Slow but Steady Recovery Forecast With Modest Drop in Unemployment

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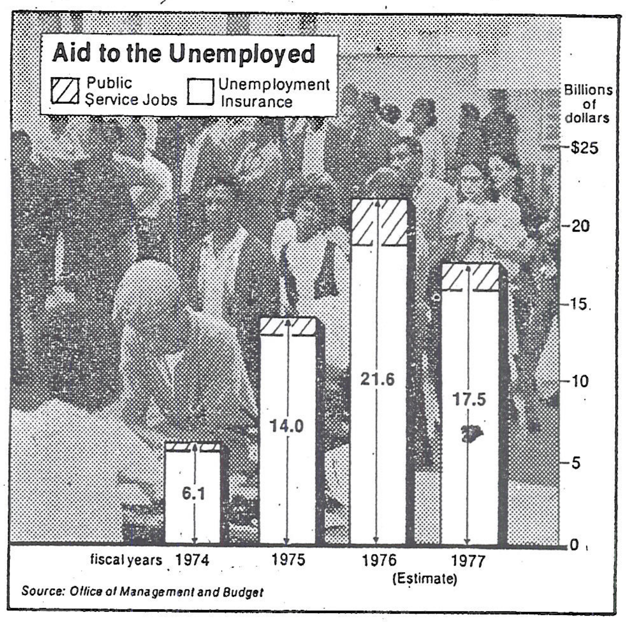
WASHINGTON, Jan. 21—The Ford Administration forecasts a moderate reduction of unemployment, a further slackening in the rate of inflation and a 6.2 percent growth in the total output of the economy this year, it was disclosed today.

The official forecast of a slow but steady continuation of recovery from the recession was contained in a special section of the President's budget.

The budget also disclosed plans by the President to phase out several antirecession programs on the ground that the recovery will be sufficient in the near future to justify ending them. Among the programs selected for termination are the special augmented unemployment compensation benefits and the special program of public service jobs.

Congress is likely to try to continue some or all of the programs in question.



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Swing to Restraint

An analysis of Mr. Ford's proposed budget also shows that in its impact on the overall economy, which was one of massive stimulus during 1975 and early 1976, the budget is designed to swing gradually toward some restraint on the economy's expansion.

This conclusion emerges from two measures often used by economists.

One is the trend of the quarter-by-quarter deficits in the budget as measured in the "national income accounts," which steadily decline starting in the second quarter of this year. The other is the "full employment budget," a somewhat complex measure of the budget's economic impact that, under the Ford program, would move from deficit to surplus between fiscal 1976 and fiscal 1977, for a total swing toward restraint of $19 billion.

Some quick analyses by Congressional staff economists suggested that the budget might be too restrictive and could slow the recovery, particularly next year. In any case, Congress is likely to make it more stimulative—that is, less restrictive—by refusing to approve many of the expenditure cutbacks proposed by the President.

One reason that the budget moves toward restraint is the proposed increase in Social Security and unemployment compensation taxes, which total more than $6 billion. In addition, the already legislated rise in the wage base for the Social Securtiy tax will increase revenues without adding to expenditures. Together, these almost offset the President's proposed tax reduction of $10 billion.

These were the key forecasts for the economy in calendar year 1976:

¶The "real" gross national product—after adjusting for higher prices—to be up 6.2 percent after a recession-associated decline of 2 percent in 1975.

¶The unemployment rate to average 7.7 percent of the labor force for the year, with a lower—but unspecified—figure at year's end, compared with an average of 8.5 percent in 1975 and 8.3 percent at the end of the year.

¶Consumer prices to be up 5.9 percent in December 1976 compared with December 1975, following rises on the same basis of 12.2 percent in 1974 and an estimated 6.9 percent in 1975.

¶Corporate profits to rise almost one-third, to $156 billion in 1976 from $118 billion in 1975.

For 1977, the forecast shows a slackening of the rate of growth in G.N.P. to 5.7 percent and a further reduction in unemployment to an average of 6.9 percent for the year, but no further improvement in the inflation rate.

The budget also contains what it calls "mechanical projections"—not actual forecasts — until 1981. These indicate that unemployment would not drop below 5 percent until 1981. By 1980 the inflation rate might be down to 4 percent.

The budget cautioned that "beyond 1977 it is virtually impossible to make a forecast, with any degree of reliability." The projections for later years, it said, are "assumptions consistent with moving gradually toward a relatively stable price level and a higher level of employment."

Last year at this time the budget contained such forecasts and projections for the first time. As events turned out, the forecast for 1975 was overly gloomy, both on the depth of the recession and the rate of inflation, though unemployment turned out to be higher than expected.

One of the largest projected declines in spending in the new budget, about $3 billion, is in estimated payments for unemployment compensation. A part of this drop represents the proposed phasing out of two special antirecession programs—extended benefits under the regular unemployment compensation system and temporarily expanded coverage for millions of such workers as state and local government employees.

Also to be phased out is the public service jobs program. This would continue through the present calendar year at the current level of 310,000 jobs, then gradually be terminated.

Finally, the budget assumes an end to the "tandem plan" of the Government National Mortgage Association, under which about 150,000 families were enabled to purchase homes with below-market mortgage interest rates.