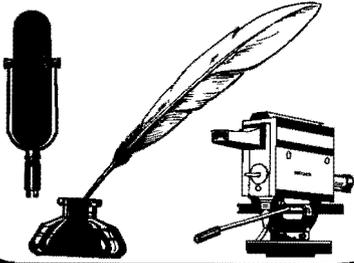
Supplemental appropriation for 1969, Commodity Credit Corporation, \$1 billion

H. R. 5554 - To provide a special milk program for children (Subject to a rule being granted)

H. R. 337 - To increase the maximum rate of per diem allowance for employees for the Government traveling on official business (Subject to a rule being granted)

H. R. 7757 - To authorize appropriations during fiscal year 1969 for ~~procurement~~ procurement of aircraft for the Armed Forces (Subject to a rule being granted)





CONGRESSMAN
GERALD R. FORD
HOUSE REPUBLICAN LEADER

**NEWS
RELEASE**

--FOR RELEASE AT 12 NOON--
March 26, 1969

Statement by Rep. Gerald R. Ford, R-Mich., Republican Leader, U.S. House of Reps.

I feel certain the Congress will approve President Nixon's proposals to meet the very serious problem of inflation head-on by extending the 10 per cent surtax for a year and by achieving a substantial budget surplus in fiscal 1970.

I urge that the American people likewise enlist in the fight against inflation by making those spending and saving decisions which will help bring inflation under control.

This is not a problem that the President alone can solve. He needs the help of the Congress and he needs the help of the people. Business, labor and consumers -- all must make a commitment to the goal that President Nixon has set, that of erasing the current inflationary psychology and halting the steady erosion of the dollar's purchasing power. If America whips inflation now our people can have a strong, growing economy with low unemployment in the future.

President Nixon has accepted the challenge. He has made the politically unpopular decision to recommend extension of the surtax for a full year at the existing level.

This took courage. Let's all of us now have the courage to back the President in this painful course, for the longterm good of the Nation and especially the poor and the pensioners.

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Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

The Administration's first full review of the Federal budget for the fiscal year 1970 is now complete. As a result, beginning next week I shall send a series of budget amendments to the Congress.

Amendments for most agencies will go forward within a few days. The overall totals are now being made available.

The budget that we inherited from the previous Administration in January stated the estimated expenditures for the fiscal year 1970 at \$195.3 billion. Our examination of that budget reveals that some of these estimates -- notably those for interest on the Federal debt and farm price support payments -- are turning out to be too low. After making the necessary adjustments to cover these underestimated items, we find that the actual expenditures budget submitted by the previous Administration is \$196.9 billion.

I am proposing new reductions in Federal spending of \$4.0 billion, reducing the overall spending figures for the coming fiscal year to \$192.9 billion. I am also recommending to the Congress cuts totalling \$5.5 billion in appropriations requests and other budget authority -- thereby reducing significantly the future spending obligations of the Federal government.

Our proposals mean not only a substantial cutback in the spending of tax dollars in the coming year, but a substantial reduction in claims against future tax dollars and future budgets. With this approach, we believe we have made a necessary and significant beginning toward bringing the Federal budget under closer Presidential control; we have taken the reins firmly in hand.

We recognize, however, the responsibility for budget control is a continuing one. For the past eight years -- the sole exception being the current year -- our government has run an uninterrupted string of budget deficits. Our actions now, we believe, have brought an end to the era of the chronic budget deficit.

As a result of this review and these cutbacks, we are proposing the largest budget surplus in eighteen years -- and the fourth largest in our history -- a surplus of \$5.8 billion dollars for fiscal year 1970.

We believe that a surplus of this magnitude will speak louder than any words to the business and labor communities in this country and to the world that the United States is determined to bring a halt to the inflationary spiral which has seriously affected our economy these last four years.

In the last thirty-six months, inflation has seriously eroded the value of every pay raise won by the average wage earner; it has done unquestionable harm to the economic welfare of the very poor in our society and those millions of Americans living on pensions and Social Security; it has weakened our international payments position; it has sapped foreign and domestic confidence in the American dollar.

Inflation is the most disguised and least just of all the taxes that can be imposed; and we intend to lift that hidden tax off the backs of an over-taxed people.

These reductions in spending cannot be achieved effortlessly, or without making some very difficult decisions as to our priorities. But they can be achieved by an Administration and a Congress dedicated to eliminating the crushing burden

MORE



of inflation and committed to the responsible control of the Federal budget. They can be achieved if this government is willing to impose upon itself the same new discipline that inflation and rising taxes have imposed upon the American wage earner and his family.

Some of the decreases in the budget will require legislation; others will result from smaller appropriation requests; still others will come from executive actions that I have directed be taken. In sum, these reductions constitute my best judgment as to where to reduce this budget to bring the acceleration of Federal spending under control.

But even in the wake of these cuts -- which we believe to be in the best interest of all Americans -- great resources remain at our disposal to do the work that needs to be done in our society.

For example, I am proposing for fiscal year 1970 a level of spending for our domestic problems \$6 1/2 billion higher than the figure for the fiscal year 1969.

This Administration will never turn its back upon the growing needs of the American people. That is why domestic spending in the coming year -- even after these cuts -- will far exceed that for any other year in American history.

We have come into office convinced that there are better ways than the old ways to solve new problems; and we intend to explore these more hopeful approaches.

With regard to specific cuts, the Secretary of Defense has already identified reductions in defense budget outlays of \$1.1 billion. We believe these cuts will enhance our economic security without risk to our national security. Information with regard to other specific cuts will be released by the Bureau of the Budget on Tuesday.

As part of the budget review, I have directed that a substantial reduction be made in the level of Federal employment recommended by the preceding Administration. As a result, full-time employment in the executive branch, by the close of the coming fiscal year, will be more than 45,000 below that recommended in the January budget.

These reductions will not be made "across the board," but selectively, since manpower for vital needs such as crime control will have to be increased.

Consistent with these objectives, I will ask Congress for repeal of Section 201 of the Revenue and Expenditure Control Act, which imposes restrictions on hiring in the executive branch. I am in full accord with the objective of that legislation. However, that objective is best achieved, not through some arbitrary limitation, but through leadership determined to reduce personnel and willing to make the difficult decisions as to where the cuts should come.

Just as we have made the judgments as to where the Federal budget should be cut, so we ask for the authority to determine those areas where the reduction of personnel can most beneficially be made.

Although the officials of this Administration have worked long and hard conducting this review of Federal expenditures and employment, the 1970 budget is not yet a finished effort. Conditions affecting the budget change constantly.

What will remain constant, however, is our determination to rein in this rising cost of living and to spend the tax dollars of the American people with a full awareness of the personal effort and labor they represent.

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APRIL 21, 1969

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Reform of our Federal income tax system is long overdue. Special preferences in the law permit far too many Americans to pay less than their fair share of taxes. Too many other Americans bear too much of the tax burden.

This Administration, working with the Congress, is determined to bring equity to the Federal tax system. Our goal is to take important first steps in tax reform legislation during this session of the Congress.

The economic overheating which has brought inflation into its fourth year keeps us from moving immediately to reduce Federal tax revenues at this time. Inflation is itself a tax -- a cruel and unjust tax that hits hardest those who can least afford it. In order to "repeal" the tax of inflation, we are cutting budget spending and have requested an extension of the income tax surcharge.

Although we must maintain total Federal revenues, there is no reason why we cannot lighten the burden on those who pay too much, and increase the taxes of those who pay too little. Treasury officials will present the Administration's initial group of tax reform proposals to the Congress this week. Additional recommendations will be made later in this session. The overall program will be equitable and essentially neutral in its revenue impact. There will be no substantial gain or loss in Federal revenue, but the American taxpayer who carries more than his share of the burden will gain some relief.

Much concern has been expressed because some citizens with incomes of more than \$200,000 pay no Federal income taxes. These people are neither tax dodgers nor tax cheats. Many of them pay no taxes because they make large donations to worthy causes, donations which every taxpayer is authorized by existing law to deduct from his income in figuring his tax bill.

But where we can prevent it by law, we must not permit our wealthiest citizens to be 100% successful at tax avoidance. Nor should the Government limit its tax reform only to apply to these relatively few extreme cases. Preferences built into the law in the past -- some of which have either outlived their usefulness or were never appropriate -- permit many thousands of individuals and corporate taxpayers to avoid their fair share of Federal taxation.

A number of present tax preferences will be scaled down in the Administration's proposals to be submitted this week. Utilizing the revenue gained from our present proposals, we suggest tax reductions for lower-income taxpayers. Further study will be necessary before we can propose changes in other preferences and as these are developed we will recommend them to the Congress.

MORE



Specifically, the Administration will recommend:

- Enactment of what is in effect a "minimum income tax" for citizens with substantial incomes by setting a 50% limitation on the use of the principal tax preferences which are subject to change by law.

This limit on tax preferences would be a major step toward assuring that all Americans bear their fair share of the Federal tax burden.

- Enactment of a "low income allowance," which will remove more than 2,000,000 of our low income families from the Federal tax rolls and assure that persons or families in poverty pay no Federal income taxes.

This provision will also benefit students and other young people. For example, the person who works in the summer or throughout the year and earns \$1,700 in taxable income -- and now pays \$117 in Federal income taxes -- would pay nothing.

The married couple -- college students or otherwise -- with an income of \$2,300 and current taxes of \$100 would pay nothing.

A family of four would pay no tax on income below \$3,500 -- the cut-off now is \$3,000.

The "low income allowance," if enacted by the Congress, will offer genuine tax relief to the young, the elderly, the disadvantaged and the handicapped.

Other tax reform proposals would also help workers who change jobs by liberalizing deductions for moving expenses and would reduce specific preferences in a number of areas:

- taxpayers who have certain nontaxable income or other preferences would have their non-business deductions reduced proportionately.
- certain mineral transactions (so-called "carved out" mineral production payments and "ABC" transactions) would be treated in a way that would stop artificial creation of net operating losses in these industries.
- exempt organizations, including private foundations, would come under much stricter surveillance.
- the rules affecting charitable deductions would be tightened -- but only to screen out the unreasonable and not stop those which help legitimate charities and therefore the nation.
- the practice of using multiple subsidiaries and affiliated corporations to take undue advantage of the lower tax rate on the first \$25,000 of corporate income would be curbed.
- farm losses, to be included in the "limitation on tax preferences," would be subject to certain other restrictions in order to curb abuses in this area.



I also recommend that the Congress repeal the 7% investment tax credit effective today.

This subsidy to business investment no longer has priority over other pressing national needs.

In the early 60's, America's productive capacity needed prompt modernization to enable it to compete with industry abroad. Accordingly, Government gave high priority to providing tax incentives for this modernization.

Since that time, American business has invested close to \$400 billion in new plant and equipment, bringing the American economy to new levels of productivity and efficiency. While a vigorous pace of capital formation will certainly continue to be needed, national priorities now require that we give attention to the need for general tax relief.

Repeal of the investment tax credit will permit relief to every taxpayer through relaxation of the surcharge earlier than I had contemplated.

The revenue effect of the repeal of the investment tax credit will begin to be significant during calendar year 1970. Therefore, I recommend that investment tax credit repeal be accompanied by extension of the full surcharge only to January 1, 1970, with a reduction to 5% on January 1. This is a reappraisal of my earlier recommendation for continuance of the surcharge until June 30, 1970 at a 10% rate. If economic and fiscal conditions permit, we can look forward to elimination of the remaining surtax on June 30, 1970.

I am convinced, however, that reduction of the surtax without repeal of the investment tax credit would be imprudent.

The gradual increase in Federal revenues resulting from repeal of the investment tax credit and the growth of the economy will also facilitate a start during fiscal 1971 in funding two high-priority programs to which this Administration is committed:

- Revenue sharing with State and local governments.
- Tax credits to encourage investment in poverty areas and hiring and training of the hard-core unemployed.

These proposals, now in preparation, will be transmitted to the Congress in the near future.

The tax reform measures outlined earlier in this message will be recommended to the House Ways and Means Committee by Treasury officials this week. This is a broad and necessary program for tax reform. I urge its prompt enactment.



But these measures, sweeping as they are, will not by themselves transform the U. S. tax system into one adequate to the long-range future. Much of the current tax system was devised in depression and shaped further in war. Fairness calls for tax reform now; beyond that, the American people need and deserve a simplified Federal tax system, and one that is attuned to the 1970's.

We must reform our tax structure to make it more equitable and efficient; we must redirect our tax policy to make it more conducive to stable economic growth and responsive to urgent social needs.

That is a large order. Therefore, I am directing the Secretary of the Treasury to thoroughly review the entire Federal tax system and present to me recommendations for basic changes, along with a full analysis of the impact of those changes, no later than November 30, 1969.

Since taxation affects so many wallets and pocketbooks, reform proposals are bound to be controversial. In the debate to come on reform, and in the even greater debate on redirection, the nation would best be served by an avoidance of stereotyped reactions. One man's "loophole" is another man's "incentive." Tax policy should not seek to "soak" any group or give a "break" to any other -- it should aim to serve the nation as a whole.

Tax dollars the Government deliberately waives should be viewed as a form of expenditure, and weighed against the priority of other expenditures. When the preference device provides more social benefit than Government collection and spending, that "incentive" should be expanded; when the preference is inefficient or subject to abuse, it should be ended.

Taxes, often bewailed as inevitable as death, actually give life to the people's purpose in having a Government: to provide protection, service and stimulus to progress.

We shall never make taxation popular, but we can make taxation fair.

RICHARD NIXON

THE WHITE HOUSE,

April 21, 1969.

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