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NATIONAL SCIENCE
FOUNDATION

NATIONAL SCIENCE FOUNDATION

1977 OUTLAY REDUCTIONS

| <u>Program</u> | <u>Planning guidance</u> | <u>Adjustments</u> | <u>Current estimate</u> | <u>Suggested reductions</u> | <u>Revised planning guidance</u> |
|--|------------------------------|--------------------|-----------------------------|---------------------------------|--|
| Research Project Support | 395 | -- | 395 | -- | 395 |
| National Research Centers and Programs | 172 | -- | 172 | -- | 172 |
| Research Applied to National Needs (RANN) | 82 | -- | 82 | -- | 82 |
| Science Education Graduate Student Support } } | 69 | -- | 69 | -50 | 19 |
| Other | 57 | -- | 57 | -- | 57 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 775 | -- | 775 | -50 | 725 |



Summary of Outlay Reductions (Part I)
National Science Foundation
(dollars in millions)

9/5/75

| | Effect on outlays in: | | |
|---|-----------------------|------------|------------|
| | 1976 | 1977 | 1978 |
| A. 1977 planning guidance and related 1976 amount | xxx | 775 | xxxx |
| B. Suggested program reductions in Science Education and Training: | | | |
| Current estimate | 65 | 69 | 69 |
| OMB recommendation | 53 | 19 | 0 |
| Suggested reduction | -12 | -50 | -69 |
| Total suggested reduction | <u>-12</u> | <u>-50</u> | <u>-69</u> |
| Revised 1977 planning guidance and related 1976 amount | 708 | 725 | xxxx |



1977 Outlay Reductions (Part II)
NSF/Science Education and Training
(dollars in millions)

Date: September 5, 1975

- | | |
|---|---|
| <input checked="" type="checkbox"/> appropriation request | <input type="checkbox"/> deferral action |
| <input type="checkbox"/> other administrative action | <input checked="" type="checkbox"/> rescission action |
| <input type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|---------------------------|-------------|----------------|-------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate | 65 | 65 | 69 | 69 | xxx | 69 |
| OMB recommendation | 40 | 53 | 0 | 19 | xxx | 0 |
| Suggested reduction | -25 | -12 | -69 | -50 | xxx | -69 |

Actions required:

Eliminate support in NSF for science education programs and graduate student support through fellowships. Because only about one-half of new budget authority is expended in the year of obligation, a rescission will be needed for part of the 1976 program in order to reduce outlays by \$50M in FY 1977.

Program impact:

Would eliminate program. However, of all NSF activities, science education is considered as lowest priority on programmatic grounds. The only other option for reducing 1977 outlays is a cut in research programs. Because only about 27% of new authority is expended in the first year in these programs, BA in FY 1977 would have to be reduced by over \$100M even with rescission in FY 1976. Furthermore, NSF research support plays a pivotal role now that basic research in mission agencies is more and more being squeezed by inflation. Despite criticism from Senator Proxmire of some research projects supported by NSF that appear trivial from their titles, research proposals must generally pass rigorous qualitative review before grants are made. Less than 50% of proposals for support are funded by NSF.



Other consideration:

NSF would strongly oppose this reduction both because the Foundation believes it has a responsibility in improving science education and because of the strong congressional support for these programs. A reduction in the research program, however, would send a strong, negative signal that the Administration is generally anti-science, because NSF symbolizes Federal support of basic research in all fields of science to underpin future economic growth and improvements in the quality of life.

RAILROAD RETIRE-
MENT BOARD

1977 Outlay Reductions (Part II)

RRB Railroad Retirement
(dollars in millions)

Date: 9/5/75

- | | | | |
|-------------------------------------|-----------------------------|--------------------------|----------------------------|
| <input type="checkbox"/> | appropriation request | <input type="checkbox"/> | deferral action |
| <input type="checkbox"/> | other administration action | <input type="checkbox"/> | rescission action |
| <input checked="" type="checkbox"/> | substantive legislation | <input type="checkbox"/> | other congressional action |

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|--------------------------|--------------|----------------|--------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate | 3,443 | 3,443 | 3,567 | 3,567 | xxx | 3,829 |
| OMB recommendation..... | <u>3,443</u> | <u>3,443</u> | <u>3,567</u> | <u>3,457</u> | <u>xxx</u> | <u>3,719</u> |
| Suggested reduction..... | -- | -- | -- | -110 | xxx | -110 |

Actions required:

Limit cost-of-living increase to 60% of the increase in the applicable index.

Program impact:

1 million beneficiaries would receive less than the expected benefit increase.

Other consideration:

Enactment is extremely unlikely.



TVA

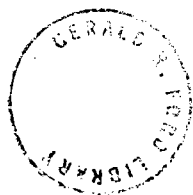
TENNESSEE VALLEY AUTHORITY
 1977 Outlay Reductions
 (\$ millions)

| <u>Program</u> | <u>Planning guidance</u> | <u>Adjustments</u> | <u>Current estimate</u> | <u>Suggested reductions</u> | <u>Revised planning guidance</u> |
|-------------------------------------|------------------------------|--------------------|-----------------------------|---------------------------------|--|
| Power plant construction program | 725 | xxx | 725 | 22 | 703 |
| Nonpower program | 95 | xxx | 95 | 2 | 93 |
| Employment reduction | | . | | 1 | -1 |
| <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 820 | xxx | 820 | 25 | 795 |



SUMMARY OF OUTLAY REDUCTIONS
 TENNESSEE VALLEY AUTHORITY
 (\$ in millions)

| | Effect on outlays in | | |
|---|----------------------|-------------|-------------|
| | <u>1976</u> | <u>1977</u> | <u>1978</u> |
| A. 1977 planning guidance..... | xx | 820 | xx |
| Current estimate..... | <u>781</u> | <u>820</u> | <u>xx</u> |
| B. Suggested program reductions: | | | |
| power..... | 0 | 22 | 0 |
| nonpower..... | 0 | 2 | 0 |
| C. Personnel reduction: | | 1 | 1 |
| Total suggested reduction.... | <u>0</u> | <u>25</u> | <u>1</u> |
| Revised 1977 planning guidance and related 1976 amount.... | 781 | 795 | xx |



1977 Outlay Reductions (Part II)
TENNESSEE VALLEY AUTHORITY
(dollars in millions)

Date: September 5, 1975

- | | |
|---|---|
| <input checked="" type="checkbox"/> appropriation request | <input checked="" type="checkbox"/> deferral action |
| <input checked="" type="checkbox"/> other administration action | <input type="checkbox"/> rescission action |
| <input type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| <u>Amount:</u> | 1976 | | 1977 | | 1978 | |
|-----------------------|----------|---------|------|---------|------|---------|
| | BA | Outlays | BA | Outlays | BA | Outlays |
| Current estimate..... | 10,087.8 | 1/ 781 | 94.1 | 820 | xxx | 961 |
| OMB recommendation... | 10,087.8 | 781 | 81.4 | 796 | xxx | 961 |
| Suggested reduction | 0 | 0 | 12.7 | 24 | xxx | 0 |

1/ Assumes passage of \$10 B bonding legislation

Actions Required:

Reduce construction outlays by delaying new starts on 3 new power plants and with some slowdown on water program. TVA's past forecast for the demand for electricity exceeded the actual demand which enables the deferring of power construction. Moreover, this reduction of outlays will assist in improving its financial position.

Program Impact:

Relatively minor program impact assuming TVA's power demand grows at or about projected demand rate. Staff analysis estimated the growth rate to be 5.5% in May which is slightly lower than the rate used in June of 5.8% by Nuclear Regulatory Commission.



FOREIGN ECONOMIC
ASSISTANCE

AGENCY FOR INTERNATIONAL DEVELOPMENT

1977 OUTLAY REDUCTIONS

| <u>Program</u> | <u>Planning guidance</u> | <u>Adjustments</u> ^{a/} | <u>Current estimate</u> | <u>Suggested reductions</u> | <u>Revised planning guidance</u> |
|--|------------------------------|----------------------------------|-----------------------------|---------------------------------|--|
| Functional Development Assistance..... | 894 | - 2 | 892 | -22 | 870 |
| International Organizations and Programs..... | 210 | -- | 210 | -15 | 195 |
| Operating Expenses..... | 209 | -- | 209 | - 2 | 207 |
| Allowance for Foreign aid requirements..... | -- | +1294 | 1294 | -- | 1294 |
| Other AID..... | 120 | +57 | 177 | -- | 177 |
| Less Receipts..... | -390 | -- | -390 | -- | -390 |
| Employment Reduction..... | | | | - 4 | - 4 |
| <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 1043 | 1349 | 2392 | -43 | 2349 |

a/ Approved by the President but not yet transmitted.



SUMMARY OF OUTLAY REDUCTIONS

AGENCY FOR INTERNATIONAL DEVELOPMENT
(dollars in millions)

| | Effect on outlays in: | | |
|--|-----------------------|--------------|-------------|
| | <u>1976</u> | <u>1977</u> | <u>1978</u> |
| A. 1977 Planning guidance..... | xxx | 1043 | xxx |
| Adjustments: | | + 55 | |
| Allowance for Foreign aid requirements..... | <u>xxx</u> | <u>+1294</u> | <u>xxx</u> |
| Current estimate..... | 1014 | 2392 | xxx |
| B. Suggested program reductions: | | | |
| Functional Development Assistance..... | <u> </u> | <u>-22</u> | <u>-55</u> |
| International Organizations and Programs..... | <u> </u> | <u>-15</u> | <u>- 9</u> |
| Operating Expenses..... | | - 2 | -- |
| C. Employment Reduction..... | | - 4 | |
| Total suggested reduction..... | <u> </u> | <u>- 43</u> | <u>- 68</u> |
| Revised 1977 planning guidance and related 1976 amount..... | 1014 | 2349 | xxx |

1977 Outlays Reductions (Part II)
AID Functional Development Assistance
(dollars in millions)

Date: 9/6/75

- | | |
|---|---|
| <input checked="" type="checkbox"/> appropriation request | <input type="checkbox"/> deferral action |
| <input type="checkbox"/> other administration action | <input type="checkbox"/> rescission action |
| <input type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|--------------------------|-------------|----------------|-------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate..... | 858 | 820 | 1010 | 892 | xxx | 1040 |
| OMB recommendation..... | <u>858</u> | <u>820</u> | <u>863</u> | <u>870</u> | <u>xxx</u> | <u>985</u> |
| Suggested reduction..... | -- | -- | 147 | 22 | | 55 |

Actions required

Holding appropriation request to 1976 level for functional accounts.

Program impact:

By adjusting among functional accounts, would permit modest increases in highest priority areas of food production and population over 1976 request levels. It would necessitate a budget request for less than we have already sought in the authorizing legislation.

Other consideration:

This would probably not be too inconsistent with Secretary Kissinger's UN speech, which did not stress increasing bilateral aid.



1977 Outlay Reductions (Part II)
 International Organizations and Programs
 (dollars in millions)

Date: 9/6/75

appropriation request

deferral action

other administration action

rescission action

substantive legislation

other congressional action

| | 1976 | | 1977 | | 1978 | |
|--------------------------|------------|----------------|------------|----------------|------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate..... | 190 | 140 | 215 | 203 | xxx | 214 |
| OMB recommendation..... | <u>190</u> | <u>140</u> | <u>190</u> | <u>188</u> | <u>xxx</u> | <u>205</u> |
| Suggested reduction..... | -- | -- | 25 | 15 | | 9 |

Actions required:

Hold appropriation request to 1976 level.

Program impact:

Probably very slight, since Congress can be expected to reduce the 1976 request substantially; so this would still constitute an increase.



1977 Outlay Reductions (Part II)

AID Operating Expenses

(dollars in millions)

Date: 9/6/75

appropriation request

deferral action

other administration action

rescission action

substantive legislation

other congressional action

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|--------------------------|-------------|----------------|-------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate..... | 205 | 191 | 208 | 209 | xxx | 208 |
| OMB recommendation..... | <u>205</u> | <u>191</u> | <u>205</u> | <u>207</u> | <u>xxx</u> | <u>208</u> |
| Suggested reduction..... | -- | -- | 3 | 2 | | -- |

Actions required:

Hold appropriation request to 1976 level.

Program impact:

Virtually none in this account.



DEFENSE

1977 Outlay Reductions
Defense

The attachment identifies potential outlay reductions of \$5.8B from the 1977 Defense Military planning ceiling of \$98.2B. This would reduce Defense outlays about \$3B below the recommended 1976 level in real terms. Since the Defense planning process is already \$7B higher in outlays than the \$98.2B level, the recommended reductions would involve total adjustments of about \$12B from the internal DOD planning level.

In conducting this exercise a ground rule was established to protect existing force levels. The identified reductions are concentrated in the following areas:

Military/civilian pay - \$3.1B, reflecting a 5% limit on the October 1975 and October 1976 pay raises and identified budgetary issues.

Military/civilian manpower reductions - \$.7B. This includes a 30,000 man reduction in military end strength for transients and an additional 50,000 reduction in Defense civilian personnel by end FY 1977.

Defense operations - \$.8B. This will require a tightening up in non-readiness related areas such as travel and stock funds and includes a 5% reduction in operational activity across the three services.

Investment programs - \$1.2B. This would provide sharply lower levels than now planned for Defense R&D and production in 1977 but still permits a real growth of 6% over the 1976 level. Non-operational construction would be sharply reduced in both 1976 and 1977.

About half of the proposed reductions - those concerned with military/civilian pay - could be accomplished with no adverse effects on Defense readiness and capabilities. The other half, however, would require lower modernization levels and reduced Defense readiness and would be vigorously opposed by Secretary Schlesinger.

The recommended reductions could be accomplished without seriously degrading U.S. defense capability, but the resulting cut in real defense resources could signal at home and abroad withdrawal of Administration support for strengthened defense capabilities.

The reductions would have little overall effect on the economy, but could impact on localities that depend upon defense employment and contracts.

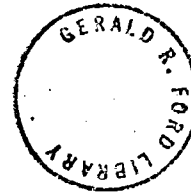


DEPARTMENT OF DEFENSE - MILITARY

1977 OUTLAY REDUCTIONS
(dollars in billions)

| <u>Program</u> | <u>Planning guidance</u> | <u>Adjustments</u> | <u>Current estimate</u> | <u>Suggested reductions</u> | <u>Revised planning guidance</u> |
|---|------------------------------|--------------------|-----------------------------|---------------------------------|--|
| Military and civilian personnel | 37.2 | | 37.2 | 1.2 | 36.0 |
| Military and civilian pay increases | 6.6 | | 6.6 | 2.6 | 4.0 |
| Retired pay | 7.9 | .6 | 8.5 | .1 | 8.4 |
| Operations, R&D, procurement, construction | 46.5 | | 46.5 | 1.9 | 44.6 |
| <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 98.2 | .6 | 98.8 | 5.8 | 93.0* |

*Current Defense planning levels imply about \$105 billion for 1977.

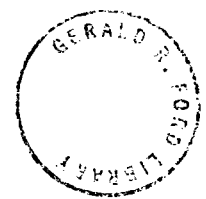


SUMMARY OF OUTLAYS REDUCTIONS

Department of Defense - Military

(dollars in millions)

| | Effect on outlays in | | |
|--|----------------------|-------------|-------------|
| | 1976 | 1977 | 1978 |
| A. 1977 Planning guidance | | 98,200 | |
| Adjustments: | | | |
| Retired pay CPIs | | 565 | <u>565</u> |
| Current estimate | 91,800 | 98,765 | |
| B. Suggested program reductions: | | | |
| Cap Military and classified pay increases | | 2400 | |
| Cap Wage Board pay increases | | 145 | |
| Cap Military retired cost of living increases | | 100 | |
| Reduce leave, overtime and pay related costs | | 500 | |
| Reduce Military Manpower | 20 | 200 | |
| Reduce Civilian Manpower | 60 | 460 | 10 |
| Reduce tempo of Operations | 215 | 830 | 80 |
| Slow pace of R&D and procurement | | 400 | 760 |
| Freeze non-urgent construction | 160 | 540 | 170 |
| Reduce intelligence-related procurement and construction | 50 | 190 | 85 |
| Total suggested reduction | | <u>5765</u> | <u>1105</u> |
| Revised 1977 planning guidance and related 1976 amount | <u>505</u> | 93,000 | |



1977 Outlay Reductions
DOD Military and Classified Civilian Pay Increases
(dollars in millions)

Date: August 19, 1975

Substantive legislation

| | 1976 | | 1977 | | 1978 | |
|------------------------|--------------|----------------|--------------|----------------|------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate..... | 2,108 | 2,100 | 5,560 | 5,550 | xxx | 0 |
| OMB recommendation ... | <u>2,108</u> | <u>2,100</u> | <u>3,160</u> | <u>3,150</u> | <u>xxx</u> | <u>0</u> |
| Suggested reduction... | — | — | 2,400 | 2,400 | xxx | 0 |

Actions required:

Limit comparability increases for military and classified civilian pay to 5% on 10/1/75 and 10/1/76.



1977 Outlay Reductions
DOD Wage Board Pay Increases
(dollars in millions)

Date: August 19, 1975

substantive legislation

| | 1976 | | 1977 | | 1978 | |
|------------------------|-----------|----------------|------------|----------------|-----------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate..... | -- | -- | 1010 | 1010 | xx | 0 |
| OMB recommendation.... | -- | -- | <u>865</u> | <u>865</u> | xx | <u>0</u> |
| Suggested reduction... | -- | -- | 145 | 145 | xx | <u>0</u> |

Actions required:

Limit comparability increases for wage board pay to 5% in 1977.

1977 Outlay Reductions
DOD Retired Pay
(dollars in millions)

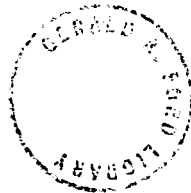
Date: August 19, 1975

substantive legislation

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|---|-------------|----------------|--------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate (12/1/76 CPI @ 4.91%) | | | 8,478 | 8,478 | xxx | 0 |
| OMB recommendation (12/1/76 CPI @ 3.41%) | | | <u>8,378</u> | <u>8,378</u> | <u>xxx</u> | <u>0</u> |
| Suggested reduction | | | -100 | -100 | xxx | 0 |

Actions required:

Enact a cost-of-living cap that will reduce the 12/1/76 CPI by 1.5%.



1977 Outlay Reductions
 Leave, Overtime and Pay-related Costs
 (dollars in millions)

Date: September 5, 1975

- appropriation request
- other Administration action
- substantive legislation

| | 1976 | | 1977 | | 1978 | |
|-------------------------------|---------------|----------------|---------------|----------------|-----------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate* | 37,200 | 37,200 | 37,200 | 37,200 | xx | 0 |
| OMB recommendation | <u>37,200</u> | <u>37,200</u> | <u>36,700</u> | <u>36,700</u> | xx | 0 |
| Suggested reduction | - | - | 500 | 500 | xx | 0 |

Actions required: Congressional approval of the requested change in military reenlistment leave entitlements (\$75 million). Administrative action to reduce military travel costs by increasing tour lengths and reducing personnel turbulence (\$275 million). A 50% reduction in civilian overtime or a Congressional approval of changes in the Federal Wage System that are likely to be proposed by the President's Panel on Federal Compensation (\$150 million).

Program impact: The reduction in overtime will be difficult to achieve at the same time as a personnel reduction and will result in temporary backlogs.

*Military @ \$22.7 B + civilian @ \$14.5 B = 37,200



1977 Outlay Reductions
Military Manpower
(dollars in millions)

Date: September 5, 1975

/X/ reduced 1977 appropriation request

/X/ rescission

| | 1976 | | 1977 | | 1978 | |
|-------------------------|---------------|----------------|---------------|----------------|------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate | 22,732 | 22,277 | 22,700 | 22,700 | xxx | 0 |
| OMB recommendation | <u>22,707</u> | <u>22,257</u> | <u>22,500</u> | <u>22,500</u> | <u>xxx</u> | <u>0</u> |
| Suggested reduction ... | 25 | 20 | 200 | 200 | xxx | 0 |

Actions required: Reduce total military end strength by 10,000 in 1976 and 30,000 in 1977. The 1976 action could be accomplished through a budget amendment before the appropriations bill is acted on.

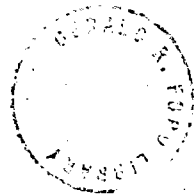
Program impact: The reduction would be 1.4% of the January Agency plan for 1977. The reduction could be spread evenly across the services and across programs with minimal impact, or it could be totally applied against the transient account, which totals 88,000 in 1977. In the latter case, the reduction would have some impact on readiness, to the extent that permanent change of station travel and leave would have to be accomplished without providing additional manpower authorizations to compensate for personnel in route to the next duty assignments. In wartime, however, travel and leave would be curtailed, and many of the personnel in that status would be called back to their units, thereby bringing these units up to strength.

Other Consideration: Congress appears ready to cut at least 9,000 end strength in FY 1976.



TOTAL MILITARY END STRENGTH
(thousands)

| <u>Year</u> | <u>President's Budget</u> | <u>Director's Preview</u> | <u>OMB Recommendation</u> |
|-------------|---------------------------|---------------------------|---------------------------|
| 1976 | 2,100 | 2,100 | 2,090 |
| 1977 | 2,127 | 2,127 | 2,097 |



1977 Outlay Reductions
Civilian Manpower
(dollars in millions)

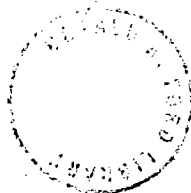
Date: September 5, 1975

appropriation request

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> |
|-------------------------------|---------------|----------------|---------------|----------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | |
| Current estimate | 14,700 | 14,400 | 14,880 | 14,500 | 300 |
| OMB recommendation | <u>14,640</u> | <u>14,340</u> | <u>14,410</u> | <u>14,040</u> | <u>290</u> |
| Suggested reduction | 60 | 60 | 470 | 460 | 10 |

Actions required: In addition to the Director's Preview cut of 22,000 in 1976 and 1977, reduce total civilian end strength by 18,000 in 1976 and 50,000 in 1977. The 1976 action could be accomplished through a budget amendment before the appropriations bill is acted on.

Program impact: The 1977 reduction, including the Director's Preview cut, would be 7.2% of the January agency plan for 1977. If applied evenly across the board to services and programs, the largest impact would be on logistics, primarily depot maintenance, and secondly on base operations. The reduction over the 2-year period would be about 75,000 from current actual employment levels and would require productivity improvements of about double the current goals. Base closings would be desirable to permit achieving such improved productivity with minimal disruptions on readiness.



TOTAL DIRECT HIRE CIVILIAN END STRENGTH
(thousands)

| <u>Year</u> | <u>President's Budget</u> | <u>Director's Preview</u> | <u>POM</u> | <u>OMB Recommendation</u> |
|-------------|---------------------------|---------------------------|------------|---------------------------|
| 1976 | 985 | 963 | 985 | 945 |
| 1977 | 994 | 972 | 1,012 | 922 |



1977 Outlay Reductions
Operations and Maintenance
(dollars in millions)

Date: September 5, 1975

appropriation request

rescission action

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|----------------------|---------------|----------------|---------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate*... | 14,600 | 13,100 | 14,700 | 12,100 | xxx | |
| OMB recommendation.. | <u>14,340</u> | <u>12,885</u> | <u>14,010</u> | <u>11,270</u> | <u>xxx</u> | |
| Suggested reduction. | 260 | 215 | 690 | 830 | | <u>80</u> |

* non-pay O&M, prior to Congressional action.

Actions Required: Reduce consumable supplies, material and minor equipment purchases (except food and fuel) by 5%; defer about 10% of total DOD real property maintenance, mainly the portion which is performed contractually; reduce flying and steaming hours by 5%; and, reduce temporary duty travel by 10%. Outlay savings exceed budget authority savings due to draw-down of stocks.

Program Impact: These reductions could result in slightly reduced training levels, but can be accomplished without significant impact on Defense readiness. The reductions in real property maintenance might face Congressional resistance.



1977 Outlay Reductions
 Defense R&D and Procurement
 (dollars in millions)

Date: September 5, 1975

/X/ appropriation request

| | 1976* | | 1977 . | | 1978 | |
|-------------------------|---------------|---------------|---------------|---------------|------------|---------------|
| | <u>BA</u> | <u>Outlay</u> | <u>BA</u> | <u>Outlay</u> | <u>BA</u> | <u>Outlay</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate | 31,000 | 26,400 | 36,200 | 30,400 | xxx | |
| OMB recommendation ... | <u>31,000</u> | <u>26,400</u> | <u>34,800</u> | <u>30,000</u> | <u>xxx</u> | |
| Suggested reduction ... | -- | -- | 1,400 | 400 | xxx | 760 |

Actions required: Hold the level of Defense R&D and Procurement to a real dollar increase of 6% above the 1976 level after anticipated Congressional action. This involves a reduction of about \$6B in BA below the Defense FY 1977 planning level and would defer several ship construction programs, and reduce production and development rates of tactical aircraft, missiles, ammunition and communications and electronics equipment. Illustrative program reductions are provided in the attachment.

Program impact: Reduces rate of general purpose force modernization mainly by stretching out planned procurements. While stretch-outs allow reductions in annual expenditures, they may add to total systems procurement costs. Strategic forces modernization proceeds according to Defense plans.

Other consideration: Reduced level still consistent with President's decision to allow real growth in Defense modernization, in addition to allowances for inflation.

* reflects 1976 authorization and anticipated appropriations reductions.



Illustrative R&D and Procurement Reductions
(BA in \$ billions)

| <u>Program</u> | <u>1976</u> | <u>1977</u> <u>Spring Planning</u> | <u>1977</u> <u>OMB Recommendation</u> | <u>Δ</u> | <u>Comments</u> |
|--|-------------|---------------------------------------|--|-------------|---|
| Ship Construction | | | | | |
| . Build 1 vs 2 Trident boats in 1977 | .6 | 1.4 | 1.0 | -.4 | Reflected in tentative Defense plans. Would help relieve ship yard backlog. Cancellation desirable on cost effectiveness grounds. Probably acceptable to Defense. Defense would object to more than a 1 year slip. Little program impact; would also relieve shipyard backlogs. |
| . Cancel Patrol Hydrofoil Ship after 1976 buy | .1 | .4 | -- | -.4 | |
| . Slip new carrier construction by 2 years | -- | .4 | -- | -.4 | |
| . Build 2 vs 3 Nuclear Attack Submarines in 1977 | .5 | .9 | .6 | -.3 | |
| Tactical Aircraft Stretchouts | | | | | |
| . Procure A-10's at 10 vs 20 per month | .4 | .9 | .5 | -.4 | Production rate likely to decline because of cost escalation. |
| . Procure F-15's at 6 vs 9 per month | 1.6 | 1.4 | .9 | -.5 | |
| . Reduce level of F-4 and other aircraft modifications | 1.3 | 1.7 | 1.5 | -.2 | |
| Tactical Missiles and Munitions Deferrals | | | | | |
| . Stretchout procurement of air launched missiles | 1.5 | 1.7 | 1.5 | -.2 | } Would delay achievement of War Reserve Material requirements. |
| . Slow increase in ammunition procurement rate and defer munition plant modernization | .8 | 1.2 | 1.0 | -.2 | |
| Communications, Electronics and Support Equipment | | | | | |
| . Miscellaneous reductions in communications & electronics equipment allowing 4% real dollar increase above 1976 | 1.7 | 2.2 | 1.9 | -.3 | |
| . Reduce support vehicle procurement deferring purchases of trucks and passenger vehicles | .4 | .7 | .6 | -.1 | |
| Research and Development | | | | | |
| . Miscellaneous reductions allowing 6% real dollar increase above 1976 | 9.5 | 11.0 | 10.7 | -.3 | |
| TOTAL | | | | -3.7 | |

1977 Outlay Reductions
Military Construction
(dollars in millions)

Date: September 5, 1975

- X appropriation request
- X other administration action
- X rescission action

| | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|----------------------|---------------|----------------|---------------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | |
| Current estimate.... | 4,261 | | 3,000 ^{1/} | | xxx | |
| OMB recommendation.. | <u>2,553</u> | | <u>2,500</u> | | <u>xxx</u> | |
| Suggested reduction. | <u>-1,708</u> | <u>160</u> | <u>-500</u> | <u>540</u> | <u>xxx</u> | <u>-670</u> |

Actions Required: Invoke a military construction "freeze" of all authorized projects not directly related to the acquisition of new weapons systems, urgent training, safety of personnel, or facilities otherwise urgently required for national security. Request waiver of Congressional mandate so that appropriated funds may be impounded, as indicated above. Major 1976 rescission package will be required to implement this proposal.

Program Impact: This recommendation would delete several specific projects: Aeronautical Systems Test Facility, the NSA administration building, and a large portion of the aircraft shelter program, remove all but critical construction of military family housing projects, uniform services University of Health Sciences and reduce construction of excess hospital beds at NNMC Bethesda. In addition, this recommendation would defer modernization and improvement projects to family housing.

1/ Agency may be expected to request about \$4.5 B.

1977 Outlay Reductions
 Intelligence Activities: Department of Defense
 (dollars in millions)

September 4, 1975

Rescission Action/Disapproval of Budget Submission

| | <u>1976</u> | | <u>197T</u> | | <u>1977</u> | | <u>1978</u> | |
|---------------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amount:</u> | | | | | | | | |
| Current estimate | 190 | 55 | 40 | 35 | 195 | 190 | XX | 90 |
| OMB recommendation | 0 | 0 | 0 | 0 | 0 | 0 | XX | 0 |
| Suggested reduction | 190 | 55 | 40 | 35 | 195 | 190 | XX | 90 |

Actions required: Prepare a rescission action for the portion of these projects funded in 1976 and 197T and disapprove the expected budget submission for 1977.

Program impact: The three projects that are affected are: (1) the Defense Intelligence Agency Headquarters building (\$86M BA in 1976 with \$34M in 1977 outlays) which is now being considered by both Armed Services Committees. A rescission of this request would allow a cost-effective alternative to be found to consolidate DIA headquarters and would entail the continuation of a modest courier service and some inconvenience to DIA; (2) the modernization of high frequency intelligence collection (\$45M BA per year 1976-1977 with \$37M in 1977 outlays). This proposal, which is to begin in 1976, would automate the collection activities now performed by large numbers of military personnel overseas. Capability would not be increased. The predicted personnel reductions which were planned to offset this investment do not appear possible now. As a consequence, return on investment will take more than 20 years - with little improvement in the quality of intelligence; (3) a technical collection system (\$60M BA in 1976 and \$150M BA in 1977 with \$118M in 1977 outlays). This system is designed to replace (in the early 1980's) a collection system now in operation. Because of the changing character of the target, however, serious doubts about the value of this system have been raised. Disapproval would have no immediate impact on U. S. intelligence capability.

Other considerations: The congressional committees have indicated some displeasure with all three projects; reductions in funding are anticipated. The Secretary of Defense is also considering cancellation of the technical collection system at this time.

MILITARY
ASSISTANCE

Military Assistance Accounts

1977 OUTLAY REDUCTIONS

| <u>Program</u> | <u>Planning guidance</u> | <u>Adjustments</u> | <u>Current estimate</u> | <u>Suggested reductions</u> | <u>Revised planning guidance</u> |
|---|------------------------------|--------------------|-----------------------------|---------------------------------|--|
| Grant Military Assistance | 809 | 16.0 | 825 | -33 | 792 |
| Foreign Military Sales | 410 | 2.0 | 412 | + 7 | 419 |
| Allowance for Middle East requirements | - | 890 | 890 | - | 890 |
| FMS Trust Fund | - | -200 | -200 | - | -200 |
| All other | -219 | | -219 | - | -219 |
| <u>" Total</u> | <u>1000</u> | <u>708</u> | <u>1,708</u> | <u>-26</u> | <u>1,682</u> |

September 5, 1975



SUMMARY OF OUTLAY REDUCTIONS

Military Assistance Accounts
(dollars in millions)

| | Effect on outlays in | | |
|--|----------------------|-------------|-------------|
| | <u>1976</u> | <u>1977</u> | <u>1978</u> |
| A. 1977 Planning guidance..... | XXX | 1000 | XXX |
| Adjustments: | | | |
| Presidential decisions on MAP & FMS levels | | 18 | |
| Reestimate of Trust Fund outlays | XXX | -200 | XXX |
| Allowance for Middle East requirements..... | <u>XXX</u> | <u>890</u> | <u>XXX</u> |
| Current estimate..... | 1038 | 1708 | XXX |
| B. Accelerated shift from MAP to FMS credit in 1977 | | | |
| Total suggested reduction..... | <u> </u> | <u>-26</u> | <u>-33</u> |
| Revised 1977 planning guidance and related 1976 amount..... | 1038 | 1682 | XXX |



1977 Outlay Reductions (Part II)
Military Assistance Accounts
(dollars in millions)

- | | |
|---|---|
| <input checked="" type="checkbox"/> appropriation request | <input type="checkbox"/> deferral action |
| <input type="checkbox"/> other administrative action | <input type="checkbox"/> rescission action |
| <input type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| <u>Amount:</u> | <u>1976</u> | | <u>1977</u> | | <u>1978</u> | |
|--------------------------|-------------|----------------|-------------|----------------|-------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| Suggested reduction..... | --- | --- | -16 | -26 | xxx | -33 |

Action required:

A decision by the President to offer foreign military sales credits to selected countries for procurement of defense articles and services that would be given on a grant basis under current plans.

Program impact:

The affected countries would have to borrow, albeit at preferred rates, rather than receive the items with no obligation. To the extent that this were necessary, bilateral relations with these countries would be affected.

Other consideration:

A reduction in grant military assistance is in accordance with expressed Congressional desire.



OTHER
CHANGES

1977 Outlay Reductions
Executive Branch Personnel Reductions
(dollars in millions)

Date: 9/5/75

- | | |
|---|---|
| <input checked="" type="checkbox"/> appropriation request | <input type="checkbox"/> deferral action |
| <input checked="" type="checkbox"/> other administrative action | <input type="checkbox"/> rescission action |
| <input type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| | 1976 | | 1977 | | No. of FTP posi- tions to be reduced by end of 1977 |
|---|---------|---------|-----------|-----------|--|
| | BA | O | BA | O | |
| Agriculture | --- | --- | 20 | 20 | 1,000 |
| Commerce | --- | --- | 1 | 1 | 80 |
| Corps of Engineers . | 3.6 | 3.6 | 7.2 | 7.2 | 425 |
| Health, Education, & Welfare | --- | --- | 33 | 33 | 1,950 |
| Interior | --- | --- | 14.5 | 14.5 | 850 |
| Justice | --- | --- | 19 | 18 | 960 |
| Labor | --- | --- | 3 | 3 | 150 |
| State | 0.5 | 0.5 | 4 | 4 | 340 |
| Transportation | --- | --- | 5 | 5 | 400 |
| Treasury | --- | --- | 52 | 51 | 2,709 |
| Agency for Inter- national Development | --- | --- | 4 | 4 | 400 |
| Environmental Pro- tection Agency | --- | 1 | 2.5 | 2.5 | 150 |
| General Services Administration | --- | --- | 3 | 3 | 300 |
| National Aeronautics and Space Admin. .. | --- | --- | 10 | 10 | 500 |
| Tennessee Valley Authority | 0.4 | 0.4 | 0.8 | 0.8 | 50 |
| United States Informa- tion Agency | 0.2 | 0.2 | 2 | 2 | 164 |
| Veterans Admin. | --- | --- | <u>53</u> | <u>53</u> | <u>3,400</u> |
| Total | 4.7 | 5.7 | 234.0 | 232.0 | 13,828 |



Purpose: These proposed reductions are aimed at reducing end-of-year 1977 civilian personnel in the civilian agencies by 13,828 positions below the levels that would otherwise exist. In addition, proposed reductions in the Department of Defense amount to \$460M in 1977 outlays and 50,000 positions for FY 1977. These Department of Defense amounts are reflected in the Department of Defense package displayed elsewhere.

Actions required: Insure that 1977 personnel ceilings reflect the dollar and personnel reductions.

Program impact: Some of the personnel reductions will have programmatic impact and may slow down or delay affected programs.



ALLOWANCES

1977 Outlay Reductions
Allowance for Pay Adjustment
(dollars in millions)

Administrative action

| | 1976 | | 1977 | | 1978 | |
|---------------------------|------------|----------------|--------------|----------------|------------|----------------|
| | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> | <u>BA</u> | <u>Outlays</u> |
| <u>Amounts:</u> | | | | | | |
| Current estimate..... | 550 | 550 | 2,600 | 2,600 | xxx | xxx |
| OMB recommendation..... | <u>550</u> | <u>550</u> | <u>1,550</u> | <u>1,550</u> | <u>xxx</u> | <u>xxx</u> |
| Suggested reductions..... | -- | -- | <u>1,050</u> | <u>1,050</u> | -- | -- |

Action required:

Limit cost-of-living increases in Federal salaries to 5% in 1976 and 1977.

Program Impact:

None

Estimates of savings are consistent with the President's expected announcement regarding the October 1976 pay raise; the 1977 estimate represents the savings from a 5% pay limit in place of a "catch-up" cost-of-living increase.



Receipt Increases

SUMMARY OF CHANGES IN RECEIPTS
(fiscal years; in billions of dollars)



| | <u>1976</u> | <u>1977</u> | <u>1978</u> |
|---|--------------|--------------|--------------|
| A. 1977 Planning guidance..... | 298.4 | 364.1 | xxx |
| Adjustments: | | | |
| Reestimates and changes in economic assumptions ¹ .. | +3.4 | +4.7 | xxx |
| Tax cut extension (to maintain current withholding rates)..... | -5.9 | -16.1 | xxx |
| Revision of Administration energy proposals..... | -4.9 | +0.6 | xxx |
| Other changes ² | <u>+1.3</u> | <u>-1.9</u> | <u>xxx</u> |
| Current base estimate..... | 292.3 | 351.4 | xxx |
| B. Suggested receipt changes: | | | |
| Some reductions or elimination of tax expenditures..... | --- | +6.4 | +6.4 |
| Tax simplification..... | --- | -4.0 | -4.0 |
| Tax social security benefits (in lieu of 60% limit on indexed programs)..... | --- | <u>(2.4)</u> | <u>(2.4)</u> |
| Total suggested increases..... | --- | 2.4 | 2.4 |
| C. Offsetting economic effects of all proposals..... | --- | <u>-4.0</u> | <u>-4.0</u> |
| Revised receipt estimate..... | <u>292.3</u> | <u>349.8</u> | <u>xxx</u> |

MEMORANDUM

Other possible receipt changes:

| | | | |
|--|-----|------|------|
| Delay for one year the proposed transfer of 1¢/gallon of gasoline tax receipts to States..... | --- | +1.0 | --- |
| Increase freight transportation charges..... | --- | +1.0 | +1.0 |

¹ The staff currently estimates the upward revisions to be twice these magnitudes, but the more conservative estimates are used here pending further review.

² Includes revised accounting for the earned income credit in 1976 and capital formation tax proposals and transfer of gasoline tax receipts to States in 1977.

September 18, 1975

1977 OUTLAY ACTIONS
(in millions of dollars)

Tax Expenditures and Tax Simplification

- [] Appropriation request [X] Substantive legislation [] Rescission action
 [] Other Administration action [] Deferral action [] Other congressional action

Amount:

| | <u>1976</u> <u>Receipts</u> | <u>1977</u> <u>Receipts</u> | <u>1978</u> <u>Receipts</u> |
|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Current estimate..... | n.a. | n.a. | n.a. |
| OMB recommendation..... | <u>n.a.</u> | <u>n.a.</u> | <u>n.a.</u> |
| Suggested receipt increase..... | 0 | 2,425 ¹ | 2,425 ¹ |

¹ To be selected from the alternatives presented in Attachment I.

Action required:

Attachment I lists tax expenditures that could be eliminated or reduced to increase receipts. Most of them are based on "proposals for Consideration in First Phase of Tax Reform," recently released by the Ways and Means Committee. The Committee will, of course, be considering many proposals that would result in revenue losses. The \$2,425 million increase in receipts shown above is net of a \$4,000 million receipts loss due to tax simplification. Some additional items have been listed by OMB staff. Also attached are some Treasury data showing 1974 estimates of the distribution of tax expenditures by AGI class (Attachment II).

Program impact:

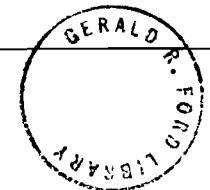
The impact will vary depending upon which tax expenditure items are selected.



TAX REFORM PROPOSALS
(in millions of dollars)

| | Items on Ways & Means current agenda | Items in 1974 Ways & Means bill and generally agreed to by the Administration | Affects individuals only | 1977 Revenue gain | Recommended for consideration by OMB staff |
|--|---|---|--------------------------------|-------------------------|---|
| <u>Real estate tax shelters</u> (Application of limitation on artificial accounting losses (LAL) would apply only prospectively with some phase-in provisions.) | X | X | --- | \$ 250 | X |
| <u>Agricultural tax shelters</u> (Application of LAL) | X | X | --- | 200 | X |
| <u>Minimum tax for individuals</u> (The 1974 bill followed Treasury's recom- mended substitution of a tax on minimum taxable income (MTI) for the present minimum tax provisions. Ullman now recom- mends a stiffening of the current minimum tax.) | X | X | X | 500 | X |
| <u>Allocation of deductions*</u> (Ullman has proposed a provision that was in a 1969 House bill that would require itemized deductions to be prorated to non-taxable income above \$10,000 -- an indirect means of taxing income from tax-exempt bonds.) | X | --- | X | 400 | X |
| <u>Business use of homes</u> (Tightens rules for deduction of expenses) | X | X | X | 150 | X |

* Indicates item that is relatively less acceptable.



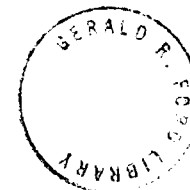
| | <u>Items on Ways & Means current agenda</u> | <u>Items in 1974 Ways & Means bill and generally agreed to by the Administration</u> | <u>Affects individuals only</u> | <u>1977 Revenue gain</u> | <u>Recommended for consideration by OMB staff</u> |
|--|---|--|---|----------------------------------|---|
| <u>Vacation home rentals</u> (Tightens rules for deduction of expenses) | X | X | X | \$ 50 | X |
| <u>Sick pay exclusion</u> (Repeal exclusion of temporary but not permanent sick pay.) | X | X | X | 200 | X |
| <u>Dividend exclusion</u> (Repeal. Related to capital formation proposals and should be held for a capital formation package) | X | X | X | 360 | --- |
| <u>Deductibility of State and local gasoline taxes*</u> (Repeal is consistent with energy policy.) | X | X | X | 850 | X |
| <u>Casualty losses</u> (A 3% of AGI floor would be imposed.) | X | X | X | 150 | X |
| <u>Employee business expenses</u> (A \$200 floor would be imposed for miscellaneous expenses. The floor is less justifiable without the simplification deduction.) | X | X | X | 400 | --- |
| <u>Medical expenses</u> (A 5% floor would be imposed.) | X | X | X | 1,500 | X |

* Indicates item that is relatively less acceptable.

| | Items on Ways & Means current agenda | Items in 1974 Ways & Means bill and generally agreed to by the Administration | Affects individuals only | 1977 Revenue gain | Recommended for consideration by OMB staff |
|--|---|---|--------------------------------|-------------------------|---|
| <u>Interest deductions</u> (Ullman has proposed a \$9,000 limit on itemized interest deductions.) | X | --- | X | \$ 300 | X ¹ |
| <u>Limitations on foreign tax credit</u> (Includes requirement that dividends from LDC corporations be "grossed up" in computing foreign tax credit.) | X | X | --- | 100 | X |
| <u>Deferral of income of controlled foreign corporations</u> (The provisions of the 1974 bill were enacted in the 1975 Act. Ullman now proposed that one-half of income of controlled foreign corporations be taxed currently.) | X | --- | --- | 200 | X |
| <u>Exclusion of income earned abroad</u> (Exclusion to be phased out over 4-year period. Would also make allowances paid to government employees working abroad taxable.) | X | X | X | 25 | X |
| <u>Western hemisphere trade corporations</u> (Repeal phased over 5 years.) | X | X | --- | 10 | X |
| <u>Domestic international sales corporations*</u> | X | --- | --- | 1,300 | X |

1. If investment interest (such as interest on funds borrowed to invest in stocks and bonds) is not included.

* Indicates item that is relatively less acceptable



| | <u>Items on Ways & Means current agenda</u> | <u>Items in 1974 Ways & Means bill and generally agreed to by the Administration</u> | <u>Affects individuals only</u> | <u>1977 Revenue gain</u> | <u>Recommended for consideration by OMB staff</u> |
|--|---|--|---|----------------------------------|---|
| <u>Increase capital gains holding period to one year.....</u> (Phased in over 3 years.) | X | X | --- | \$ 100 | X |
| <u>Alternative tax.....</u> (Repeal 25% alternative capital gains tax rate for the first \$50,000 of capital gains. Related to capital formation package.) | X | X | X | 300 | --- |
| <u>Allocation of expenses by financial institutions*.....</u> (Would require financial institutions to allocate a portion of their expenses to their tax-exempt income from State and local government securities.) | --- | --- | --- | 2,000 | X |
| <u>Restrictions on pollution control industrial revenue bonds.....</u> (Proposed in Secretary Simon's Ways and Means testimony.) | --- | --- | --- | 30 | X |
| <u>Capital gains at death*.....</u> (Assumes constructive realization of capital gains at death and adjusts for reduced estate tax liabilities. Ways and Means has this item on its agenda for a subsequent phase of tax reform. There are problems with respect to family farms and small businesses.) | --- | --- | X | 2,500 | X |



* Indicates item that is relatively less acceptable.

| | Items on Ways & Means current agenda | Items in 1974 Ways & Means bill and generally agreed to by the Administration | Affects individuals only | 1977 Revenue gain | Recommended for consideration by OMB staff |
|---|---|---|--------------------------------|-------------------------|---|
| <u>Unemployment compensation*</u> (Would treat payments as taxable income; estimate depends on level of unemployment. Extension of the 1975 tax cuts would reduce estimate by \$200.) | --- | --- | X | \$3,000 | X |
| <u>Workmen's compensation*</u> (Would treat payments as taxable income. Extension of 1975 tax cuts would reduce estimate by \$100.) | --- | --- | X | 670 | X |
| <u>Excess of percentage over cost depletions*</u> (Repeal provision for all minerals. Ways and Means has this item on its agenda for a subsequent phase of tax reform.) | --- | --- | --- | <u>1,300</u> | X |
| Subtotal..... | | | | <u>18,445</u> | |
| Less, items that are relatively less desirable (*)..... | | | | <u>12,020</u> | |
| Subtotal..... | | | | 6,425 | |
| Less, offsetting cost of tax simplification..... | | | | <u>4,000</u> | |
| Total..... | | | | <u>2,425</u> | |

* Indicates items that are relatively less desirable.

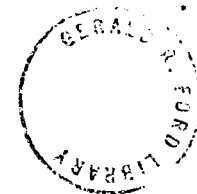


9/5/75

Estimated Distribution of Tax Expenditures of Individuals by Adjusted Gross Income Class
Fiscal Year 1974

Key to list.

| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
|-----------------------------|--|---|--|--|---|--|---|--|--|
| Adjusted gross income class | Exclusion of benefits and allowances to Armed Forces personnel | Exclusion of military disability pensions | Exclusion of certain income earned abroad by US citizens | Expensing of certain agriculture capital outlays | Capital gains treatment of certain agriculture income | Expensing of exploration and development costs | Excess of percent age over cost depletion | Capital gains treatment of certain timber income | Deduction of non-business state gasoline taxes |
| | (\$ millions) | | | | | | | | |
| 0 - 3 | 10 | 1 | 15 | 10 | 10 | * | 1 | * | 1 |
| 3 - 5 | 135 | 13 | 13 | 35 | 30 | 1 | 5 | 2 | 5 |
| 5 - 7 | 160 | 16 | 7 | 60 | 55 | 1 | 4 | 2 | 22 |
| 7 - 10 | 125 | 13 | 9 | 90 | 80 | 2 | 11 | 3 | 81 |
| 10 - 15 | 110 | 11 | 7 | 115 | 105 | 10 | 19 | 4 | 198 |
| 15 - 20 | 55 | 6 | 7 | 70 | 60 | 8 | 21 | 3 | 215 |
| 20 - 50 | 50 | 5 | 24 | 125 | 115 | 19 | 76 | 10 | 307 |
| 50 - 100 | 4 | * | 6 | 40 | 35 | 13 | 62 | 9 | 28 |
| 100 and over | <u>1</u> | <u>*</u> | <u>2</u> | <u>35</u> | <u>30</u> | <u>26</u> | <u>106</u> | <u>22</u> | <u>3</u> |
| Total | 650 | 65 | 90 | 580 | 520 | 80 | 305 | 55 | 865 |



12

| | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | |
|-----------------------------|--|---|---|--|--|--|-------------------------------|--|--|--|
| | (\$ millions) | | | | | | | | | |
| Adjusted gross income class | Housing rehabilitation 5-year amortization | Exclusion of scholarships and fellowships | Parental exemptions for student age 19 and over | Deduction of contributions to educational institutions | Deduction of child and dependent care expenses | Exclusion of employer contributions to medical insurance premiums and medical care | Deduction of medical expenses | Exclusion of social security disability insurance benefits | Exclusion of social security OASI benefits for age | |
| | (\$000) | | | | | | | | | |
| 0 - 3 | 2 | 6 | * | * | * | 26 | 4 | 44 | 470 | |
| 3 - 5 | * | 39 | 8 | * | 1 | 73 | 38 | 43 | 460 | |
| 5 - 7 | * | 48 | 38 | 1 | 7 | 131 | 112 | 35 | 380 | |
| 7 - 10 | * | 41 | 100 | 2 | 31 | 285 | 264 | 44 | 470 | |
| 10 - 15 | 2 | 31 | 212 | 3 | 85 | 662 | 481 | 31 | 330 | |
| 15 - 20 | 2 | 19 | 129 | 20 | 92 | 655 | 376 | 13 | 140 | |
| 20 - 50 | 6 | 11 | 74 | 64 | 14 | 827 | 634 | 20 | 215 | |
| 50 - 100 | 14 | * | 73 | 65 | 0 | 193 | 145 | 4 | 45 | |
| 100 and over | <u>24</u> | <u>*</u> | <u>21</u> | <u>200</u> | <u>0</u> | <u>88</u> | <u>71</u> | <u>1</u> | <u>20</u> | |
| Total | 50 | 195 | 655 | 355 | 230 | 2,940 | 2,125 | 235 | 2,530 | |



7

3 -
24
(\$ millions)

25

| | (19) | (20) | (21) | (22) | (23) | (24) | (25) | (26) | |
|-----------------------------|--|--|-----------------------|--|--|---|---|----------------|------------------------------------|
| Adjusted gross income class | Exclusion of social security benefits for dependents and survivors | Exclusion of railroad retirement system benefits | Exclusion of sick pay | Exclusion of unemployment insurance benefits | Exclusion of workmen's compensation benefits | Exclusion of public assistance benefits | Net exclusion of pension contributions and earnings | Employer plans | Plans for self-employed and others |
| (\$000) | | | | | | | | | |
| 0 - 3 | 80 | 30 | 10 | 50 | 25 | 30 | 15 | * | |
| 3 - 5 | 75 | 29 | 16 | 80 | 40 | 25 | 50 | * | |
| 5 - 7 | 60 | 24 | 17 | 100 | 50 | 15 | 110 | 1 | |
| 7 - 10 | 75 | 30 | 24 | 160 | 80 | 5 | 290 | 2 | |
| 10 - 15 | 55 | 21 | 66 | 250 | 120 | * | 790 | 6 | |
| 15 - 20 | 20 | 9 | 60 | 150 | 75 | * | 990 | 11 | |
| 20 - 50 | 35 | 13 | 57 | 200 | 100 | * | 1,740 | 107 | |
| 50 - 100 | 5 | 3 | 4 | 50 | 25 | * | 545 | 87 | |
| 100 and over | <u>5</u> | <u>1</u> | <u>1</u> | <u>10</u> | <u>5</u> | <u>*</u> | <u>260</u> | <u>16</u> | |
| Total | 410 | 160 | 255 | 1,050 | 520 | 75 | 4,790 | 230 | |



(\$ millions)

| | (27) | (28) | (29) | (30) | (31) | (32) | (33) | (34) | (35) |
|-----------------------------|--|---|---|---|--|---|------------------------------------|---|--------------------------|
| Adjusted gross income class | Exclusion of premiums on group term life insurance | Exclusion of premiums on accidental death insurance | Exclusion of privately financed supplementary unemployment benefits | Exclusion of employer furnished meals and lodging | Exclusion of capital gain on house sales if age 65 or over | Excess of percentage standard deduction over minimum standard deduction | Additional exemption for the blind | Additional exemption for age 65 or over | Retirement income credit |
| ((\$000) | | | | | | | | | |
| 0 - 3 | 5 | * | * | 1 | 1 | -- | * | 7 | 1 |
| 3 - 5 | 15 | 1 | * | 4 | * | 1 | 1 | 95 | 18 |
| 5 - 7 | 30 | 2 | 1 | 8 | * | 13 | 3 | 185 | 22 |
| 7 - 10 | 65 | 4 | 1 | 17 | 1 | 64 | 3 | 268 | 20 |
| 10 - 15 | 155 | 9 | 2 | 39 | 1 | 645 | 3 | 196 | 19 |
| 15 - 20 | 155 | 9 | 1 | 39 | 1 | 352 | 2 | 106 | 9 |
| 20 - 50 | 190 | 11 | * | 50 | 2 | 178 | 2 | 211 | 10 |
| 50 - 100 | 45 | 3 | * | 12 | 2 | 6 | 1 | 56 | 1 |
| 100 and over | <u>20</u> | <u>1</u> | <u>*</u> | <u>5</u> | <u>2</u> | <u>1</u> | <u>*</u> | <u>26</u> | <u>*</u> |
| Total | 680 | 40 | 5 | 175 | 10 | 1,260 | 15 | 1,150 | 100 |



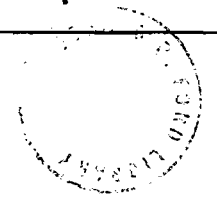
22

4

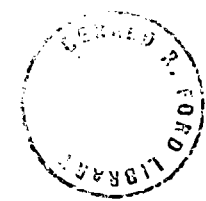
1

(\$ millions)

| | (36) | (37) | (38) | (39) | (40) | (41) | (42) | (43) |
|-----------------------------|--|---------------------------------|--------------------------------|--|--|---|--|---|
| Adjusted gross income class | Exclusion of veterans disability compensation: | Exclusion of veterans pensions: | Exclusion of GI Bill benefits: | Credits and deduction for political contributions: | Exclusion of interest on state and local debt: | Exclusion of income earned in US possessions: | Deduction of nonbusiness state and local taxes (other than owner-occupied homes and gasoline): | Depreciation on rental housing in excess of straight line |
| (\$000) | | | | | | | | |
| 0 - 3 | 61 | 17 | 34 | * | * | * | 1 | 2 |
| 3 - 5 | 39 | 8 | 124 | * | * | * | 13 | 6 |
| 5 - 7 | 44 | * | 60 | 1 | * | * | 55 | 10 |
| 7 - 10 | 67 | * | 35 | 1 | 1 | * | 239 | 21 |
| 10 - 15 | 102 | -- | 16 | 2 | 4 | 1 | 661 | 42 |
| 15 - 20 | 72 | -- | 10 | 2 | 22 | 2 | 1,016 | 38 |
| 20 - 50 | 87 | -- | 9 | 3 | 93 | 2 | 2,968 | 123 |
| 50 - 100 | 10 | -- | 2 | 1 | 389 | * | 1,063 | 80 |
| 100 and over | 3 | -- | * | * | 545 | * | 939 | 48 |
| Total | 485 | 25 | 290 | 10 | 1,060 | 5 | 6,955 | 375 |

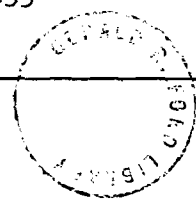


| | ① | | ⑧ | ⑱ | ⑳ | | | ㉓ | |
|-----------------------------|--|-------------------|--------------------|--|---|--|--|---|--|
| | (44) | (45) | (46) | (47) | (48) | (49) | (50) | (51) | |
| | (\$ millions) | | | | | | | | |
| Adjusted gross income class | Depreciation on buildings (other than rental housing) in excess of straight line | Investment credit | Dividend exclusion | Capital gain (other than farming and timber) | Exclusion of interest on life insurance savings | Deferral of capital gain on home sales | Deduction of mortgage interest on owner-occupied homes | Deduction of property taxes on owner occupied homes | |
| (\$000) | | | | | | | | | |
| 0 - 3 | 2 | 1 | 3 | 76 | 10 | 1 | * | 1 | |
| 3 - 5 | 3 | 12 | 8 | 34 | 60 | 7 | 13 | 24 | |
| 5 - 7 | 6 | 32 | 11 | 81 | 90 | 9 | 52 | 66 | |
| 7 - 10 | 13 | 71 | 26 | 158 | 120 | 19 | 265 | 221 | |
| 10 - 15 | 25 | 149 | 42 | 304 | 200 | 42 | 886 | 583 | |
| 15 - 20 | 22 | 135 | 46 | 282 | 170 | 47 | 1,133 | 771 | |
| 20 - 50 | 75 | 300 | 134 | 1,137 | 420 | 98 | 2,078 | 1,774 | |
| 50 - 100 | 47 | 108 | 37 | 969 | 195 | 21 | 348 | 407 | |
| 100 and over | <u>27</u> | <u>72</u> | <u>13</u> | <u>3,109</u> | <u>155</u> | <u>11</u> | <u>95</u> | <u>213</u> | |
| Total | 220 | 880 | 320 | 6,150 | 1,420 | 255 | 4,870 | 4,060 | |



| | (10) | (53) | (13) (\$ millions) | (23) | (15) | (57) |
|-----------------------------|------------------------------|--|--|--|---|--------------------------|
| | (52) | (53) | (54) | (55) | (56) | (57) |
| Adjusted gross income class | Deduction of casualty losses | Deduction of charitable contributions (other than for education) | Deduction of interest on consumer credit | Additional items for Senator Mondale Untaxed capital gains at death ^{1/} | Deferral of income of controlled foreign corporations | Asset depreciation range |
| (\$000) | | | | | | |
| 0 - 3 | * | 3 | * | 18 | * | * |
| 3 - 5 | 3 | 18 | 7 | 8 | * | * |
| 5 - 7 | 4 | 67 | 26 | 18 | * | 5 |
| 7 - 10 | 18 | 199 | 133 | 36 | * | 9 |
| 10 - 15 | 54 | 445 | 443 | 70 | 1 | 10 |
| 15 - 20 | 42 | 548 | 567 | 64 | 2 | 10 |
| 20 - 50 | 74 | 1,251 | 1,039 | 194 | 7 | 36 |
| 50 - 100 | 34 | 506 | 174 | 112 | 7 | 25 |
| 100 and over | <u>26</u> | <u>792</u> | <u>45</u> | <u>180</u> | <u>13</u> | <u>10</u> |
| Total | 255 | 3,820 | 2,435 | 700 | 30 | 105 |

Office of the Secretary of the Treasury
Office of Tax Analysis



May 5, 1975

^{1/} Carryover of basis to heirs. (Effect after 10 years. Assumes heirs have lower marginal rates.)

1977 OUTLAY ACTIONS
(in millions dollars)

Tax Social Security Benefits (in lieu of 40% "cap")

- Appropriation request Substantive legislation Rescission action
 Other Administration action Deferral action Other congressional action

Amount:

| | <u>1976</u> <u>Receipts</u> | <u>1977</u> <u>Receipts</u> | <u>1978</u> <u>Receipts</u> |
|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Current estimate..... | 0 | 0 | 0 |
| OMB recommendation..... | <u>0</u> | <u>2,400</u> | <u>2,400</u> |
| Suggested receipt increase..... | 0 | 2,400 | 2,400 |

Action required:

Would treat social security and railroad retirement benefits in excess of contributions as taxable income and repeal retirement income credit.

Program impact:

Would reduce the disposable income of social security recipients, but in a more equitable way than an across-the-board reduction in benefit payments.

1977 Outlay Reductions
 Department of Transportation/Highway Trust Fund
 (dollars in millions)

- | | |
|---|---|
| <input type="checkbox"/> appropriation request | <input type="checkbox"/> deferral action |
| <input type="checkbox"/> other administration action | <input type="checkbox"/> rescission action |
| <input checked="" type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| | <u>1976</u> <u>Receipts</u> | <u>1977</u> <u>Receipts</u> | <u>1978</u> <u>Receipts</u> |
|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <u>Amount:</u> | | | |
| Current estimate..... | 5,839 | 4,900 | 5,000 |
| OMB recommendation..... | <u>5,839</u> | <u>5,900</u> | <u>5,000</u> |
| Suggested receipt increase..... | 0 | 1,000 | 0 |

Action required:

Assuming enactment of new highway legislation permitting State preemption of 1¢ of Federal gas tax (\$1 billion annually), enactment of highway legislation to postpone the effective date of the preemption provision from October 1, 1976 to October 1, 1977. (If new highway legislation is not enacted prior to January, 1976, the Administration's proposal would be amended to reflect this shift).

Program impact:

The amendment would delay implementation of an Administration proposal that would provide substantial additional flexibility to the states by permitting them to increase their revenues by \$1 billion without increasing net taxes. Since a large portion of these funds will be used for highways, it would delay some highway constructions.

Other considerations: It may appear as if the Administration has reneged on one of its most substantial highway reform proposals. The change is attractive, however, because of the immediate 100% impact on receipts (even if we eliminated the entire \$5.6 Billion Federal assistance program for 1977, we would save less than \$1 billion in 1977 outlays). Although in the short term it is not supportive of the thrust of our highway proposals, it does not effect in the longer term (1978 and beyond) our reform proposals.

1977 U. S. Pay Reductions

Department of Transportation/Freight Transportation Fees
(dollars in millions)

Date: August 19, 1975

- | | |
|---|---|
| <input type="checkbox"/> appropriation request | <input type="checkbox"/> deferral action |
| <input type="checkbox"/> other administration action | <input type="checkbox"/> rescission action |
| <input checked="" type="checkbox"/> substantive legislation | <input type="checkbox"/> other congressional action |

| | <u>1976</u> <u>Receipts</u> | <u>1977</u> <u>Receipts</u> | <u>1978</u> <u>Receipts</u> |
|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <u>Amount:</u> | | | |
| Current estimate*..... | 0 | 0 | 0 |
| OMB recommendation..... | <u>0</u> | <u>1,000</u> | <u>1,000</u> |
| Suggested Revenue Increase..... | 0 | 1,000 | 1,000 |

*does not reflect existing marine tonnage and highway taxes

- Actions required: Legislation to increase Freight Transportation Charges
- ...Trucks--increase diesel fuel tax (a 4¢ per gallon increase would provide \$400 million annually)
 - ...Rail--institute new 2% freight waybill tax (about \$350 million)
 - ...Marine--combination of new lockage-segment fees on inland waterways, domestic petroleum tax (3¢), and increases in foreign tonnage taxes (in combination about \$250 million)

Program impact: New fees would substantially reduce the indirect subsidy presently provided to large trucks and marine interests, and establish the principle that rail freight users will have to pay for massive Federal rail capital assistance efforts. The new marine taxes, in particular, would serve to provide a more rational allocation of freight movement by increasing the artificially low inland marine rates (inducing more rail movements) and in the longer term would reduce pressure for Federal investment in costly, inefficient waterway projects.

Other considerations: This package of fees is exemplary--additional analysis is required to assure proper balancing to achieve reasonable cost allocations and better redistribution of freight. Packages with lower or higher total revenues could also be prepared. All users will strongly resist tax increases. Substantial additional analysis of impact of rail increases is also necessary.

