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16	5	01/18/1969	Letter	Arthur Burns to Nixon re: Report for early action, with attachment. 2 pages.
16	5	01/18/1969	Report	Recommendations for Early Action or Consideration: A Report to the President-Elect. Submitted by Arthur F. Burns, Chairman, Program Coordination Group. 46 pages. (continued in folder 16:6)

THE WHITE HOUSE  
WASHINGTON

DATE \_\_\_\_\_

TO:

*Rose*

FROM: BOB HALDEMAN

---

FYI \_\_\_\_\_ PLEASE HANDLE \_\_\_\_\_

PLEASE REVIEW AND SEE ME \_\_\_\_\_

OTHER:

*P's personal  
file —*

OFFICE OF THE PRESIDENT-ELECT

Richard M. Nixon

450 Park Avenue  
New York, N.Y. 10022  
(212) 661-6400

January 18, 1969

The Honorable Richard M. Nixon  
President-Elect  
The Pierre Hotel  
Fifth Avenue at 61st Street  
New York, New York

Dear Mr. President:

The enclosed report presents recommendations for early action or consideration on your part. It is a revised and enlarged version of the tentative report that I submitted to you on January 6.

The present report, like its predecessor, is mainly directed to the legislative and executive tasks in the domestic sphere that will need to be faced in the first few months of your Administration. The report does deal, however, with some major problems in the international economic area.

I need hardly say that this report is merely the beginning of the work that will need to be done on drawing up a plan for legislative and executive actions. I trust that you will find it a useful beginning.

With every good wish, I am,

Sincerely yours,



Arthur F. Burns  
Chairman, Program  
Coordination Group

Enclosure

① alternate  
for Hoover Commission

Commission of Education  
Health -  
Recognized generally?

(Burns & Internal  
Review)

RECOMMENDATIONS

FOR

EARLY ACTION OR CONSIDERATION

A Report to the President-Elect

Submitted by

Arthur F. Burns  
Chairman, Program Coordination Group

Budget change by  
April 1

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Mitchell  
① To report to Kennedy?  
② Commission of Internal Revenue?

January 18, 1969

General  
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CROSS REFERENCES

The recommendations discussed in this report are identified by section and number. For example, the recommendation concerning Excise Taxes is the 5th item in Section IV (FEDERAL TAXATION) and will be referred to as IV-5.

The recommendations presented in one section are sometimes also pertinent to other sections. For example, when you study Section II, which deals with GOVERNMENT ORGANIZATION, you may wish to examine also the related items in other sections, as shown below.

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Electoral  
Reform

## I - ELECTORAL REFORM

### 1. Electoral College

Experience over the years, and more particularly the recent election, demonstrates that the present electoral college system is dangerously inadequate. The country is definitely in the mood for electoral reform, and it seems highly important that you assume early leadership in this area.

The provisions of a constitutional amendment, so designed as to encompass your public expressions on the subject of electoral college reform, might run as follows:

- (a) Abolish the office of independent elector.
- (b) Retain the present number of electoral votes for each state.
- (c) Award the electoral votes in each state on a proportional basis.
- (d) The candidate who receives the largest number of electoral votes, provided that the number is (say) at least 40 per cent of the total electoral vote, will be declared the winner.
- (e) In the event that a candidate does not receive the required percentage of the total electoral vote, a runoff election between the two top candidates would be held as quickly as possible (say, within two weeks).

- (f) The winning candidate in the regular election, or in the event of a runoff the winner of that election, would immediately be designated the President-Elect, and the present laws of succession would apply from that point on.

In considering the controversial subject of electoral college reform, it would be highly desirable to consult with Congressmen William McCulloch and Richard Poff, also with Senators Dirksen, Hruska, and Mundt.

## 2. Voting Age

A constitutional amendment, which would require the states to extend suffrage to all those of age 18 and above, deserves serious consideration. Your leadership in behalf of such a reform may help to dispel the sense of frustration that now characterizes so many of our young people.

However, before moving in this direction, you or the Attorney General will want to discuss this question thoroughly with Congressional leaders of the Republican Party. There appears to be limited support for a voting age amendment among Republican Congressmen.

## 3. Clean Elections

Republican-sponsored Clean Election Legislation was

reported by the House Administration Committee during the 90th Congress. However, it was never brought to the House floor.

The House Republican Leadership, the House Republican Policy Committee, and an overwhelming majority of the Republican members are committed to this legislation. It can be anticipated that it will be introduced early in the session.

It seems important that the Republican bill receive the support of your Administration. Congressman Glenard Lipscomb (ranking Republican on the House Administration Committee) and Senator Charles Goodell (who was a principal sponsor of this legislation when he was in the House) should be contacted at the earliest convenient date.

One possible point of embarrassment is the fact that a number of Republican Finance Committees were late in filing their reports under the requirements of the present law. This fact has been publicly noted by the Clerk of the House and he has forwarded this information to the (Johnson) Attorney General.

#### 4. Congressional Redistricting

In the 90th Congress a Congressional Redistricting Bill was passed by the House but was not agreed to by the

Senate. This bill seeks to introduce the essential element of certainty into the presently troubled situation. It would establish temporary criteria to be effective during the 91st and 92nd Congresses and permanent standards for the 93rd and subsequent Congresses.

The permanent standards established by this bill are as follows:

- (a) Each state shall establish by law a number of districts equal to the number of authorized representatives.
- (b) Representatives shall be elected only from districts so established. Existing provisions for representatives-at-large in multimember states are eliminated.
- (c) Each district shall be composed of contiguous territory in as reasonably compact form as the state finds practicable.
- (d) The district with the largest population in a state shall not exceed by more than 10 per cent the district with the smallest population, as determined under the most recent decennial census.

Something in the nature of guidelines for the Courts should be enacted. A redistricting bill will undoubtedly be introduced again.

Although the redistricting problem will hardly merit

a high priority in your legislative plans, it would be well to call it to the attention of the Attorney General.

5. District of Columbia Representation

During the past several years, there has been an increasing demand for some type of Congressional representation for the District of Columbia. Three general plans have been advanced:

- (a) Grant the District a nonvoting delegate in the House of Representatives.
- (b) Consider the District of Columbia the same as a Congressional District for purposes of representation. This would give the District one and possibly two Representatives.
- (c) Consider the District of Columbia the same as a state for purposes of representation. This would give the District two Senators and one and possibly two Representatives.

The "nonvoting delegate" plan can be handled through a simple statutory change, while the other two plans would call for a constitutional amendment. Congressional hearings on these plans will probably be held in 1969.

In view of the political excitement surrounding the District of Columbia problem, it would be well to instruct the Attorney General to confer with the legis-

lative leaders from both the Judiciary and District Committees and also with appropriate District of Columbia officials.

Govt. Organ.

## II - GOVERNMENT ORGANIZATION

### 1. Reorganization Authority

The Reorganization Act of 1949 has just expired (December 31, 1968). This basic law gave the President authority to propose reorganization plans for Federal agencies, such plans to go into effect automatically unless vetoed within 60 days by either body of Congress.

The purpose of the original act was to promote efficiency and economy in government, and it has had bipartisan support through the years. In the last Congress, the House voted a two-year extension of the law but the Senate failed to act.

A special message should be sent promptly to the Congress requesting renewal of the President's general reorganization authority; that is, re-enactment of the statute that expired in December, 1968.

In addition, the special message should request new discretionary authority to reorganize the Executive Office without further reference to Congress. At present, the President does not have formal reorganization powers for his own Executive Office which are comparable to those of cabinet officers in their separate departments.

2. Hoover-type Commission

Your Administration faces numerous and difficult problems in the area of government organization. Several different approaches to restructuring of the government may be taken.

- (a) There is much to be said for a new "Hoover Commission." The various task forces have repeatedly raised serious questions about the organization of individual departments and agencies. There is extensive demand in the Congress for a new "Hoover Commission." You also promised to do this.
- (b) On the other hand, the Task Force on Organization of the Executive Branch argues cogently that an Advisory Committee on Government Organization, made up of distinguished private citizens and staffed by the Budget Bureau's Office of Executive Management, would be a more flexible device, especially since it would be able to attend to urgent problems without the long delays inherent in a single, massive reorganization study. For problems of unusual complexity, the Task Force recommends special commissions.
- (c) Still another approach has been suggested by

Mr. Ash in a memorandum that he prepared for you. Under his proposal, as described in that memorandum, reorganization problems as well as many other functions (including some undefined supervision of the Bureau of the Budget) would be handled in the White House by an Assistant to the President. Although this proposal cannot be lightly dismissed, its potential difficulties need to be recognized. First, it would involve the White House in some operating responsibilities and may therefore result in an embarrassingly large White House staff. Second, it carries the danger of alienating some of your most trusted colleagues and advisers. Third, it may be publicly challenged on the ground of over-centralizing authority in an official who has neither been elected by the people nor confirmed by the Senate. Frank Lindsay, Chairman of the Task Force on Government Organization, has carefully reviewed the Ash proposal and he completely agrees with the opinion here expressed.

- (d) Although the Task Force has argued against a new "Hoover Commission", and Mr. Ash also questions its usefulness, it is important to see

that the approaches which they prefer are not necessarily inconsistent with the "Hoover Commission" approach. Clearly, a comprehensive study of governmental organization does not rule out early action based on limited, special studies. As for the Ash proposal, a full and candid discussion with Mr. Ash has indicated that it too can be modified so that it will be free from the objections raised in this report.

It is critically important that you reach an early decision on the general approach you wish to take to the many and pressing problems of government reorganization. In making a decision, you should keep in mind that many Congressmen, both Republicans and Democrats, are in favor of a Hoover-type Commission; so that, if you delay a pronouncement on this subject, the Democrats will probably introduce such legislation and many Republicans would feel that they must go along.

3. Office of Executive Management

The Bureau of the Budget has long had responsibility for organization and management problems. In recent years, however, its capability for dealing with special problems has atrophied. An Office of Executive Management was established during the past year within the

Bureau for the purpose of restoring, broadening, and strengthening the management and program coordination role, but no head for this office has yet been appointed.

There is much to be said for building up the capability of the Bureau of the Budget to handle organization and management problems. This may be accomplished by establishing a second deputy directorship in the Bureau; by naming this Deputy Director as the head of the Office of Executive Management; and by assigning to this Office the responsibility of reviewing, evaluating, and coordinating Federal programs and of making sure that the executive departments make effective use of regional agencies, especially in their relation to state and local governments.

It would appear desirable to carry out this proposal whether or not you accept Mr. Ash's scheme. In any event, you will want to discuss rather promptly the present proposal with Mr. Ash and with the Budget Director.

4. Arms Control and Disarmament Agency

One way in which you could emphasize your great and enduring concern for the establishment and maintenance of peace is to endow the Arms Control and Disarmament Agency, which now has a very lowly status in the Federal establishment, with real prestige.

This could be accomplished by announcing that the Director of the Agency is to be given Cabinet status, that he will become a member of the National Security Council, and that he will be expected to report to the President and the Cabinet on disarmament efforts in the context of the government's over-all efforts to achieve a durable peace.

A still more dramatic step might be to ask the Congress to absorb the Disarmament Agency in a new Department of Peace. Such a Department might absorb other governmental activities -- for example, the U.S. Information Agency, the Peace Corps, and the Food for Peace Program. There may be grave difficulties, however, in persuading the Department of State and the Congress of the wisdom of the proposal.

Either of the two suggested actions would be heartening, particularly to young people, both here and abroad.

5. Economic Policy Board

Governmental planning in the realm of national security is now coordinated through the National Security Council. There is a serious need for a corresponding mechanism for coordinating the many separate, and not infrequently conflicting, policies of the governmental departments and agencies concerned with economic matters.

It is recommended that you give prompt consideration to the establishment of an Economic Policy Board. The leading economic agencies -- say, the Treasury Department, Commerce Department, Labor Department, the Bureau of the Budget, the Council of Economic Advisers, perhaps also the Department of Health, Education and Welfare -- would have a permanent place on this Board. Other departments or agencies (notably the Federal Reserve Board) would send representatives when their range of activity was pertinent. The meetings would be scheduled on a regular basis, say, every other Monday. The Chairman of the Council of Economic Advisers could best serve as the Secretary of the Economic Policy Board. The President, of course, would preside over this Board.

A Board functioning along these lines would not only facilitate the coordination of economic policies and the early correction of mistaken policies; it probably would also economize on the President's time. However, the Economic Policy Board would not eliminate the need for the "troika" -- that is, for occasional meetings at which the Secretary of the Treasury, the Chairman of the Federal Reserve Board, and the Chairman of the Council of Economic Advisers would discuss sensitive financial questions with the President.

In view of the special role that the Council of

Economic Advisers would have under the present proposal, it is recommended that you discuss it with Mr. McCracken in the near future.

6. Post Office Department

In the 1968 Platform, a definite commitment was made in favor of "extension of the merit principle to postmasters and rural carriers." Also, full consideration of improvements in the nation's postal service, as recommended by the Commission on Postal Organization, was pledged. Then too, in the last Congress, the House Republican Policy Committee went on record as favoring the removal of politics from the Post Office, with rural carriers and postmasters specifically mentioned.

With the advent of a new Administration, an excellent opportunity is presented to reorganize the Post Office Department. A first step has been taken in the appointment of a businessman as Postmaster General.

As quickly as possible, discussions should be held with legislative and party leaders, so that the ramifications of a businesslike approach to the operation of the Post Office are clearly understood and appreciated.

7. Educational Activities

The Task Force on Education makes a strong plea for

the reorganization of the Federal government's educational activities, which it asserts are suffering because of "a multiplicity of uncoordinated, and sometimes conflicting, initiatives from many different departments and agencies of the Executive Branch and from the Congress." It notes that less than a third of total annual Federal expenditures on education of approximately \$12 billion is administered by the Commissioner of Education.

The Task Force calls attention to various reorganization possibilities, including creation of an independent Department of Education; but notes that it "did not feel qualified to pass judgment on them" or to decide precisely how much consolidation of Federal activities in this area is called for. It definitely favors, however, an upgrading of the post of Commissioner of Education, noting that "the rank and salary of the Commissionership are now totally incommensurate with the level of responsibility involved."

The Task Force's comments on the uncoordinated nature of Federal educational programs have obvious merit, and early consideration of this matter by a special commission seems indicated.

8. Health Activities

The Task Force on Health makes a variety of recommendations for reorganizing Federal activities relating to health programs. It argues for the creation of a separate Department of Health (something you have promised to consider), and also urges creation of a Council of Health Advisers within the Executive Office. These two recommendations are of such nature that they probably can be best considered either by a new "Hoover Commission" or by<sup>a</sup> special Commission on the Organization of Federal Health Activities.

The Task Force makes other narrower proposals that could be acted on earlier if the Secretary of HEW agrees that they have merit. One of these is a recommendation that the administration of Medicaid and Medicare be put under the Assistant Secretary of Health and Scientific Affairs, who already has line authority over the Public Health Service and over-all responsibility for coordination of the health functions of the Social and Rehabilitation Service and the Office of Education. You should ask the Secretary of HEW to consider promptly the merits of this proposal, particularly because of the administrative deficiencies that now plague Medicare and Medicaid.

9. Internal Revenue Service

The Task Force on Federal Tax Policy recommends that you appoint an "advisory commission" to report to you within six to eight months the results of a study of the status and administration of the Internal Revenue Service.

As to status, the inquiry would consider whether the Internal Revenue Service should report directly to the President, as well as whether increased autonomy within the Treasury Department would serve the public interest.

As to administration, the inquiry would consider personnel needs, salary standards, and procedures respecting taxpayer compliance.

If you should decide on a Hoover-type Commission, it would concern itself as a matter of course with the Internal Revenue Service. On the other hand, if there is to be no new "Hoover Commission", you will want to consult with the Secretary of the Treasury and perhaps also with Congressional leaders on the proposal for a special study of the Internal Revenue Service. In this connection, note that the "advisory commission" suggested by the Task Force would not necessarily call for legislation.

10. A Labor Court

There is a growing awareness that a complete reor-

ganization of the labor laws and the method by which they are enforced may be necessary. All too often, Congressional action has been nullified through agency or departmental interpretations.

Certainly, labor-management laws should be interpreted and applied by persons of judicial temperament acting in an atmosphere that is well insulated from political and special interest pressures. The concept is thus being advanced that a labor court should have jurisdiction over all facets of the labor-management field.

Senator Griffin and seven other Senators, including Senator Percy, have introduced a bill that would abolish the National Labor Relations Board and establish in its place a 15-judge U.S. Labor Court similar in many respects to the U.S. Tax Court. Similarly, Senator Smathers has introduced a bill that would establish a U.S. Court of Labor-Management Relations with jurisdiction over labor disputes which result in work stoppages that adversely affect the public interest of the Nation.

The general concept of a Labor Court is intriguing, but this concept also raises questions concerning the machinery needed for investigatory work, prosecution, and so on. Preliminary discussions of this general concept should be held at an early date between the Secretary of Labor and the legislative leaders, including Senator Griffin.

Federal  
Expenditures

III - FEDERAL EXPENDITURES

1. Revision of Budget for Fiscal 1969

Within the first week or two of your Administration, it would be desirable to issue an order to all department and agency heads requesting them:

- (a) to determine, after consultation with the Budget Director, which programs within their jurisdiction merit a low priority status;
- (b) to reduce or restrain at once the expenditures on low priority programs in this fiscal year (that is, between January and June 30, 1969).

The Budget Director should be requested to prepare a strong directive along these lines for your signature.

This action is needed in order to bring government expenditures under stricter control. It is also desirable to lay a foundation for a later reduction or elimination of the income tax surcharge -- if that should be decided upon.

2. Contingency Reserve for Fiscal 1969

The Revenue and Expenditure Control Act of 1968 established a ceiling on expenditures for fiscal 1969, subject to exemption for certain categories of expenditures.

You should request the Budget Director to determine at once whether existing plans provide reasonable assurance

of coming to the end of fiscal 1969 without having to request relief from the legislative expenditure ceiling. If such assurance does not exist, the Bureau should submit to you, by a very early date, a plan of further restraints in order to provide a margin for possible slippage of actual expenditures beyond stipulated targets.

Needless to say, it would be embarrassing to ask the Congress to lift the ceiling.

3. Revision of Budget for Fiscal 1970

There is a strong case, both political and financial, for revising thoroughly the budget that President Johnson will submit before leaving office.

You should hold a meeting rather promptly with the Budget Director (and perhaps others) to decide whether to reformulate the entire Johnson budget for fiscal 1970. If a more or less comprehensive revision of the budget is decided upon, it would probably have to be presented to Congress no later than April 1, 1969.

4. Revenue Sharing

A good deal of Congressional support has developed for the proposal that the Federal government share a portion of the revenues raised by the income tax with the

states and localities. This proposal, of course, is popular with governors and mayors.

Whatever the merits of any general revenue-sharing program may be, a decision should be deferred at this time because of budgetary constraints.

You should also keep in mind the fact that a revenue-sharing plan is bound to defer or limit future reductions of the Federal income tax.

5. Grant-in-Aid Programs

The existing categorical grant-in-aid system should be overhauled to give the states and localities more latitude in deciding on the specific uses of funds to achieve the general objectives the Federal government seeks to promote. The Task Force on Intergovernmental Fiscal Relations has made three main proposals to this end:

- (a) Congress should be requested to give the President authority to consolidate existing grant programs for related functions, subject to disapproval by either House within a limited period under the type of procedure used for reorganization proposals.
- (b) States and localities should be permitted to make single applications for joint funding of projects deriving funds from several Federal

sources.

- (c) States and localities should be authorized to transfer up to a specified proportion of funds received under one grant program to another program of the same Federal agency, provided the total amount of any Federal program does not exceed its authorized size.

You should ask the Budget Director and the Director of the Council for Urban Affairs to give you, by an early date, their reaction to these proposals.

Federal  
Taxation

#### IV - FEDERAL TAXATION

##### 1. Commission on Federal Tax Policy

A thorough reexamination of the Federal tax system is long overdue.

The Task Force on Federal Tax Policy recommends that the new Administration request the Congress to establish a Commission on Federal Tax Policy, which would address itself to the task of formulating recommendations for a Federal tax system that "would be simpler, fairer, and more conducive to the economic advancement of all Americans."

The proposal is to request the Congress to establish a broadly based Commission, including members of the legislative and executive branches of the government.

Since at least a year would be required for the Commission's study, prompt action on this proposal is essential if basic tax legislation is to be attempted in 1970. You should discuss the proposed Commission with the Secretary of the Treasury and with Congressman Wilbur Mills at the earliest opportunity.

##### 2. Income Tax Surcharge

Under present law, the 10 per cent surcharge on income tax expires on June 30, 1969. A decision whether to extend the surcharge in its present form, to reduce

it, or to eliminate it cannot be delayed beyond mid-April or thereabouts. Subject to this constraint, the decision should be delayed as long as possible, so that it can be made in the light of the latest information on (a) the outlook for the economy, (b) the state of the budget, (c) the war in Vietnam, and (d) international political and financial prospects at large.

Of course, if a decision is made to extend the surcharge, rather than to reduce or to eliminate it, the extension could be merely for a six-month period.

### 3. Business Income Taxation

The Task Force on Federal Tax Policy has submitted various technical proposals for changes in business income taxation, in the hope that they may be legislated (or revised by Treasury regulation) during 1969.

One proposal calls for the elimination of the "reserve-ratio test" in applying the depreciation guidelines promulgated in 1962. The suggested change would simplify the depreciation guidelines, and reduce the costs of compliance and administration. This change can be made by the Treasury directly.

Another proposal seeks to liberalize the legislation, enacted in 1958, which permits certain corporations meeting specified tests to elect to be taxed, in effect, as partnerships.

Other proposals, aiming to reduce obstacles under which American companies operate in the international sphere, call for revision of the tax treatment of business income derived from foreign sources.

Still other proposals aim to eliminate existing abuses by tightening the definition of capital gains, by revising the tax treatment of income from real estate investment, and by revising the tax rules regarding the timing of receipts and deductions.

Some of the recommended changes, such as the elimination of the "reserve-ratio test", are clearly desirable and raise few difficulties. Others are desirable in principle but require much additional study, and it is doubtful whether the Treasury can make firm recommendations in time to secure legislation in 1969. However, the sooner the Treasury turns to the thoughtful proposals of the Task Force the better. You should urge the Treasury to get on at once with the job of appraisal and drafting.

#### 4. Personal Income Taxation

The Task Force on Federal Fiscal Policy recommends the following changes in the personal income tax:

- (a) increase the minimum standard deduction
- (b) simplify and liberalize tax treatment of

moving expenses of employees

(c) liberalize income averaging.

Under present law the minimum standard deduction on a joint return is \$200 plus \$100 for each exemption allowable to the taxpayer. The proposal is to increase the deduction to \$300 plus \$100 per exemption. The estimated revenue loss resulting from this proposal is \$350 million for fiscal 1970. This proposal would be advantageous to poor people, many of whom have been hurt by inflation. It has considerable merit.

The Internal Revenue Service now insists in many cases on taxing, as income to the employee, the major portion of the reimbursement of his moving expenses that he receives from his employer. In the interests of an efficiently operating economy, public policy should facilitate mobility of the work force.

You should promptly inform the Secretary of the Treasury of your reaction to the proposals of the Task Force concerning the minimum standard deduction and the liberalization of the moving expense allowance. You should inform him also of your own proposal for full deduction of drug and medical expenses on the income tax returns of the elderly. These proposals need to be considered in connection with the revision of President Johnson's budget for fiscal 1970.

✓ The recommendation by the Task Force concerning income averaging raises some difficult technical problems, and you should merely request the Treasury to study it.

5. Excise Taxes

According to present law, the 10 per cent excise on telephone service will be automatically reduced to 5 per cent on December 31, 1969. Similarly, the 7 per cent excise on new passenger automobiles will fall to 5 per cent.

It seems reasonably clear that the government cannot afford the loss of revenue in fiscal 1970 that would result from present legislation.

Your recommendations on these excises should be made to the Congress at the same time as your decision on the income tax surcharge is transmitted to the Congress.

Federal  
Debt

V - FEDERAL DEBT

1. Debt Ceiling

The ceiling on the Federal public debt at present is \$365 billion. But, under existing legislation, the ceiling will automatically drop to \$358 billion on June 30, 1969, then return on July 1 to \$365 billion.

If any revision of the debt ceiling is to be requested of the Congress, it would be advisable to move very quickly, so that the blame can be placed where it belongs. The Secretary of the Treasury should be asked to advise you promptly on this question.

There is another and more fundamental question raised by the debt ceiling. This year the Federal government is operating under an expenditure ceiling. The mood of the Congress appears to be to continue this practice. If that is done, there will no longer be any reason to have a debt ceiling. Logic, however, does not always prevail in governmental practice; and it is probably just as well not to raise the question openly this year.

2. Interest Rate Ceiling on Treasury Issues

The Treasury is prohibited by law from paying more than  $4\frac{1}{4}$  per cent interest on securities issued with a maturity in excess of seven years (raised from five years

by legislation of June 1967). This ceiling should be raised or, better still, abolished.

The ceiling does not hold down the interest cost of the public debt. On the contrary, it forces the Treasury to borrow by issuing short-term securities, and under recent conditions this has served to raise the cost of borrowing. At present, the market interest rate on long-term Treasury securities, while above the  $4\frac{1}{4}$  per cent ceiling, is below the interest rate the Treasury is forced to pay for its short-term borrowings.

More important still, since the Treasury has been unable to issue long-term securities in recent years, it has frequently been forced to come to market with large offerings to refinance the debt, and during the periods when the Treasury is in the market the Federal Reserve authorities cannot very well be expected to tighten credit conditions as the state of the economy might require. The frequency of large Treasury debt operations has been an obstacle to the conduct of a stabilizing monetary policy.

The proper timing of a request to the Congress for a revision of the interest ceiling is uncertain. You should discuss this question at an early date with the Secretary of the Treasury.

Credit  
Programs

## VI - FEDERAL CREDIT PROGRAMS

### 1. Reappraisal of Existing Credit Programs

A comprehensive reappraisal of the existing Federal direct loan and loan guaranty programs is needed. The Task Force on Federal Credit Programs recommends that a Cabinet Committee do this.

The Committee should consist of the Director of the Bureau of the Budget (as Chairman), the Secretary of the Treasury, the Chairman of the Council of Economic Advisers, and the Chairman of the Federal Reserve Board.

All of the Federal credit programs should be scrutinized by the Committee in the light of the principles set forth in the report of the Task Force on Federal Credit Programs. In particular, each agency involved in administering a Federal direct loan or loan guaranty program should be required to document the need for its program in the light of said principles.

### 2. Priorities in Credit Programs

The highest priority need for new and existing Federal loan and loan insurance programs is to meet the problems of the city -- urban renewal and development, decent housing for the poor, the financing of private

enterprise in the ghettos, elimination of air and water pollution, improvement of the transportation system, and other problems.

To the extent that loan insurance programs are used, private capital will be mobilized to do the job. To the extent, however, that loan insurance, which of itself can be a powerful device, is supplemented by enlarged Federal loan programs, it will be all the more necessary to cut back on Federal lending programs where there is no longer a high priority need. You should stress this basic rule of fiscal prudence when and if you proceed to appoint a Cabinet Committee to reappraise the government's loan and guaranty programs.

3. Relation of Credit Programs to Over-all Economic Policy

In the past there has frequently been poor coordination between Federal Reserve policy and the policies of other financial agencies -- for example, FNMA or the Federal Home Loan Banks. If the Economic Policy Board recommended in this report is adopted, you should immediately charge a sub-committee of this Board with the continuing responsibility of coordinating the activities of the Federal direct loan and loan guaranty programs, so that they can be fully responsive to the Administration's over-all economic policy. The Chairman of the

Council of Economic Advisers should serve as the chairman of this sub-committee, the other members being the Secretary of the Treasury, the Chairman of the Federal Reserve Board, and the Director of the Bureau of the Budget.

If decision on the Economic Policy Board is deferred, the Chairman of the Council of Economic Advisers should be requested to assume the responsibility of seeing to it that the activities of the Federal direct loan and loan guaranty programs keep generally in step with overall economic policy.

#### 4. Coordination of Debt Issues

In the past, new debt issues of Federal credit agencies have often come to market without any apparent coordination with direct U.S. Treasury financing. One way to deal with this problem would be to establish an office within the Treasury whose responsibility would be to coordinate all agency borrowing and to plan such borrowing in the light of direct Treasury borrowing and general money and capital market conditions.

This suggestion should be promptly communicated to the Secretary of the Treasury.