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Tony Nell

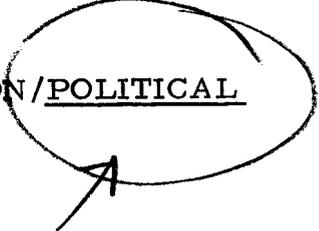
This should go to
Dick Cheney as soon
as possible - Monday A.M.

RRF

DG -

Per Jerry - I took the budget message up to RLA's office (minus the two handwritten Presidential notes) and told them that Jerry wanted it back. It is here returned.

RECOMMENDATION / POLITICAL



Dick Cheney

2 have read the

Budget Message.

Made one minor

suggestion - page 8.

Other questions
raised seem OK as in the
text.

MCJ

THE WHITE HOUSE

WASHINGTON

JAN 23 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: ~~ROY A. ASH~~
SUBJECT: The Budget Message

Attached for your review is a proof of your Budget Message to the Congress. It reflects comments on earlier versions that have been circulated to the following staff in the White House:

Philip W. Buchen
Kenneth R. Cole
Robert T. Hartmann
Jerry H. Jones
John O. Marsh
Donald H. Rumsfeld
Brent Scowcroft
L. William Seidman
Paul A. Theis
Alan Greenspan

In order to meet the printing schedule of the Government Printing Office, we will need to make final changes no later than the evening of Monday, January 27.

Attachment

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January 23, 1976

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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

The year 1976 will mark the bicentennial of this country. With this budget we shall begin our third century as a Nation.

In our first 2 centuries we have developed from 13 struggling colonies to a powerful leader among nations. Our population has increased from 3 million to 213 million. From a simple agricultural society we have grown into a complex industrialized one.

Our Government—and its budget—have grown with the Nation, as the increasing complexity of modern society has placed greater responsibilities upon it. Yet our society has remained free and democratic, true to the principles of our Founding Fathers.

As we approach our third century as a Nation, we face serious economic difficulties of recession and inflation. I have a deep faith, however, in the fundamental strength of our Nation, our people, our economy, and our institutions of government. I am confident that we can overcome today's challenges as we have overcome others in the past—and gone on to greater achievements.

My budget recommendations are designed to meet longer-term national needs as well as immediate, short-run objectives. It is vital that they do so. Because of the size and momentum of the budget, today's decisions will have far-reaching and long-lasting effects.

The recommendations set forth in this budget are an integral part of the broader series of proposals outlined in my State of the Union address. These proposals provide for:

- fiscal policy actions to increase purchasing power and stimulate economic revival, including tax reduction and greatly increased aid to the unemployed;
- a major new energy program that will hold down energy use, accelerate development of domestic energy resources, and promote energy research and development;
- an increase in outlays for defense in order to maintain preparedness and preserve force levels in the face of rising costs;
- a 1 year moratorium on new Federal spending programs other than energy programs; and
- a temporary 5% ceiling on increases in pay for Federal employees, ~~a one year moratorium on new Federal spending programs other~~ and on those benefit payments to individuals that are tied to changes in consumer prices.

January 23, 1975

These policies call for decisive action to restore economic growth and energy self-reliance. My proposals include a one-time \$16 billion tax cut—\$12 billion for individual taxpayers and \$4 billion for businesses—to stimulate economic recovery.

Total Federal outlays are estimated to increase 11% between 1975 and 1976. It is essential that we keep a tight rein on spending, to prevent it from rising still further and making tax reduction imprudent. I believe that tax relief, not more Government spending, is the key to turning the economy around to renewed growth.

?
"Anticipated"

I regret that my budget and tax proposals will mean bigger deficits temporarily, for I have always opposed deficits. We must recognize, however, that if economic recovery does not begin soon, the Treasury will lose receipts and incur even larger deficits in the future.

[clip]

My energy program calls for an increased fee on imported oil, an excise tax on domestically produced petroleum and natural gas. The proposals also call for decontrol of oil prices—coupled with a windfall profits tax—and deregulation of natural gas prices. These measures will discourage excessive energy use and reduce our dependence on imported oil. The \$30 billion in receipts these measures will produce will be refunded to the American people—refunded in a way that helps correct the distortions in our tax system created by inflation. Special provisions will ensure that low-income Americans and State and local governments are compensated equitably. All these compensatory measures will be in addition to the \$16 billion in tax relief I have proposed.

My budget recommendations provide for total outlays of \$349.4 billion in 1976, an increase of \$36.0 billion over 1975, and anticipate receipts of \$297.5 billion, an increase of \$18.7 billion over 1975.

THE BUDGET AT A GLANCE

[In billions of dollars]

Item	1974 actual	1975 estimate	1976 estimate	Transition quarter
Receipts.....	264.9	278.8	297.5	85.1
Outlays.....	268.4	313.4	349.4	95.4
Deficit (-).....	-3.5	-34.6	-51.9	-10.3

The Congressional Budget and Impoundment Control Act of 1974 provides for major reforms in the budget process. As part of these reforms, it changes the fiscal year for the Federal budget from the present July-through-June basis to an October-through-September basis, beginning with the 1977 fiscal year. This requires that there be a separate transition quarter, extending from July through September of 1976, after fiscal year 1976 ends and before fiscal year 1977 begins.

Estimates for the transition quarter are included in this budget. In general, they anticipate continuing the 1976 program levels unchanged for the additional 3 months. Because outlays and receipts vary seasonally—that is, they do not occur at uniform rates during the year—the estimates for this quarter (and particularly the deficit) are not representative of a full year's experience.

THE BUDGET AND THE ECONOMY

If the Congress acts decisively on the new policies I have announced, and if we exercise reasonable patience and restraint, we can go far toward solving the broad range of economic problems our Nation now faces.

It must be clearly understood that these problems are serious and that strong remedies are fully justified. The economy is now in a recession. Unemployment is far too high and productivity has declined. At the same time, inflation, a serious and growing problem for nearly a decade, continues to distort our economy in major ways. Underlying these problems is the fact that we are far from self-sufficient in energy production, and even with the measures I have proposed, regaining the capacity for self-sufficiency will take years. Imported fuel supplies have been interrupted once and remain vulnerable, and oil prices have been increased fourfold.

The increased unemployment and continued price increases from which we now suffer are problems we share with much of the rest of the world. The roots of these problems are complex. The steep rise in the price of imported oil, for example, while directly increasing prices, has also acted like a tax increase by reducing the real income of American consumers and transferring that income to oil exporting countries. Lower real incomes, combined with consumer resistance to rising prices, has reduced the demand for goods in the American marketplace. Such factors, superimposed on the inevitable slowdown in economic growth following the boom of 1972-73, underlie the recession we are now in.

The weakening of consumer demand and investment, in turn, is beginning to exert a dampening effect on price and wage increases. Thus, inflationary pressures are already beginning to recede and are likely to continue to do so. The one-time increase in fuel costs needed to constrain excessive energy usage will not reverse this basic trend.

Aiding economic recovery.—In view of this situation, I have proposed a \$16 billion rebate of personal and corporation income taxes that will help reduce unemployment without rekindling inflation. This tax cut will contribute to deficits, adding \$6 billion in 1975 and \$10 billion in 1976. [clip]

Aside from the effects of the proposed tax reduction, the deficits anticipated for 1975 and 1976 are in large part the inevitable result of)-

those aspects of the budget and the tax system that respond automatically to changes in the economy. When an economic slowdown occurs, Federal tax collections slow down more than incomes and profits do, and unemployment benefit payments rise sharply. These factors tend to cushion the economic downturn and help sustain individual and corporate incomes.

These stabilizing influences are substantial. If the economy were to be as fully employed in 1976 as it was in 1974, we would have \$40 billion in additional tax receipts, assuming no change in tax rates. Aid to the unemployed, including the special measures I proposed and the Congress enacted last December, will be \$11.8 billion larger in 1976 than in 1974, providing income support for \$14.7 million beneficiaries and their families. These two factors alone—the fall-off in receipts and increased unemployment assistance exceed the deficit expected for 1976.

[clip]

THE BUDGET TOTALS

[Fiscal years. In billions]

Description	1974 actual	1975 estimate	1976 estimate	Transition period estimate
Budget receipts.....	264.9	278.8	297.5	85.1
Budget outlays.....	268.4	313.4	349.4	95.4
Deficit (-).....	3.5	-34.6	-51.9	-10.3
Budget authority.....	313.9	395.6	387.3	

	1973 actual	
Outstanding debt, end of fiscal period:	468.4	487.1
Gross Federal debt.....	343.0	346.1
Debt held by the public.....		
Outstanding Federal and federally assisted credit, end of fiscal period.....		
Direct loans.....		
Guaranteed and insured loans ¹		
Government-sponsored agency loans ² ...		

¹ Excludes loans held by Government accounts and special credit agencies.
² See table E-7 in Special Analysis E, Federal Credit Programs, published in a separate volume.

The Government must act decisively to help restore economic health, and act compassionately to aid those most seriously affected by unemployment. It does not make economic sense to insist on cutting a dollar out of the budget for each dollar of tax receipts lost just because of decreases in incomes and profits resulting from the economic downturn. Nor does it make sense arbitrarily to offset each

[clip]

dollar of increased aid to the unemployed by a reduction elsewhere in the budget.

Last October I proposed a National Employment Assistance Act, which provided for liberalized unemployment benefits and coverage and for more public employment. Congress has since enacted, and I have signed into law, two employment assistance acts derived from my proposals. One of these measures, the Emergency Jobs and Unemployment Assistance Act, provides unemployment benefits to workers not covered by the regular unemployment insurance system and provides increased job opportunities in the public sector. The other measure, the Emergency Unemployment Compensation Act, extends the length of time that workers covered by the regular unemployment insurance system are eligible for benefits. My budget recommendations include outlays of \$17.5 billion in 1976 for income support for the unemployed, both under these two acts and under the regular unemployment compensation programs. Another \$1.3 billion will be spent for increased public sector jobs.

Budget reductions.—While recommending temporary measures to help the economy and to provide greater assistance to the unemployed, I have sought, on an item-by-item basis, to eliminate non-essential spending and avoid commitment to excessive growth of Federal spending in the long run. I am proposing no new spending initiatives in this budget other than those for energy. I am also proposing that the allowable increase in Federal pay and in benefit payments to individuals that currently are linked by law to increases in consumer price levels be limited to 5% through June 30 of next year. To be equitable, this ceiling should apply to all these programs. This limit will save \$6.1 billion in 1976 and permit us to concentrate maximum resources on direct efforts to speed economic recovery, including tax reduction.

In addition, I have previously asked the Congress to agree to a series of measures that would reduce outlays. In some cases the Congress has done so; in others it has overturned my proposals. Those economy measures to which Congress has not objected are reflected in my budget recommendations. These measures will provide \$7.8 billion in savings in 1976. Further program reductions recommended in this budget will result in another \$2.4 billion in savings. Unless the Congress concurs with the proposals now before it, including those advanced in this budget, outlays—and thus the deficit—will be more than \$17 billion greater in 1976 than the figure recommended in this budget. It is therefore essential that tax cut I am proposing be considered in conjunction with these outlay-saving proposals.

My proposal to place a temporary limit on civil service and military pay increases recognizes that the Federal Government must set an example for the rest of the economy, and that Federal employees generally enjoy considerably greater job security than the average worker under current economic conditions. I believe that most Federal employees will understand that some restraint on their pay increases is appropriate now to help provide benefits and increased job opportunities for those who are unemployed.

I urge the Congress to accept this recommendation. I especially urge the private sector—labor and management alike—to follow this example and hold down price and wage increases.

I have proposed a similar temporary limit on the automatic increases in benefit programs linked to changes in consumer prices. These programs include social security, railroad retirement, Federal employee retirement, military retired pay, supplemental security income, and food stamps. My proposal is made in the context of the very large increases that have occurred in these programs in recent years—in-creases well in excess of the rate of inflation. Since 1970, for example, average payments per social security beneficiary have increased 22% in constant prices—that is, after adjusting for the 38% rise in consumer prices. Both benefit increases and growth in the number of beneficiaries have contributed to an increase in outlays for these programs from \$40 billion in 1970 to an estimated \$92 billion in 1975.

With thousands of workers being laid off while considerable inflationary momentum persists, I believe that modest—and temporary—restraint on Federal pay raises and on the growth of Federal benefit programs is an equitable way to keep the budget from perpetuating inflation.

BUDGET TRENDS AND PRIORITIES

The Federal budget both reflects our national priorities and helps to move the Nation toward their realization. Recent years have seen a significant shift in the composition of the Federal budget. The proportion of the budget devoted to defense has declined substantially since 1964, with a corresponding increase in the nondefense proportion of the budget. This shift has been particularly rapid since 1969, due in part to the end of American combat involvement in Vietnam.

Defense outlays remained virtually level in current dollar terms from 1969 to 1974, absorbing substantial cost increases—including the pay raises necessary to establish equitable wage levels for our servicemen and women and to make possible the transition to an all-volunteer armed force. Defense programs have undergone large reductions in real terms—reductions of over 40% since 1969 in manpower and materiel. In consequence, defense outlays have been a decreasing share of our gross national product, falling from 8.9% in 1969 to 5.8% in 1976.

Leave in
) — Might change wording.
 "hold down" maybe be
 passive to labor-management
 prop. Would "restraint" or
 some other code word be
 more desirable?

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At the same time, Federal nondefense spending has increased substantially in both current and constant dollar terms, growing from 11.6% of gross national product in 1969 to an estimated 16.0% in this budget. In the process, the form that Federal spending takes has shifted dramatically away from support for direct Federal operations and toward direct benefits to individuals and grants to State and local governments. About a third of these grants also help to finance payments to individuals. Both legislated increases and built-in program growth have contributed to the doubling of outlays for domestic assistance in the past 5 years. The sharp drop in defense manpower and procurement has helped make this possible.

It is no longer realistically possible to offset increasing costs of defense programs by further reducing military programs and strength. Therefore, this budget proposes an increase in defense outlays in current dollars that will maintain defense preparedness and preserve manpower levels in the face of rising costs. These proposals are the minimum prudent levels of defense spending consistent with providing armed forces which, in conjunction with those of our allies, will be adequate to maintain the military balance. Keeping that balance is essential to our national security and to the maintenance of peace.

In 1969, defense outlays were nearly one-fifth more than combined outlays for aid to individuals under human resource programs and for aid to State and local governments. Despite the increase in current-dollar defense outlays, this budget—only 7 years later—proposes spending twice as much money for aid to individuals and State and local governments as for defense.

~~twice as much money for aid to individuals and State and local governments as for defense.~~

Outlays for assistance to individuals and to State and local governments will rise from \$— billion in 1974 to \$— billion in 1975, and \$— billion in 1976. These increases include the costs of the emergency unemployment assistance measures enacted last December, together with increased outlays under the regular unemployment insurance system. Outlays for other benefit programs, including social security, supplemental income, medicare, and medicaid, will also increase substantially.

The budget carries forward a philosophy that stresses an appropriate separation of public and private sector responsibilities. Within the sphere of public-sector responsibilities, it calls for Federal emphasis on meeting national problems and encourages State and local responsibility and initiative in meeting local and statewide needs. Broader Federal aid to States and localities and a reduction in the Federal restrictions imposed as requirements for this aid are key elements of this philosophy. In 1974, Federal aid supplied 21% of total State and local government receipts, more than twice the percentage of two decades earlier. My budget recommends Federal grants-in-aid of \$56 billion in 1976.

ENERGY

The fourfold increase in oil prices dictated by oil-exporting countries has been a major factor in the sharp inflationary surge of the past year and a half. It endangers the health of world trade and is creating significant financial and economic disruption throughout the world. Among other things, the resulting high fertilizer prices are hampering efforts to increase world agricultural production, thereby aggravating the world food problem.

Fuel conservation.—I continue to believe that fuel conservation and a reduction of world oil prices is in the long-term interest of both consumer and producer countries. Accordingly, I have proposed a series of stringent fuel conservation measures, including taxes on petroleum and natural gas offset by income tax reductions, payments to low-income individuals, and increased aid to State and local governments. On balance, this program will preserve consumer and business purchasing power while strongly discouraging unnecessary petroleum con-

sumption. Amendments to the Clean Air Act and other measures I have proposed will contribute to substantial improvement in automobile gasoline mileage, allow greater use of domestic coal for electric power generation, and require upgrading of housing insulation, thus further reducing our need for imported oil.

At the same time, my Administration is pursuing diplomatic efforts to alleviate financial and supply problems in the industrialized world, and to persuade major oil-exporting countries to use part of their enormous oil revenue surpluses to aid less-developed nations hard-pressed by the price increases.

Development of domestic energy sources.—But fuel conservation measures and stronger diplomatic efforts are only part of the solution to the energy problem. Vigorous efforts to speed development of our vast domestic energy resources—particularly oil, gas, coal, and nuclear—are also essential. As part of these efforts, my Administration has worked out a comprehensive plan for leasing the offshore oil and gas resources of our Outer Continental Shelf. Studies are underway to determine whether development and production can be accomplished safely and in an environmentally acceptable manner. We also seek responsible use of our extensive Naval Petroleum Reserves

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in California and Alaska and are taking steps to increase our use of our vast domestic coal reserves. These measures, including workable and precise legislation regulating strip mining, seek a proper balance between energy needs and environmental considerations. Increased domestic supplies, including establishment of a strategic petroleum storage system, coupled with fuel conservation, will help reduce our dependence upon petroleum imports and our vulnerability to interruption of foreign supplies.

In addition, the Federal Government has further expanded its research and development program to provide the new and improved technologies necessary for increasing the use of our domestic energy resources. Outlays for energy research and development will be \$1.7 billion in 1976, an increase of 36% over 1975 and 102% over 1974. My budget recommendations continue our vigorous nuclear research and development program and further accelerate nonnuclear energy research and development—particularly in coal and solar energy. To provide a better organizational framework for this effort, last October I signed into law an act creating the Energy Research and Development Administration, which brings together within a single agency the Government's various research and development programs relating to fossil fuels, nuclear energy, and other energy technologies such as geothermal and solar. An independent Nuclear Regulatory Commission has also been established to improve the regulatory process associated with nuclear plant licensing, safety, and nuclear materials safeguards, and to separate this function from nuclear power development activities.

Agriculture.—Besides fuel costs, the cost of food has been the other special problem in the inflationary surge of the past 2 years. A worldwide decline in agricultural production due in part to adverse weather conditions has created shortages that have been critical in some areas and have sent world food prices soaring.

In response to these shortages, we have stimulated U.S. production by eliminating Government-imposed crop restrictions originally designed to prevent surpluses. Our increased production will help to curb inflation and will aid in relieving severe food shortages abroad. To the extent that we can produce beyond our domestic needs, we will be able to increase our agricultural exports and share our increased supplies with hungry peoples overseas.

NATIONAL SECURITY AND FOREIGN RELATIONS

The ultimate goal of American foreign policy is to ensure the freedom, security, and well-being of the United States as part of a peaceful and prosperous international community. Our diplomacy, backed by a strong national defense, strives to strengthen this inter-

national community through the peaceful resolution of international disputes, through arms control, and by fostering cooperation and mutual restraint. We seek a healthy world economy through expanded trade, cooperative solutions to energy problems, and increased world agricultural production to meet mankind's needs for food. In today's interdependent world, each of these objectives serves our own national interest even as it helps others.

National security.—The Vladivostok understanding, which I reached with General Secretary Brezhnev of the Soviet Union, represents a major step on the long and arduous road to the control and eventual reduction of nuclear arms. For the first time, we have reached an understanding on specific and equal limitations on strategic nuclear weapons. Once we have concluded an agreement based on these understandings, we will be prepared to take the next step—to seek further agreement to lower the ceilings, as we have already done in the case of antiballistic missile launchers.

The progress we have already made along the road to eventual strategic arms reductions has been possible only because we have remained strong. If we are to make further progress, we must act to preserve our strategic strength. My defense proposals provide for necessary force improvements and for the development of strategic alternatives necessary to maintain, within the limits of the Vladivostok agreement, a credible strategic deterrent.

More attention must now be given to maintaining an adequate balance in general purpose forces. In this area we share the burden of defense with our allies. The United States has entered into negotiations between members of NATO and of the Warsaw Pact on mutual and balanced force reductions. If those negotiations are successful, some U.S. forces stationed in Europe could safely be withdrawn. For the time being, however, the United States and its allies must maintain present manpower levels and continue to strengthen conventional combat capabilities.

In an effort to increase efficiency and achieve greater combat capability with existing manpower levels, the Army has undertaken to provide 16 active combat divisions by June of 1976 with approximately the same total number of Army personnel as was authorized for 13 divisions in June of 1974. This 16-division combat force will require additional equipment, which is provided for in my budget recommendations.

Because the welfare and survival of the United States and its allies depend upon the flow of ocean-going trade and supplies, strong naval forces are required. In recent years the number of Navy ships has decreased, primarily as a result of the retirement of many aging ships built during World War II. The savings from this action have been

used to strengthen the combat capabilities of the remaining force. This budget provides for a vigorous program of new ship construction and modernization necessary to maintain the naval balance in the future.

Foreign relations.—In addition to maintaining a strong defense capability, the United States strives, through its diplomacy, to develop and maintain peaceful relationships among nations. Foreign assistance is both an expression of our humanitarian concern and a flexible instrument of diplomacy. Our assistance in Indochina is making an essential contribution to the security and reconstruction of the countries in that region. Additional military assistance is now necessary to enable the South Vietnamese and Cambodian Governments to defend themselves against increasing military pressure. Our assistance in the Middle East is an integral part of our diplomatic effort to continue progress toward a peaceful solution to the area's problems. An increasing portion of our economic aid program is devoted to helping developing countries improve their agricultural productivity.

Higher oil prices, widespread food shortages, inflation, and spreading recession have severely strained the fabric of international cooperation. The United States has undertaken several major diplomatic initiatives designed to help restore international economic stability. Our diplomatic efforts were instrumental in the establishment of the International Energy Agency and its program, which provides for emergency oil sharing, conservation efforts, and development of alternative energy sources. More recently, the United States proposed a \$25 billion special financing facility to assist industrialized countries in dealing with balance of payments difficulties. This new facility will supplement expanded operations of the International Monetary Fund. At the World Food Conference, in Rome, the United States proposed a number of measures to deal with the world food problem, including creation of an international system of grain reserves.

In addition, the Trade Act passed by the Congress last December will make possible a strengthening of international trade relations by enabling the United States to work with other nations toward reducing tariff and nontariff barriers to trade and improving access to supplies.

The strengthening of international trade and financial cooperation is essential if we and other nations are to cope successfully with current economic stresses. It is a prerequisite for renewed economic progress at home and abroad.

DOMESTIC ASSISTANCE

The enormous growth in recent decades of Federal programs for assistance to individuals and families, and to State and local governments, has placed heavy demands on the budget. This growth expressed the desire of a compassionate society to provide well for its

retired workers, veterans, and less fortunate members without sacrificing our proud and productive tradition of individual initiative and self-reliance. In the process, we have built a stronger partnership between the various levels of government: Federal, State, and local.

AID TO INDIVIDUALS AND TO STATE AND LOCAL GOVERNMENTS

(Dollar amounts in billions)

Item	1968	1970	1972	1975	1976	Percent increase, 1968 to 1976
Payments to individuals ¹	40	51	70	94	134	239
Grants-in-aid ¹	19	24	36	46	55	191
For payments to individuals.....	(6)	(8)	(15)	(16)	(18)	(202)
Other.....	(13)	(15)	(21)	(30)	(36)	(186)
Total	58	75	106	140	188	223
Memorandum:						
All other outlays.....	(121)	(122)	(126)	(128)	(161)	(33)

¹ Excludes military retired pay and grants classified in the national defense function.

Human resources programs.—The rapid growth of human resources programs in recent years has brought about many improvements in the well-being of the American people. Benefits under social security, medicare, medicaid, supplemental security income, food stamps and veterans programs have increased substantially. In just 7 years, cash benefits under social security programs will have risen from \$26 billion in 1969 to \$70 billion in 1976. They now reach 27.9 million beneficiaries. By 1976, six social security benefit increases will have occurred since 1969. Automatic cost-of-living adjustments to benefits are now provided by law. Allowing for the temporary 5% ceiling I have proposed on benefit increases between now and July 1976, the increases from 1970 through 1976 in each recipient's social security benefits, taken together, will total 77%. This far exceeds the increases in the cost of living (51%) estimated for this period.

The supplemental security income program began operation a year ago, replacing the various State public assistance programs for the aged, the blind, and the disabled with a more uniform and equitable national system. This broad reform has provided higher benefits for these disadvantaged groups. In addition, Federal assumption of responsibility for these programs has provided significant fiscal relief increases in administrative personnel necessary to improve services to State and local governments. This budget provides for substantial to beneficiaries both of this program, and of social security.

Outlays for the food stamp program have increased from \$248 million in 1969 to an estimated \$3.6 billion in 1976. I have undertaken

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cc: [

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reforms to simplify the administration of this program and reduce costs, while providing for more equitable treatment of beneficiaries.

Over the years, the income security of our labor force has been enhanced by liberalization of benefits and coverage under our unemployment insurance system, while increased employment opportunities have been created in areas of high unemployment. Programs derived from the special unemployment assistance measures I proposed last October have been enacted into law as the Emergency Jobs and Unemployment Assistance Act and the Emergency Unemployment Compensation Act. With these new acts, total unemployment assistance, including employment programs, will expand —%, from \$— billion in 1974 to \$— billion in 1976.

Our present welfare system is inefficient and inequitable. It is wasteful not only of tax dollars but, more importantly, of human potential. Left unchanged, over the long run the situation will almost surely continue to deteriorate. I urge the Congress to work with my Administration to develop reforms that make the system simple, fair, and compassionate. This approach need not cost more, but rather can use our welfare dollars more effectively.

America needs to improve the way it pays for medical care. We should begin plans for a comprehensive national health insurance

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[copy]

system. However, in view of the economic developments and the measures I have proposed to combat recession and inflation, I cannot now propose costly new programs. Once our current economic problems are behind us, the development of an adequate national medical insurance system should have ^{should have} high national priority. I urge the Congress to work with my Administration in order to devise a system that we will be able to afford **AT THE APPROPRIATE TIME.**

The major existing Federal programs for financing medical care, medicare and medicaid, are now 10 years old. Medicare outlays of \$14.7 billion in 1976 will help to meet the medical costs of an estimated 12.7 million aged and disabled Americans, 23% more people than were aided in 1971. Medicaid outlays of \$7.1 billion will help to pay medical care for 25 million low-income Americans in 1976—a 37% increase in beneficiaries since 1971. Federal health programs also provide health care and insurance for Federal employees, veterans, and other groups. In total, existing Federal health programs now pay about 35% of the Nation's total health bill.

General revenue sharing.—General revenue sharing has become an integral and important part of the Federal grants-in-aid system. This program has been highly successful, providing fiscal assistance that can be applied flexibly to meet the needs of States and localities

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according to their priorities. It has distributed assistance more equitably than before, reaching many local governments that had not received Federal aid in the past.

Current authority for general revenue sharing will expire at the end of calendar year 1976. Because I believe in the soundness of this program, I shall propose legislation extending general revenue sharing through fiscal year 1982. Prompt action by the Congress on the proposed extension will permit State and local governments to plan their future budgets more effectively and avoid the waste and inefficiencies that prolonged budgetary uncertainties would create. In addition, the energy tax equalization payments to State and local governments will be distributed according to the formula used for general revenue sharing.

Transportation.—My budget recommendations anticipate legislation that I shall propose to increase funding for interstate highways and extend the highway trust fund through 1980. My proposal will focus trust fund assistance on completion of key segments of the Interstate Highway System needed to link the national system together. They will also combine a number of narrow categorical grant programs to eliminate red tape and allow localities greater flexibility in meeting their transportation problems. In 1978, States will be permitted, under this proposal, to preempt over \$1 billion of Federal motor fuel tax receipts for local needs.

In order to improve the safety and efficiency of the Nation's aviation system, and to increase its responsiveness to current needs, I will propose legislation to restructure Federal airports and airways development programs. My proposal will broaden the range of aviation activities that may be financed from the airports and airway trust fund, eliminate unnecessary Federal involvement in airport investment decisions, and allocate airport user fees more equitably among aviation system users.

BUDGET REFORM

As demands on the budget have grown, the need for better congressional procedures for considering the budget has become increasingly clear. In the past the Congress has acted upon the budget in a piecemeal fashion, with far too little attention to the total. The Congressional Budget and Impoundment Control Act passed last summer mandates sweeping changes in the Federal budget and in congressional procedures for dealing with it. Under the new procedures, the Congress will have a larger and better-defined role in developing sound budget and fiscal policies. Congressional organization and procedures will be changed to focus greater attention on the budget totals early in the legislative process.

Major provisions of the act require greater attention to the future-year costs of legislative proposals and ongoing programs and establish a budget committee in each Chamber and a Congressional Budget Office to aid Congress in its consideration of budget recommendations. The shift of the fiscal year to an October-to-September basis will give the Congress more time to complete action on the budget before the fiscal year begins.

The act also provides for a closer working relationship between Congress and the executive branch in controlling outlays. I look forward to a new era of fruitful cooperation between the legislative and executive branches on budgetary matters, a cooperation that will enhance fiscal responsibility, make the budget a more useful instrument of national policy, and promote a more careful allocation of limited resources.

During the past 6 years, the budget has become increasingly forward-looking, focusing attention on the future effects of budget proposals. The new act builds upon this initiative with the requirement that the budget present more extensive 5-year projections of outlays and receipts. These projections indicate the large natural increase in receipts resulting from rising incomes and profits as the economy recovers. These increased receipts, coupled with *prudent fiscal restraint*, will make it possible to avoid deficits that would be inflationary when the economy returns to high employment.

The Government strongly affects the economy in many ways not fully reflected in the budget. These influences include tax expenditures such as those that encourage homeownership and business investment; and the operations of Federal or Government-sponsored enterprises, particularly in the credit field, that are excluded from the budget. The new act recognizes the importance of these factors by requiring that they be given greater consideration in connection with the budget.

CONCLUSION

As we approach our national bicentennial, difficult challenges lie before us. The recommendations in this budget address the Nation's problems in a direct, constructive, and responsible fashion. They are designed to move the Nation toward economic health and stability. They meet human needs. They provide for the strong defense essential to our national security and to our continuing efforts to maintain world peace.

Looking beyond the Bicentennial, toward the year 2000, the practical limits to the growth of the Federal Government's role in our society become increasingly clear. The tremendous growth of our domestic assistance programs in recent years has, on the whole, been

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commendable. Much of the burden of aiding the elderly and the needy has been shifted from private individuals and institutions to society as a whole, as the Federal Government's income transfer programs have expanded their coverage.

These programs cannot, however, continue to expand at the rates they have experienced over the past two decades. Spending by all levels of government now makes up a third of our national output. Were the growth of domestic assistance programs to continue for the next two decades at the same rates as in the past 20 years, total government spending would grow to more than half of our national output. We cannot permit this to occur. Taxation of individuals and businesses to pay for such expansion would simply become insupportably heavy. This is not a matter of conservative or liberal ideology. It is hard fact, easily demonstrated by simple extrapolation. We must begin to limit the rate of growth of our budgetary commitments in the domestic assistance area to sustainable levels.

The growth of these domestic assistance programs has taken place in a largely unplanned, piecemeal fashion. This has resulted in too many overlapping programs, lack of coordination, and inequities. Some of the less needy now receive a disproportionate share of Federal benefits, while some who are more needy receive less. We must redouble the efforts of the past 5 years to rationalize and streamline these programs. This means working toward a stable and integrated system of programs that reflects the conscience of a compassionate society but avoids a growing preponderance of the role of the public sector over the private. It also means decentralizing Government operations and developing a closer partnership between the Federal Government, State and local governments, and the individual private citizen.

The Congress will approach this budget in a new way, with new legislative machinery and procedures. I pledge to work in a spirit of cooperation with the Congress to make this effort a success. The tasks before us provide difficult tests: to meet immediate economic problems; to relate our limited Federal resources more clearly to current national priorities; and to develop long-term strategies for meeting Federal responsibilities as we begin our third century. I am confident of success.

GERALD R. FORD,

FEBRUARY 3, 1975