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PRESS BRIEFING ON THE FISCAL 1981 BUDGET

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MR. LOVING: Ladies and gentlemen, I think we are about ready to start. For those of you I have not met, I am Rush Loving. I run Public Affairs at OMB. I want to remind all of you this session is on the record. However, everything discussed here today will be embargoed until 10:00 a.m., Monday. For those of you who have not picked up your allotted budgets, they will be available until 2:00 p.m., today in room 2010, that is 2010 at the New Executive Office Building.

Now, once this session is over, we will be manning telephones at OMB for the remainder of today until about 5:00 o'clock to answer any additional inquiries that any members of the working press might have. Our numbers there, if you want to take them down, will be 395-4747, 395-6180 and 395-4854.

If any of you should have further questions while you are writing tomorrow, you can find Whit Shoemaker at 656-4233 or you can get me at 243-6059. Now we have today Mr. James T. McIntyre, Jr., Director of the Office of Management and Budget, Mr. Charles L. Schultze, Chairman of the Council of Economic Advisers, Mr. G. William Miller, Secretary of the Treasury.

In addition, there is senior staff of the OMB. After brief opening remarks by Messrs. McIntyre, Schultze and Miller, they will take questions from the working press.

Jim.

MR. McINTYRE: Good morning and welcome, again, to
the annual press briefing on the President's budget.

President Carter's 1981 budget proposal is prudent and responsible. It provides for the Nation's need where real need exists. But it also recognizes the economic realities and provides an economic policy to reduce inflation.

The fiscal policy in the 1981 budget recognizes that inflation remains our number one economic problem. If we do not deal effectively with this problem, inflation will inevitably reverse the substantial economic progress achieved under this Administration. Our long-term goals of full employment with price stability will be even more difficult to achieve.

The 1981 budget is, therefore, a restrictive budget.

The growth of budget outlays is held to the lowest rate consistent with our national security and economic security objectives and the most urgent domestic requirements. Budget increases for less critical needs have been rejected, and there are no tax cuts. This tight fiscal policy is, in my judgment, necessary to control inflation. After taking into account inflation, there is virtually no growth in the 1981 budget. In constant dollars, total outlays in 1981 are nearly the same as in 1980.

The economic assumptions on which the 1981 budget is based reflect higher inflation than assumed previously, in large
part because of the recent OPEC price increases. The
projections also forecast a mild recession in 1980 and a
modest recovery in 1981 with a rise in the unemployment rate.

We have been candid and realistic in these assumptions,
which have driven up the estimated cost of social programs,
all noncontrollables and defense commitments. These economic
factors have also had a major effect on the 1980 budget. We
have had to revise our estimate of 1980 spending upward to
$564 billion. The 1980 deficit is now just under $40 billion,
instead of the $33 billion that we had projected last October.

Unfortunately, these present difficult economic
conditions do not permit a balanced 1981 budget. But this
budget makes substantial progress towards that goal. This
budget projects the lowest deficit since 1974.

As you can see from the chart behind me, we will
have reduced the deficit by more than 75 percent since 1976.

This deficit is more than $50 billion below what
it was when President Carter was campaigning for office.
The 1981 deficit is less than half the 1980 deficit. It
amounts to 2.6 percent of 1981 outlays, the second lowest
ratio in the last decade.

If, contrary to our expectations, the economy
were to perform well enough to maintain the unemployment rate
at its present level, we would not have a deficit of $15.8
billion. Instead, we would have a surplus of roughly an
equivalent amount.

Of the $52 billion increase in spending over 1980, $37 billion was taken up by such noncontrollables as Social Security, Medicare, Medicaid and interest on the debt. The remaining $15 billion went for defense and energy. The rest of the budget shows no net increase.

The defense budget is current and is appropriate for the world situation. It reflects an increase of slightly more than 3 percent in outlays in real terms, and, just as importantly, a real increase of over 5 percent in budget authority. Those increases are a continuation of the long-range policy laid down by President Carter early in his Administration. He is determined that America's defense be strengthened. Similarly, we have increased our outlays for the President's energy program by more than $3 billion in order to unshackle American from her increasingly hazardous dependence on foreign oil.

The non-defense budget is severely restrained. Non-defense expenditures have actually been cut by 1 percent in terms of real growth. However, new funds have been added for such critical programs as job training for unemployed youth and housing for the poor. We did this by making existing dollars stretch further and by diverting money from less effective uses.
To sum up, we produced, under difficult restrictions and uncertain economic conditions, the 1981 budget. Yet we produced a budget that substantially reduces the deficit and contains almost no real growth over 1980. In fact, it continues basic policy decisions established in the 1980 budget. And despite that, we were able to increase funding for crucial programs to meet the Nation's pressing needs.
The Chairman of the Council of Economic Advisers, Mr. Charles Schultze, will make a few comments on the economic assumptions.

MR. SCHULTZE: Good morning.

The economic assumptions on which the budget is based are spelled out on page 31 of the budget document and I am not going to repeat them here.

I will call your attention to a few points. The budget does incorporate an assumption of a mild recession in 1980 and a moderate recovery in 1981.

I think this is the first time any Administration in its budget has officially forecast a recession in advance of its occurrence. Despite the forecast of a recession, the President has submitted a very tough budget.

As Director McIntyre pointed out, there is no increase in real spending. There is a decline in real spending outside of defense and there are no tax cuts. Although virtually all economic forecasters in the private sector join us in predicting a mild recession, current economic statistics so far fail to show any overall economic decline in the economy.

There has been some weakness in housing, and autos, but it has not yet been generalized weakness. The economy in recent months has shown much more resistance to recession than earlier forecasts have foreseen. So
forecasts of impending recession could be wrong, as they have been in the past.

Under these circumstances, and with inflation continuing at double-digit levels, proposed tax cuts or other stimulative measures now would have signaled that the Administration was prepared to abandon its anti-inflation fiscal policies, not merely at the first sign of economic weakness, but before the first sign even appeared. That would have increased inflationary expectations, that would have weakened the value of the dollar in exchange markets, that would have risked translation of last year's oil inflation into a new and higher wage price spiral.

So the President has submitted a very restrained and a very severe budget. The necessities of the inflation fight require that the Federal Government be extremely cautious about when taxes are reduced, or other measures taken to stimulate economic activity. Now, the necessities of the inflation fight don't require that we ignore reality. Should economic conditions in prospect significantly deteriorate, the Administration would consider tax reductions and temporary or targeted spending measures to improve employment.

Under those circumstances, the actions would not be inflationary. But let me repeat, the current economic situation in no way warrants such measures, and it would be extremely hazardous to undertake them.
Thank you.

SECRETARY MILLER: I would just add a few brief words to the remarks by Jim McIntyre and Charlie Schultze.
As Mr. McIntyre has pointed out, the most pressing economic problem we face is inflation. I would just like to call your attention to how the proposed budget for FY 1981 fits into the broader strategy to combat inflation, to wage a comprehensive war against inflation on a multi-year basis. An austere, restrained fiscal posture is the cornerstone of our anti-inflation effort and it fits into a pattern that would include a continued disciplined monetary policy with the purpose of restraining the growth of money and credit consistent with winding down inflation. It also includes a program to moderate wages and prices in order to bridge over the period until the fundamental policies of fiscal and monetary restraint can affect prices.

It includes a commitment to a sound, stable dollar and to bringing our international accounts into balance, which we have done in 1979. It includes a comprehensive attack on the issue of energy and a commitment to reduce our dependence upon oil as a source of energy and to reduce our dependence upon imported oil and, thus, to free us of the price impacts that cannot be predicted or controlled from this excess dependence.

It also contemplates a concerted effort to attack other causes of inflation including the decline in productivity and the general weakness in the investment sector over the past decade. This budget fits in with this overall program
not only in presenting a restrained posture, but in the areas of new initiatives, which have been carefully controlled. In order to deal with the fundamental issue of fiscal restraint, in the areas where there are initiatives they have been directed at opportunities for contributing to the longer term winding down of inflation. This shows up in the initiatives to deal with youth employment and youth training, and, these, of course, fit into beginning to prepare the way for enhancing the human component that would add to productivity gains.

The budget also includes expansion of funds available for research and development which are part of the necessary process of revitalizing our industrial economy. It feeds in with research and development, with better preparation for employment, and we believe in coming years that we will also address the issue of incentives for investment which will help us in these areas.

So the budget does fit into this whole topic. I will be happy to join with the others here in trying to spell out the details of how this will work.

Thank you very much.

MR. McINTYRE: Thank you. We will be glad to now entertain your questions.

QUESTION: Mr. McIntyre, a brief and possibly technical question on page M-4, the last paragraph, the bottom
of the page, the President uses a budget authority figure for defense for fiscal 1981 of $158.2 billion. On page 45, he uses a defense figure of $161.8 billion. Can you tell me why the difference?

MR. McINTRYE: Yes, I can. The figure on page 45 includes the national defense expenditures in the Department of Energy.

QUESTION: Energy?

MR. McINTYRE: Yes. They total about $3 billion. And the figure on M-4 is the Department of Defense total obligational authority.

Ed?

QUESTION: I would like to direct a question to Mr. Schultze. The Administration predicts an early recession. The standard criticism of fiscal policy for combatting recessions is that it is applied too late. Isn't this the time now to crank up anti-recession measures and if you wait until a recession is manifest and allowing for the lags in fiscal policy, once again won't it be applying the medicine too late?

MR. SCHULTZE: Not at all.

(Laughter)

Let me elaborate.

(Laughter)

I think you have to look very closely at the risk
of being wrong. As someone who is paid to be a forecaster,
I have to admit that I am often paid for wrong forecasts.

If on the basis of a forecast of a recession the
Administration should come in and stimulate the economy early
and turn out to be wrong, and overdo it and gin up inflationary
pressures, and get it built into a new underlying higher rate
of inflation, it would take years and years and years to bring
it down. That is one of the problems we are finding.

It is so hard to get inflation out once it is in.
Conversely, if we should wait a little bit too late to come
into a recession, and we are wrong the other way, then you
can correct it relatively quickly. And I think the thing that
has to be borne in mind is that the risk of being wrong has
penalties that are quite different on the inflationary side
than the recessionary side. And in this kind of a world with
more than a decade of inflation, we cannot afford to take the
risk along the lines that you suggest.

QUESTION: Mr. Schultze, can you tell us in looking
at the economic experience in the months ahead, will you be
waiting for a recession to develop in the technical terms?
Do you have a trigger on unemployment? When do you really
begin to look at tax reduction and other anti-recessionary
measures?

MR. SCHULTZE: There are no mechanical sets of
numbers that you can use as the trigger. For example,
unemployment might be rising very rapidly, accompanied by other signs that the use is very brief and would turn around — like, for example, a drop in mortgage interest rates and a rise in durable goods, in which case with a large rise in unemployment you wouldn't do anything because it would turn itself around.

Conversely, you might have a situation in which a much slower rise in unemployment was accompanied by a lot of other signs that things were deteriorating very much. It is impossible in advance, and it would be unwise, I think, to pick out any given set of numbers and say if those numbers are exceeded on the down side we will therefore move in. I think it has to take constant monitoring and watching, and there is no fixed set of numbers for doing this.

QUESTION: Who is going to be the measurer of the vibes on when we are there? I mean if there is no scientific determination, what is it going to be? A political decision?

MR. SCHULTZE: I haven't realized the world was divided into science and politics.

(Laughter)

The fact that one can't put a specific number on it doesn't mean it is a purely political decision. I refuse, you know, the dichotomy. There are all kinds of considerations that will go into it, including, I think, principally economic considerations which aren't quite the same thing as scientific
considerations, I am sorry to say.

(Laughter)

QUESTION: Mr. Miller, could you tell us, please, what provisions are in the budget, if any, for additional bailouts and rewards of inefficiency like the Chrysler situation and, also, I would like to know have you thought of minting gold coins as the current high price of gold to compete with Kruggerands, Canadian Maple Leafs, and others (and the Russians have a coin, too,) which could further decrease or even wipe out our deficits?
SECRETARY MILLER: The answer to the first question, there are no initiatives in the budget to deal with financial assistance to troubled corporations, if I may word it that way, and the provisions that are in the budget for the Chrysler situation contemplate loan guarantees that will not involve Federal outlays. Corresponding small administrative expenses will be covered by fees charged to Chrysler for the loan guarantee.

For the second question, Congress has already provided for us to mint some gold, a limited number of gold medals, but beyond that, there is no contemplated issuance of gold coins.

QUESTION: Mr. McIntyre, can you put any approximate dollar value on the additional cost of the current national emergency?

MR. McINTYRE: We have incorporated in the budget already -- I said this is a current budget -- all of the decisions that the President had made with respect to the international situation at the time the budget was sent to the printer, which was early last week.

There is included in the defense numbers, I think, sufficient authority to continue the policies the President has established with respect to the location of the movement of ships and personnel; there are sufficient funds in the
Agriculture Department budget to cover the President's decisions on the grain embargo.

We have $2 billion in fiscal year 1980 and $800 million in the 1981 budget to cover the grain embargo decisions to purchase the grain and the use of the farm-owned reserve program.

In the foreign assistance budget for 1980, we have all of the President's decisions except the $100 million appeal for aid decision that he made a week ago.

As far as the policy the President has enunciated, there are only two or three items that are not identified by line in the budget. One would be the President's decision with respect to the Selective Service System, in which we would have to add about $10 million in 1980 and about $13 million in 1981.

Another decision that we were able to incorporate in the 1980 budget was the aid to Pakistan decision, but the final details were not worked out on 1981 in time for us to incorporate that in the budget.

I might point out, however, we have a contingency allowance in our 1981 budget of about $2 billion in budget authority that should be sufficient to cover most of those types of contingencies.
The only other item I am aware of that a decision has been made on that would not be covered is an additional $100 million in P.L. 480 in 1981.

Those are relatively small amounts of money compared to the totals in the budget itself. I think they could easily be handled within our allowance for contingencies. The point is that the budget is up to date, it does incorporate all of the President's decisions.

One final point, budgets always change during the course of the year to reflect changing events and if events change, obviously we would have to be prepared to look at the budget again and determine whether or not we can accommodate any policy changes within the current totals or whether or not we have to make additional recommendations.

As far as policy has been decided on at this point, the budget is current.

QUESTION: Mr. McIntyre, to follow that point, on page 5, you show a figure of $9.1 billion for increase in budget authority for military programs. Is it possible to say what part of that 9.1, if any, reflects tenser current international situations just referred to.

MR. McINTYRE: No, there is no way to break that out, I have indicated some of the changes that have been incorporated in the budget itself for the military programs.
QUESTION: I guess what I am trying to ask, Mr. McIntyre, would that figure have been substantially smaller, say, four months ago?

MR. MCINTYRE: Substantially smaller?

QUESTION: Yes.

MR. MCINTYRE: In defense?

QUESTION: In that $9.1 billion for increases in authority.

MR. MCINTYRE: For 1981?

QUESTION: Yes.

MR. MCINTYRE: No, it would not have been substantially smaller. You know, we let our defense numbers out early this year, in December. The President's decisions with respect to his defense recommendations, I think, have become more important and proved to be wiser each day. So this number would not have been substantially less.

QUESTION: Isn't it possible that that number will grow substantially through supplementals later on?

MR. MCINTYRE: Everything is possible. We don't know what is going to happen in the future.

As far as decisions the President has made, we have covered them.
Mr. Jayne?

MR. JAYNE: I think it is important to distinguish between funds that are needed to do specific kinds of operations and what I think you are getting at, which is: Are there defense programs that someone has determined are necessary now that we didn't think of six months ago? I think Mr. McIntyre is exactly right. We spent a great deal of time over the past year or year-and-a-half, looking at a whole range of programs that had to do with a greater capability to deploy worldwide, a greater capability for naval presence around the world, a greater capability for airlift and sealift of ground forces to any contingency anywhere in the world. And I think we can take credit, and we should take credit, for having planned those things and programmed them back in July and August and September, as we put this budget together.

In terms of what is going on in the world today, in terms of the increased operations of the U. S. Navy in the Indian Ocean, for example, that may require some reallocation of operating money within the defense budget. But as far as we are concerned, the program which we put together is the kind of program that is planned to be, and will be responsive to these kinds of situations and we don't anticipate program additions, as you say.

We may have to do some -- either moving around
of money or actual supplemental increases for operations.

MR. McINTYRE: Not to beat that issue into the ground, but one more point about it. Obviously, last year we sent up a supplemental to insure that we maintain the real growth in the defense budget. We have that same commitment and that is a circumstance that could change in the future. We don't know. Hopefully it will change for the better, but that is another circumstance on which we might have to make some changes.

QUESTION: Are there increases in this budget for intelligence functions, Mr. McIntyre?

MR. McINTYRE: There are increases in this budget.

QUESTION: I have a question on the intent, the issue of foreign policy.

Can you give us the total cost now that you estimate for the grain embargo, by which I mean to say the grain purchases and grain reserves in set-aside payments in total, how much you have allocated for fiscal 1980, how much you have allocated for fiscal 1981, and in both cases is it all going into the deficit for those two years and do you have some offsets?

MR. McINTYRE: The total cost of the grain embargo over a two-year period is expected to be about $2.8 billion. We have in the 1980 budget $2 billion
for the purchase of grain and for the farmer-owned reserve program, and in 1981, we have $800 million.

QUESTION: Does it all go onto the deficit in each of those years, or did you get any offsets?

MR. McINTYRE: Yes. It all went on the deficit for those years, but obviously the CCC is having transactions every day and some of it could be offset. But it went on -- the $2.8 billion is fully reflected in the deficit figures, and that is one reason the 1980 deficit has moved from $33 billion to $40 billion.

QUESTION: Mr. McIntyre, what are you doing with the windfall profits tax receipts in FY 1981? I don't see any offsetting expenditures specifically earmarked for energy-related programs. Are you taking this as strictly a revenue measure to hold the deficit down, or do you have dollar-for-dollar offsetting spending for those receipts?

MR. McINTYRE: We have not specifically said this money comes from the windfall profits tax, because all taxes are fungible. This is a unified budget and so we haven't tried to earmark any of the particular proceeds in the sense of a line-for-line receipt and expenditure. We have included the windfall profits tax in our overall receipt estimates just like we have income taxes and other taxes, and there are expenditures recommended in the neighborhood of $3 billion that are
directly related to the President's energy proposals that he made last July.

The key thing about the windfall profits tax is that it is very difficult to try to have an exact expenditure that equals the taxes you take in. What we are trying to do is, over the period of this decade, develop energy-related programs that will in effect use the amount that would be collected in the period of the decade from the windfall profits tax.

QUESTION: Would it be fair to say, though, that in FY 1981, the effect of the tax will be to keep your deficit down by close to $10 billion. If you didn't have the tax, wouldn't you show a $26 billion deficit?

MR. McINTYRE: If we didn't have income taxes, we would show a bigger deficit. If you take that kind of argument to its extreme, you can see how ridiculous it is. The point is that receipts are fungible, and what we have tried to do is plan a budget based on the economic conditions that we forecast, based upon meeting the needs of our country, and if the picture were different, then we may have been in a position to look at the President's fiscal policy in a different manner.

And also, let me call your attention to the fact that there is budget authority in the 1980 budget totaling over $17 billion that is directly related to the Energy Security
Corporation, so it cuts both ways.

We have asked for the appropriation in 1980 and 1981, but the money will spend out over a period of years.

MR. SCHULTZE: Can I just -- let me add a point to that, just to drive Mr. McIntyre's point home. It is clearly the case, and it is the way world works, that expenditures on major projects get going slowly. You collect the windfall profits tax and you provide budget authority and outlays, but it takes time to get spent, and therefore in the first year, second year, you collect a lot more money than you spend.

You have three options with that. You can let it go into reducing the deficit, you can use it to spend elsewhere, or you can cut taxes with it.

Given the inflationary pressures in the economy, what we did was to let it reduce the deficit.
QUESTION: Mr. Schultz, the budget calls for the social security payroll tax in 1981, the increase to go into effect. Won't that be coming at a time when it might kill this recovery that you are predicting?

MR. SCHULTZE: Well, if I thought it would, we wouldn't have predicted recovery.

(Laughter)

Our forecast, 2.8 percent growth in GNP in 1981 takes into account -- takes into account -- that tax and the effect of that tax. If you will look at the economic forecasts of outside forecasters -- Chase, Data Resources -- you will find they also, taking that tax into account, have increases in 1981.

Yes, we took it into account. We didn't forget it.

QUESTION: Mr. McIntyre, the 1980 estimate published in this book is very, very substantially higher than the Second Concurrent Budget Resolution. Could you outline for us -- you have named the grain embargo -- but could you give us a basic breakout of the difference between the Second Concurrent and your 1980 estimate, what the new spending has been?

MR. McINTYRE: It just so happens I have that.

(Laughter)

I might point out first that there is a significant difference in some of the technical estimating techniques used
by our office and by the CBO at this time. I think when CBO comes out with its new estimates that the figures will be a lot closer.

The reason for the differences are basically re-estimates for interest and other related noncontrollable programs -- Medicaid, food stamps, student loan programs.

There are some energy initiatives that are reflected in the amount of about $2 billion in budget authority and about $100 million in outlays, and the rest of the difference comes from the grain embargo, plus a host of minor technical estimating differences.

QUESTION: Since we are talking a $20 or $30 billion difference, do you have some figures --

MR. McINTYRE: How much? We are not talking much. The Second Concurrent Budget Resolution was $547 billion. We are about $564 billion. So we are talking about around a difference of $16 to $17 billion.

QUESTION: Mr. McIntyre --

MR. McINTYRE: Because there are some other differences in receipts -- that is why your deficit doesn't rise the total 16.

QUESTION: Do you have a figure on the cost-of living escalator announced, how much they contributed to the increase in the budget?

MR. McINTYRE: Yes, I do. In 1981, Dale, what is it?
MR. McOMBER: The difference between 1981 and 1980, there is a total increase of $34 billion in noncontrollable programs. Of that amount, $25 billion approximately is due to increases in inflation, interest rates, and unemployment assumptions.

QUESTION: Mr. McIntyre, going back to the grain embargo mitigating expenses, the $800 million in FY 1981 are still expenses related to current embargo. I am wondering, does this mean your economic assumptions for FY 1981 do not include the possibility of continuing the embargo and, therefore, that we won't have to pick up new expenses for our farmers?

MR. SCHULTZE: You have to remember that what has happened this year with the embargo was that sales already made and already counted on were cancelled and the Federal Government is picking that up.

In 1981, the next crop, our best estimate of what the total market is going to be, of what the prices are likely to be is included and that is how you get, among other things, the $800 million. That is, you look at the $2 billion and $800 million as a net of all the things that go into how much the Federal Government takes in and how much of that it is going to be selling back out again. All of that is taken into account.

QUESTION: Are you, in your economic estimate in
1981, forecasting a resumption of higher sales of grain to the Soviet Union, which would require less Federal support --

MR. SCHULTZE: No, no. I don't know the exact number, to tell the truth. But we are not.

QUESTION: Are you cranking in a much higher set-aside support costs?

MR. SCHULTZE: It is far too early to tell you.

QUESTION: Because you have got a drop from 1980 to 1981 in your agriculture budget?

MR. SCHULTZE: Because you put the $2 billion in 1980. If you look at the years on both sides of 1980--1979 and 1981, they are lower. The 1980 is up because it includes that full $2 billion.

QUESTION: Does that assume you are going to go back to detente as far as agriculture is concerned in 1981?

MR. SCHULTZE: It doesn't assume detente or anything else. It does assume some number, which I don't know, on total exports.

MR. HESSLER: Both the 1980 and 1981 number assume that exports to the Soviet Union are no higher than the embargo limit, which was 8 million tons under the executive agreement. So it assumes a continuation of the embargo out in the next crop year.

The measures that have already been put in place, liberalization of the grain reserve, and such, will therefore
entail costs for the Federal Government in Fiscal 1981 over and above what they would have been without the embargo. That is why you get the $800 million. The cost is a great deal higher in 1980 because we have had to assume all those contracts directly in the short term.

QUESTION: Mr. Miller or Mr. McIntyre, your estimates for receipts from the windfall tax are based on your presentation to the Senate Finance Committee. The House and Senate conferees are settling on a considerably smaller tax. Can you tell us how these numbers ought to be revised to reflect that agreement?

SECRETARY MILLER: Yes, let me address that just for a second. In the first place, the windfall profits tax bill has not yet completed its process through the Congress. I think it would be premature for us to look at the net result of it because it involves not only the question of the application and rates of tax itself but it contains provisions for credits and spending. The netting out of all of those items will have to be taken into account when the Congress finally completes its work.

If we look just at the revenue changes, they are not quite so substantial in these years as perhaps it may seem to you. We are talking in the neighborhood of perhaps a shortfall of around $1.2 billion dollars in 1981. That could vary a little, but that is what it looks like based on the
Conference work so far.

QUESTION: Secretary Miller and Mr. McIntyre, do you anticipate any political difficulties in explaining to the American people why there is a rather considerable deficit in the budget which the President has been promising for almost four years would be in balance at this submission?

SECRETARY MILLER: Let me speak to that first and then perhaps Mr. McIntyre can supplement. I don't think it is difficult to explain to the American people. I think the American people have been acutely aware of the changes in the economic environment since the President was campaigning for office some years ago.

They are aware that a year ago, none of us could have predicted, not only the change of government in Iran, but the ultimate overthrow of the Baktiari government and the curtailment of production over the short term and long term of Iranian oil and the aftermath of doubling of oil prices and the working of that into inflation. This affected the opportunity for our own economy to operate at the level and in the trend that we had projected.

A great deal of the inability to balance the budget in 1981 is because of the economic impacts of accelerated inflation that have taken place over this period of time. I think it is explainable to the American people, not only why the budget isn't balanced, but why we aren't adding
more stimulus. Arguments could be made for a balanced budget. Other arguments could be, that in the face of a recession, why not more stimulus? I think we are taking the prudent course of keeping on an austere posture because of this tremendous clear and present danger of inflation to the well-being of every one.

MR. McINTYRE: Let me follow up on that with two points.

If you look at the increase in the 1981 budget over 1980, the $52 billion, $37 billion goes to the non-controllable programs. Those are Social Security, Medicare, Medicaid, prior commitments under contract. Some of that is due to the economic assumptions, other portions of it are due to increased beneficiaries in those programs like Social Security, Medicare, Medicaid.

The remaining $15 billion is the amount that we are putting into the defense budget. So all of the other "adds" in the 1981 budget would have been targeted to particular programs have been funded by making cuts in other programs. But I think that is an important distinction, the noncontrollables and the defense increases, taking up most of the slack.

Also, just to go back to a point that Mr. Schultze and I both made in our presentations about the economic assumptions, the deficit in 1981 could be said to be the
price we pay for honesty. Had we forecast a rate of
unemployment that was lower than what is forecast, perhaps
down to the 6-3/4 percent range, we could probably have
shown a balance or a very, very small deficit at the very
least. And the third point I would make is if you look at
the high employment budget, you will see that this budget
gives a great surplus which means it is a restrained budget.

And a final point, Mr. Levine, is in my statement. I
said that if the economic were to perform at a level to
maintain the unemployment rate at about the rate that it is
today, 5.9 percent, the budget would actually be in surplus.

QUESTION: Mr. McIntyre, one point the President
contemplated was holding the budget at 21 percent of GNP. Why
did that go by the board?

MR. McINTYRE: That went by the board because of
the slower economic growth.

QUESTION: It was impossible, there is a school
of economists who believe that in fact higher government
spending and higher tax levels penalizes economic growth, and
therefore you have a vicious circle by piling on more and
more taxes, penalizing the economic growth.

MR. McINTYRE: With all due respect to my colleagues
there are a lot of economic theories. I am not sure that we
know which ones are working today. We think that at this
particular point in time it is important to meet the national
needs, particularly defense and energy, and deal with problems like youth unemployment. What the President has recommended is his best judgment of what the budget for this country needs to be in 1981 to meet those needs.

Charley, do you want to make any other comments on it?

MR. SCHULTZE: Yes. I am kind of glad you asked that. It gives me a chance to put some numbers out.

If any group of economic theorists would want to pursue that line, that in fact the reason for the economic slowdown is that government spending has been moving up so fast they must contemplate the following numbers.

During the decade of the 1960s adjusted for inflation total Federal spending rose at 3.9 percent a year. Saying it another way, it rose 3.9 percent a year faster than inflation did.

In the first seven years of this decade, the pre-Carter years, 1970 to 1977, total Federal spending adjusted for inflation, in real terms in other words, rose 3.1 percent a year. In the four years 1977 through 1981, this budget under President Carter, that total will be 1.3 percent. And in fact, in the last year of that period, it will be two-tenths of 1 percent.

So that in fact if you look at this in any kind of
perspective, what has happened in the last four years, including the proposals in this budget, are to make a substantial change in the very, very large momentum of real Federal spending increases that have been going on for the prior 17 years.
QUESTION: Mr. Schultze, could you go over some of the forces that you see behind the assumption that you are making about a 10.4 percent inflation rate for 1980? Could you go over some of the factors that are behind that assumption?

MR. SCHULTZE: I have a minor little document called Economic Report coming out in a couple of days and I hate to, you know, what little is going to be left, I hate to scoop it.

(Laughter)

But I will say a couple of things.

If I remember the numbers correctly, if one looks at another measure of inflation over the four quarters of 1980, namely, the overall GNP deflator, I think we have it rising at something a little over 9 percent. But I forget the exact number, but it is a little over 9 percent, whereas we have the CPI rising about 10-1/2 percent.

What that means is two things are happening, specifically with respect to assumptions about inflation. First is that energy prices will continue to rise faster than inflation in general, although not as fast as they did last year. And secondly, that while housing prices will probably slow up, that nevertheless there will be enough momentum in there that housing prices will probably rise a little faster than general inflation, so that the Consumer
Price Index is still very, very slightly into double digits, while the overall inflation rate of the economy is back down into the single digits.

I think I will save the rest for a little later.

QUESTION: Mr. McIntyre, last year you were explaining to us that you had to cut jobs in health and housing programs in order to fight inflation, which hurts the poor as much as, or more than anyone else in society.

This year we have the worst inflation rate since the end of World War II, and you are raising spending in each of these categories. Why?

MR. MCINTYRE: The CETA Jobs Program is being held up.

QUESTION: The Youth Unemployment Program, you have added --

MR. MCINTYRE: The Youth Employment Program I think is greatly needed. If you look at the youth unemployment rate and the fact that we need to address the structural unemployment problem that is represented by youth unemployment, particularly minority youth unemployment, I think that is what government is all about, to try to help out people who need help.

QUESTION: Why this year, when inflation is worse than it has been in 33 years, when last year you couldn't do it when it was --
MR. McINTYRE: The Jobs Program, the basic Public Service Jobs Program is held level. We made the reductions last year in the 1980 budget reductions, by the way, that the Congress concurred in and adopted.

QUESTION: Subsidized housing --

MR. LOVING: We have time for two more.

QUESTION: What made you believe the OPEC prices are not going to go up at the same rate this year as they did last year, and is that prudent to assume that?
MR. SCHULTZE: Well, I don't quite know how to answer that, except surely it isn't prudent for the United States Government to put out its official forecast for the budget with the assumption that OPEC is going to double its prices.

(Laughter)

MR. McINTYRE: Mr. Cowen is asking a question.

Go ahead.

QUESTION: There has been a good deal of discussion about taxes, the economy and inflation and recession. Could we summarize what you are telling us in the following way: If there is no recession, there will be no proposal for reducing income or Social Security taxes.

MR. McINTYRE: Ever?

QUESTION: No, in 1980.

MR. McINTYRE: In 1980. Charlie?

MR. SCHULTZE: Can I answer that?

In both the budget documents and, if you will wait a few days, in the Economic Report, we have worked rather hard to summarize our views on this, and I would prefer our summaries.

QUESTION: Mr. McIntyre, what provisions are there in President Carter's budget for enforcing the revolving door syndrome? This is just a horse's laugh.

Like for instance an SEC Commissioner has just resigned and
she is going right back to the law firm that employed her. The President has promised he would enforce this. Where in the budget and under what agency is this being done, and in particular since we see abuses, a lot of people, particularly in the SEC, are taking jobs —

QUESTION: Thank you, Mr. Secretary.

MR. McINTYRE: We want to get out of here.

The budget is not a law-enforcement or ethics-enforcement instrument. That is left to the appropriate bodies to deal with.

THE PRESS: Thank you.

(Whereupon, at 10:55 a.m., the press briefing was concluded.)