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Ford May Consider Tax Cuts in 1976

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WASHINGTON, June 25—President Ford said today that he would consider recommending continuation next year of the individual income tax reductions that went into effect this spring, provided certain conditions existed.

He would do this, he said at his news conference, only if the economy was "not moving ahead," if he was convinced that continuing the tax reductions would not create a dangerously large Federal deficit, and if the evidence showed that the tax cuts put into effect this year really were beneficial in moving the economy forward.

Mr. Ford's comments contrasted somewhat with those made just a few hours earlier by his Secretary of the Treasury, William E. Simon.

Mr. Simon told a group of reporters at a luncheon he hosted, that he would not recommended continuation of the tax reductions unless the performance of the economy was "disappointing, if it is not pulling out of the recession as rapily as hoped."

Thus, the views taken by Mr. Ford and Mr. Simon were different only in their emphasis

Effect on Withholding Tax

The President did not specify what he meant by an economy that was "not moving ahead, not improving."

Mr. Simon, on the other hand, plainly indicated what his hopes and expectations were. He predicted that the nation's total output of goods and services, the gross national product, would show an increase in the July-October quarter of this year. Other top economic-policy officials in the Administration have refrained from making any such forecast.

If the $8.9-billion worth of individual income tax reductions that Congress enacted in March are not continued into 1976, the withholding taxes of almost all individuals would rise next Jan. 1.

The economic issue that will have to be decided before any Presidential recommendation goes to Congress is whether the economic recovery is strong enough to withstand the jolt it would receive next January if withholding taxes went up and consumer purchasing power, by the same token, went down.

Mr. Simon noted that the recommendation to Congress on continuing or not continuing the tax cuts would not have to be made until September or October and that there would be a lot more evidence on the trend of the economy by then.

Both Mr. Simon and the President emphasized that the unemployment rate would not be the only, or even the major test of whether to keep the tax cuts in effect. Mr. Simon said the reason was that other aspects of the economy tend to start improving before the unemployment rate comes down.

Mr. Ford said that he would have to take into consideration not only the unemployment rate but the impact on the economy and future inflation of a large budget deficit.

He said that every economist he had consulted said that if the Government tried to act to reduce unemployment quickly "we could end up with a new round of inflation and if you have a new round of inflation of a magnitude of 10, 14, 15, 20 per cent, you'll have another recession and unemployment at that time will go to about 14 or 15 per cent."

Mr. Simon indicated, however, that he had revised his views, somewhat, about how fast the nation could pull out of the recession without serious danger of rekindling inflation.

Now, he said, he thinks a growth rate of 6 per cent a year would be all right.

Economists dispute whether a 6 per cent growth rate would lower unemployment very much, if at all. The pace of economic expansion at the end of other recent recessions has run in the neighborhood of 8 or 9 per cent for the first year of the recovery.

Even with such a rapid expansion rate, as Mr. Simon himself noted, it took four years for the economy to reach what is defined as the "full employment" level after the recession of 1960-61.

If the Administration successfully staves off expected Congressional attempts to continue this year's tax reductions into 1976, the increase in withholding taxes that will be experienced by most individuals will be not quite so large as the reduction in withholding taxes that took place in April. The reason is that Congress decided to make changes in withholding, starting in April, that would reflect the total cut in taxes due for the entire 1975 calendar year. In effect, Congress crammed a 12-month tax cut into nine months, so far as withholding taxes were concerned.

The tax cuts affecting individuals included reductions in the standard deduction, the minimum standard deduction (also called the low-income allowance) and a $30-credit for every individual covered by a tax return.

The Administration has particularly objected to the $30-credit, and Mr. Simon said that even if Administration officials decided that economic conditions justified continuation of lower taxes, he would probably propose some changes in the form taken by the cuts. He did not elaborate.