Collection: Reagan, Ronald: 1980 Campaign Papers, 1965-1980

Series: XV: Speech Files (Robert Garrick and Bill Gavin)

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Folder Title: Drafts and Back-up Documents – 09/09/1980, Economic Speech – Suggested Changes (5 of 7)

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Almost two months ago, in my speech accepting the nomination of my party as its presidential candidate, I spoke of the historically unique crisis facing the United States. At that time I said:

> "Never before in our history have Americans been called upon to face three grave threats to our very existence, any one of which could destroy us. We face a disintegrating economy, a weakened defense and an energy policy based on the sharing of scarcity."

Since I first spoke those words, no action has been taken by the President to change the grave, unprecedented situation.

I emphasize the word "action." Jimmy Carter has shown that he is ready to adopt the rhetoric of action. But it is rhetoric only.

We have a "new" Jimmy Carter insofar as his words are concerned, a new Carter suddenly, after four years as Commander-in-Chief, concerned about our national security. Since he caused the national security crisis it is fitting that he should at long last come to realize it, however late.

But it is in the field of economics that he has been most recently vocal--and, as usual, ineffective.

Two weeks ago he gave us his latest in a series of fatally-flawed economic programs. This one is the fifth "New" Economic Program in the last four years. It bears a striking resemblance to its predecessors: it is long on rhetoric and short on effective action.

There is a proposal for a $28 billion tax cut. But upon examination half of that tax cut is an illusion by a master illusionist, made up of federal paper-shuffling, since it is a scheduled rebate on the new Carter social security tax increase.

There is a new depreciation schedule. But upon examination this isn't new at all--it is similar to those proposed by Republicans and by the Senate Finance Committee. And by itself it will not RE-vitalize our economy.

The "new" refundable investment tax credit is obviously meant as a gesture to those industries undercut by Carter's previous "new" plans.

There is a proposal for job-training to train people for jobs that don't exist and are not likely to exist under his economic policies. Given his policies the best training Jimmy Carter can offer American workers is advice on how to stand in unemployment lines--because that's where he's been putting them.

I mention all of this not because Jimmy Carter is serious about this program--he knows it doesn't have a chance of becoming legislation and won't even send it to the Hill--but, rather, because it exemplifies the fundamental error in his handling of the economy.

Jimmy Carter has mastered some of the language of a free economy. He knows certain phrases that suggest to the casual listener that he is in favor of a free, growing economy.

But his actions show the <u>real</u> Jimmy Carter--no matter how many "new" Jimmy Carters we are offered.

He has created a synthetic fuel program with an enormous potential for waste because he simply doesn't understand the free enterprise system.

He has overseen a rise in government regulation that during his first three years has seen a 35.8 percent increase in the number of pages devoted to regulation of the federal government.

He talks about an Economic Revitalization Board and suggests that "a new partnership between government and industry and labor" can meet our needs. But when you become partners with the government, it is the government who becomes the senior partner. His words suggest that he would like our nation to follow the example offered by the relationship between government and industry in Japan.

Whatever else may be said about that model, and I for one do not believe it would or could work in the United Sates, the fact is that Jimmy Carter is not only wrong economically, he is wrong geographically. His views, if followed, would lead us not to the Japanese experience but to the British disaster, an endless series of bailouts, shoring up with tax dollars those big enterprises that have failed and in general stifling real growth by regulation and the inevitable inflation that would accompany this bailout philosophy. It is a philosophy rejected by the current British Government and--in its last months--by the previous government as well.

Despite all of the good intentions not to allow an economic revitalization program to become a vehicle to bail out failing business, it is just not possible to be otherwise. The new vital-growing businesses do not need government help--it is only the failing ones--threatening large job losses--which will show up at the door of the White House for help. But experience both here and abroad amply demonstrates that the jobs that are "saved" are temporary, and the damage to the economy overall, leads to far greater job loss--or more exactly, failure to create jobs for a growing labor force.

Japan "works" because the government is not anti-business. We would have the same vitality if government withdrew from it harrassment of business. We don't need a new partnership, we need only to have Uncle Sam become a more passive participant in its role in the economy.

When I hear Jimmy Carter use the rhetoric of free enterprise, I am reminded of the story told about Mark Twain. It seems Mark had a habit of using foul language. To shock him out of it his wife came up to him one day and repeated every bit of the salty language she had ever heard him say. Mark listened patiently and when she was finished he said, "My dear, you have the words, but you don't have the tune."

The same can be said about Jimmy Carter and his seemingly limitless capacity for new programs. He knows all the words, but he lacks something vital. Jimmy Carter's tragedy as a leader is that he has never known where he wants to go. And because we have had to endure this nonleadership for four years, it is our tragedy as well.

Today I want to speak to you of a different concept of leadership, one based on faith of the American people, confidence in the American economy, and a firm commitment to see to it that the federal government is once more responsive to the needs of the people. That view is rooted in a strategy for growth, a program that sees the American economic system as it is, a huge, complex dynamic system which demands not piecemeal federal packages of solutions, or pious hopes wrapped in soothing words, but the hard work and the concerted programs necessary for real growth.

We must first recognize that the problem with the U. S. economy is too much government, too much regulation, too much taxation, too much printing press money. We don't need any more four or five point programs of government actions to "fix" the economy. It is the overdose of such initiatives which has been gradually sapping the vitality of the most productive economic system the world has ever known. I see a true revitalization of the American economy as a two stage process:

First, we must stop the frightening erosion that now confronts our economy. Then we must turn our growth potential markedly higher.

The second stage will be relatively easy if we make the first stage work. At the heart of the first stage of this strategy are three fundamental policies, each of which is vital, each of which is dependent on the other two for success and all three of which, working in concert under effective leadership, can take us from the Carter economics of despair and stagnation to an economics of hope and of growth based on what we know the American people are capable of:

1. We must prevent rises in the tax burden now crippling the economy and savaging family earnings. Carter's tax cut program still leaves the ratio of total Federal revenues rising from 20½% of GNP in the current fiscal

year, to 23-3/4% by fiscal year 1985. Under Carter's program, Uncle Sam will be taking --- % of additions to taxable incomes over the next five years. There is no way we can stop the economy's erosion with that level of taxation.

2. We must stop inflationary policies of the federal government. This means the necessary precondition of such action, a balanced budget.

3. We must restore our military capability in order to meet the challenges we face now and will face in the near future, during that five year period in the '80's called the Soviet window of opportunity.

I am asked can we do it all at once? My answer is we must. I am asked, is it easy? My answer is no. It is going to require perhaps the most dedicated and concerted action ever taken on the part of the American people for their government. Nothing worth doing is ever easy.

But we can do it, we must do it and we must do all three together: cut tax rates, balance the budget and build our defenses. That is the challenge. Mr. Carter says he can't meet that challenge. He says he can't do it. I believe him. He can't. I refuse to accept his defeatist, pessimistic, unrealistic, view of America. I know we can do these things and I know we must.

Let us then examine how we can meet this challenge beginning with "the Reagan Tax Rate Reduction" plan. This plan calls for an across the board 30% reduction in income tax rates, 10% in 1981; 10% in 1983; and 10% in 1985. Six months ago, I had been hopeful we could implement a 30% cut in tax rates in three years. But under the stewardship of this Administration, the budget has deteriorated to a point which has made that too risky. However, if the economy recovers faster than we expect, I will move to a more rapid phase-in of these cuts. In any event, it is essential to move as rapidly as we can to reduce the dangerous growth in the tax burdens.

High rates of taxation destroy incentives to earn, cripple productivity, lead to deficit financing and inflation, and create unemployment. We can go a long way toward restoring the economic health of this country by moving toward reasonable, fair levels of taxation.

Jimmy Carter says it can't be done. In fact, he says it shouldn't be done. He favors the current crushing tax burden because it fits into his philosophy of government as the dominating force in American economic life.

But figures of the Congressional Budget Office show that by FY 1985, if current rates of taxation are in effect, with no additional Congressional programs, tax revenues should approach more than one trillion dollars.

Surely Jimmy Carter isn't telling us that the American people couldn't find better things to do with all that money than see it spent by the government.

Assuming a continuation of current policies in government spending, the CBO projections show a substantial deficit of $44 billion for FY 1981. This drops sharply to $15 billion in FY 1982 and in FY 1983 turns into a substantial surplus of $37 billion. In FY 1984 this surplus grows to $96 billion and then way up to $175 billion in FY 1985. These large and growing surpluses can be used in two basic ways: (1) the funding of additional government programs, and (2) the reduction of tax rates.

The choice is up to the American people. At least it should be.

It should be noted here that all economic forecasts--including, most especially, those Mr. Carter has been making for four years--do not have the degree of precision we would want. But the CBO figures do give us a reasonable look at what is feasible.

The most insidious tax increase is the one we must pay when inflation pushes us into higher tax brackets. While inflation is with us, taxes should be based on real incomes, not government inflated ones. Federal tax rate brackets, as well as the amount of exemptions, deductions, and credits, should be adjusted to compensate for inflation.

I mention this only to underscore the fact that the strategy for growth is based on something more than forecasts. It is based on what we already know the American people can do. Economic policies must be based on facts--as mine are--but those facts must be seen in a context of optimism. When I am told that my view of the future is optimistic, I answer: it should be. I will not stand for lower expectations. I know the American people have always been a people of great expectations and I would not ask them to elect me as President if I did not share this historic view.

But, as I said, tax cuts alone won't do the job. We also need control of government spending leading to a balanced budget. How can this be achieved?

There must and can be a reduction in the projected spending levels for FY 1981 by some 2 percent. This level of spending restraint, once achieved for the last half of FY 1981,would continue on through the succeeding years. Continued attempts to control government spending would result in a further 2 percent reduction in FY 1982, an additional 1 percent in FY 1983, and 1/2 percent more in both FY 1984 and FY 1985. Even these relatively modest reductions in the rate of increase of federal spending produce substantial increases in available funds that can be used for either increased spending or for reducing tax rates to stimulate economic growth. Beginning with an additional $13 billion in FY 1981, the number grows steadily to $54 billion by FY 1985.

Allow me for a moment to expand on what I have just stated.

This strategy for growth does not require altering or taking back entitlements already granted to the American people. The integrity of the Social Security system will be defended by my administration and its benefits made once again meaningful because we will also be fighting inflation.

This strategy <u>does</u> require restraining the Congressional desire to "add-on" to every program and to create new programs funded by deficits.

This strategy does require that the way federal programs are administered will be changed, so that we can benefit from the savings that will come about when, in many instances, administrative authority is moved back to the states.

The federal programs that I believe should be carefully considered for transfer to the states (along with the federal tax resources to finance them) are those which are essentially local in nature. The broad areas that include the most likely prospects for transfer are welfare and education.

Programs that are national in nature, or that are handled by trust arrangements outside the general revenue structure should not be transferred. In addition to the obvious ones--Social Security, national defense and space--this group would include Medicare and other old-age assistance programs; the enforcement of federal law; veteran's affairs; certain aspects of agriculture; energy; transportation and the environment; the TVA and other multi-state public works projects; certain types of research; and possibly others.

Few would want to end the federal government's role in setting national goals and standards. And no one would want to rule out a role for Washington in those few areas where its influence has been essential: crash efforts such as the Manhattan and Apollo projects, and massive self-liquidation programs such as the Homestead Act and the land-grant colleges. And, certainly, the federal government must have an active role in assuring this nation an adequate supply of energy.

The systematic, phased transfer of some federal programs and federal revenue sources could save the taxpayers money. As federal programs were transferred to the states, federal revenue sources, sufficient to finance the programs, would be transferred at the same time. The amount of federal resources transferred should be more than enough to fund the programs transferred, making possible a net tax reduction for individuals and families. There are two basic reasons why this can be expected;

The first is the elimination of the "freight charge." When the taxpayer's money is sent to Washington, counted, then doled back to the states with the regulatory strings of the Washington bureaucrats attached, some of it is lost in the process. We don't know precisely what this "freight charge" is for any particular program, but regardless of whether it is five cents on the dollar, 10 cents, 25 cents or 50 cents, it is clear that the taxpayers will pay the bill.

The second is the increase in efficiency that would occur when administrative responsibility passes from federal hands to state and local hands. My experience in California, and that of others elsewhere demonstrates how arbitrary and everchanging federal regulations can inhibit even the most strenuous efforts to achieve economy and effectiveness in state government. Freed of the dead hand of federal regulation, state and local budgets offer the potential for considerable economies. Again, we don't know what the precise savings will be, whether they will be 5 percent or 50 percent, but we do know that there would be savings.

Crucial to this strategy will be the appointment to top government positions of men and women who share the same economic philosophy that is at the heart of my policies. We will have an administration in which the word from the top isn't lost as it gets to the various departments. That voice will be heard because it is, in this vital area, the voice that has for too long been absent from Washington--the voice of the people.

I will also establish a national citizen's task force, as I did in California, to rigorously examine every department and agency. There is nothing better for effective government than to have its operations closely scrutinized by citizens with savings on their minds.

I already have as part of my advisory staff a Spending Control Task Force, headed by my good friend and former Secretary of Health, Education, and Welfare, Casper Wienberger, that will report on additional ways and techniques to search out and eliminate waste, fraud and abuse in federal programs.

If I may digress for one moment: the subject of waste, fraud and abuse in government programs is one so important that I will not even try to discuss its full implications in these remarks because it deserves a special speech all of its own. I intend to make such a special speech all of its own. I intend to make such a speech soon. For the present just let me say, when HEW alone reported over $6 billion lost, strayed or stolen, surely there is more reason than ever to see to it that tax dollars are used more effectively. The Office of Management and Budget estimates that the annual waste in federal government programs could reach as high as $50 billion and Jimmy Carter tells us we can't have a tax cut.

If we succeed in Stage I, Stage II is a natural extension, parts of which should be put into place before Stage I is fully effective. It is important that we recognize that presidential veto power, no matter how judiciously and courageously used, cannot hope to meet the challenge to our survival alone. We have developed over the years a built-in tendency to overspend our tax receipts. The Budget Act of 1974 which for the first time created a procedure for the Congress to limit total spending has been only partially successful. More is needed.

I will accordingly seek a constitutional amendment requiring that all money bills require a 60% majority of both houses of the Congress rather than the current 50%.

I will also seek a presidential right to have an item veto, so that the President can reflect the people's will in a manner that is effective and responsible.

I will immediately ask for a study to be made in order to find the most appropriate language for a necessary constitutional amendment for a balanced budget. Pending such an amendment's passage, I would expect and would seek appropriate statutory authority for a balanced budget from the Congress. These measures should once and for all put an end to the irresponsible printing of money.

Moreover, even the extended tax cuts which I am recommending still create a rise in the tax burden and hence additional tax cuts scheduled and in place for the second half of the decade are needed. I will outline the additional tax and other measures at a later time. They will address the issue of enterprise zones for our cities which I raised first in my address to the National Urban League, the need for tax code simplification, broad reduction in the regulatory burden and a number of other items of our national economic agenda.

Thus, I envision a strategy encompassing many elements; each of which cannot do the job alone, but all of which working together can get it done. Such a strategy depends for its success on the will of the people to regain control of their government.

And, most importantly, it depends on the capacity of the American people for work, their willingness to do the job, their energy and their imagination. For this strategy of growth includes the growth that will come from the cooperation of business and labor that will result from the knowledge that government policy is directed toward jobs, toward opportunity, toward growth. That is why I fully expect revenues to the government to increase, not decrease under such programs as I have outlined. We are not talking here about some static, lifeless model of econometrics--we are talking about the greatest productive economy in human history, one historically revitalized not by government but by people freed of government interference, needless regulations, crippling inflation, high taxes and unemployment.

Does Jimmy Carter really believe that the American people are not capable of rebuilding our economy? If he does, that is even one more reason--aside from his record--that he should not be President.

When such a strategy is put into practice, our national defense needs will be capable of being met because the productive capacity of the American people, free of government restraint, and the ability of the new administration to make government less wasteful and more efficient, will provide the revenues needed to do what must be done in defense.

All of this demands a vision. It demands looking at government and looking at the economy as they exist, not as words on paper, but as institutions guided by our will and knowledge, capable of growth, capable of restraint, capable of effective action.

When President Carter first took office he had sufficient budget flexibility to achieve these goals without too much difficulty. He not only threw away the security of restoring economic vitality and international security by a series of failed policies, but has now made the achievement of these critical objectives far more difficult.

Nevertheless this nation cannot afford to back away from any of these goals. We cannot allow tax burdens to rise inordinately, inflation to take hold, or allow our defenses to deteriorate--without severe consequences.

This task is going to be difficult and our goals are optimistic--as they should be. It's going to take time as well as work--but it will be time worth the effort.

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I will accordingly seek a constitutional amendment requiring that all money bills require a 60% majority of both houses of the Congress rather than the current 50%.

I will also seek a presidential right to have an item veto, so that the President can reflect the people's will in a manner that is effective and responsible.

I will immediately ask for a study to be made in order to find the most appropriate language for a necessary constitutional amendment for a balanced budget. Pending such an amendment's passage, I would expect and would seek appropriate statutory authority for a balanced budget from the Congress. These measures should once and for all put an end to the irresponsible printing of money.

Moreover, even the extended tax cuts which I am recommending still create a rise in the tax burden and hence additional tax cuts scheduled and in place for the second half of the decade are needed. I will outline the additional tax and other measures at a later time. They will address the issue of enterprise zones for our cities which I raised first in my address to the National Urban League, the need for tax code simplification, broad reduction in the regulatory burden and a number of other items of our national economic agenda.

Thus, I envision a strategy encompassing many elements; each of which cannot do the job alone, but all of which working together can get it done. Such a strategy depends for its success on the will of the people to regain control of their government.

And, most importantly, it depends on the capacity of the American people for work, their willingness to do the job, their energy and their imagination. For this strategy of growth includes the growth that will come from the cooperation of business and labor that will result from the knowledge that government policy is directed toward jobs, toward opportunity, toward growth. That is why I fully expect revenues to the government to increase, not decrease under such programs as I have outlined. We are not talking here about some static, lifeless model of econometrics--we are talking about the greatest productive economy in human history, one historically revitalized not by government but by people freed of government interference, needless regulations, crippling inflation, high taxes and unemployment.

Does Jimmy Carter really believe that the American people are not capable of rebuilding our economy? If he does, that is even one more reason--aside from his record--that he should not be President.

When such a strategy is put into practice, our national defense needs will be capable of being met because the productive capacity of the American people, free of government restraint, and the ability of the new administration to make government less wasteful and more efficient, will provide the revenues needed to do what must be done in defense.

All of this demands a vision. It demands looking at government and looking at the economy as they exist, not as words on paper, but as institutions guided by our will and knowledge, capable of growth, capable of restraint, capable of effective action.

When President Carter first took office he had sufficient budget flexibility to achieve these goals without too much difficulty. He not only threw away the security of restoring economic vitality and international security by a series of failed policies, but has now made the achievement of these critical objectives far more difficult.

Nevertheless this nation cannot afford to back away from any of these goals. We cannot allow tax burdens to rise inordinately, inflation to take hold, or allow our defenses to deteriorate--without severe consequences.

This task is going to be difficult and our goals are optimistic--as they should be. It's going to take time as well as work--but it will be time worth the effort.

He has created a synthetic fuel program with an enormous potential for waste because he simply doesn't understand the free enterprise system.

Mr. Carter's budget shows massive increases in future federal spending. I will limit those increases. My goal is to ultimately reduce those Carter ~~projections~~ spending projections by 10 percent

MEMO FOR: George Shultz
Alan Greenspan
Martin Anderson
Richard Wirthlin

August 13, 1980

2)

FROM: Charls E. Walker

In the accompanying draft of a suggested radio speech for RR, I have attempted to use the Administration's own projections to show how a Reagan Administration could significantly increase defense spending, cut taxes as proposed, and balance the budget -- all over a five-year period.

This Five Year Fiscal plan can be attacked on two main bases -- that the projections of GNP, revenues, etc., are unreasonable; and that the reduction in spending/GNP to 19 percent by FY1985 is out of the question (or at least, that it cannot be done without severely damaging domestic transfer programs).

The projections are from OMB. Since they are Carter's own, we should be okay in that respect.

As to achievability of the spending restraint, I suggest an ad hominem approach which I think you -- particularly GPS -- will find interesting.

I am also sending you a four-pager which was "bootlegged" to me from OMB. Although it has no identification as to origin, I believe it was primarily done in Treasury and is the basis for statements by Sec. Miller and others that the RR tax plan would cost \$282 billion by 1985. The Congressional Budget Office figures come to only \$175 billion for Kemp-Roth and \$43 billion for 10-5-3, or a total of \$218 billion.

One difference is that CBO is on a fiscal year basis, as it should be. But there's more. Looking at KR on a FY basis in the table, the huge jump between FY1983 and 1984 needs explaining. Perhaps it assumes a big increase in the inflation rate at that time, and is a sort of "reverse reflow."

I've asked some press people to check it out.

First Draft
CEW - 8/13/80

Jimmy Carter says that we cannot cut taxes now because we must balance the budget. He is wrong. Sensible tax cuts and budget balancing are not competitive; they go hand in hand. The fact is that if we plan carefully -- over a period of years, and not just from one year to the next -- we can cut taxes, increase defense spending, and balance the budget.

The key to this effort is restoration of an honest, no-nonsense Federal budget policy, one that recognizes our defense needs, and is fair to taxpayer and beneficiary alike.

Today I want to outline a Five Year Fiscal Plan that will provide a framework for accomplishing all of these goals. But first, let me point out what is wrong with Jimmy Carter's approach to balancing the budget. Let me tell you why, like almost all of his economic programs, it has been a dismal failure. Fundamentally at fault is his reliance on ever-higher taxes on the workers, savers, investors and producers of this country. These taxes stifle the very incentives necessary to keep the economy healthy. High taxes keep economic activity down and unemployment up.

Even though personal income taxes have risen over 50 percent since Jimmy Carter was sworn in as President in January 1977, and overall Federal tax receipts relative to gross national product are the highest since World War II, the relentless increase in the tax burden shows no signs of abatement. By strongly opposing my proposed 10-percent cut in income taxes next year, Jimmy Carter is in effect trying to protect the $86 billion in taxes he has budgeted for the fiscal year beginning next October. This budgeted tax increase is all the more amazing because it is scheduled to take place in the middle of a recession with high unemployment -- a bizarre fiscal policy if ever there was one.

Let me repeat what I just said, because most people think that the tax argument is over whether there will or will not be a tax cut for 1981. There will not and cannot be a tax cut, only a tax abatement, for Jimmy Carter has already budgeted the largest one-year tax increase in the history of the republic. My proposal for a 10-percent cut in individual taxes, coupled with a job-creating reduction in business taxes, would not cut the tax burden. But it would reduce Jimmy Carter's record $86 billion tax increase by about one-fourth.

Between fiscal year 1977, when Jimmy Carter became President, and today, total Federal tax receipts have risen from $358 billion to $518 billion, an increase of 61 percent in only three years. With such huge increases in revenues, one would think that Jimmy Carter would at least be close to the balanced budget he promised the American people in his first term. Not so. The emptiness, and ever-so-short "shelf life" of a Jimmy Carter promise is demonstrated by the record since January 1979. In that month, Jimmy Carter estimated the 1980 Federal deficit at $29 billion. A year later he set it at $16 billion. Only two months later, in March of this year, he raised his estimate to $37 billion. His most recent figure -- one that we can depend on? -- is $60 billion.

A busted budget and not one, but a whole string of busted budget promises. Also, a new record, for when off-budget financing is added in, the deficit of the Federal government for this fiscal year will be the largest in history -- followed, as I've already noted, by the biggest tax increase in history.

Jimmy Carter nor anybody else will or should succeed in balancing the budget on the backs of American taxpayers. That type of economic masochism is not only cruel; it is also self-defeating. The only lasting and effective route to a balanced budget available today is through spending restraint -- by bringing under control a bloated Federal budget that is claiming an ever-higher proportion of the fruits of American enterprise and effort.

Jimmy Carter cannot hold back Federal spending, even if he wanted to. The professional politicians of the Democrat Party cut their teeth on the old adage, "Spend and spend . . . tax and tax . . . . . elect and elect." And you can't teach new tricks to old politicians. Democrat politicians are simply incapable of comprehending the need for restoration of a sensible budget policy -- witness the spend, spend, spend "cure" to unemployment that swept the Democrat Convention in New York.

The long-run dedication of Jimmy Carter to the "spend-tax-elect" theory of politics is reflected in his budget projections for the next five years. In his January Budget Message, and again in a July review, Jimmy Carter said he expected annual Federal tax revenues to more than double over the next five years, rising by an almost unbelievable $534 billion. That's more than a half trillion dollars! And the figure is not cumulative; we're talking about the level of annual budget receipts. This huge tax increase reflects, of course, the interaction of Jimmy Carter's inflation with a highly progressive income tax system -- a mechanism that churns out additional tax revenues for Uncle Sam at a dizzying rate. Taxpayers are hurt, and hurt badly, but Uncle Sam's revenues rise at a startling pace.

That's the bad news. The good news could be that, with reasonable restraint on increases in nondefense spending, there would be plenty of revenues available over the five years to do the three major things I have proposed: increase spending for national defense, cut taxes across the board, and balance the budget.

But that is not Jimmy Carter's plan. His projections allow for "business-as-usual" at the Office of Management and Budget and in the Federal departments. From a level of $579 billion this year, his fiscal plan calls for an increase in Federal spending to $946 billion in 1985. That's a percentage increase of 63 percent.

My Five Year Fiscal Plan is entirely different. It is based, first of all, on the view that the escalating tax revenues so blithely projected by Jimmy Carter and his budget experts are unfair to the American people and bad for the economy. They stifle incentives and that drags the economy. And rising taxes are unfair to the people of this country because an ever higher percentage of what they work so hard to produce is siphoned off by a rapidly growing Federal establishment and its legions of bureaucrats. My Five Year Fiscal Plan deals directly with both the tax and spending problems.

As to Federal spending, I would like to be able to tell you that we can stop its absolute growth dead in its tracks, but I cannot. There are just too many built-in programs that will inevitably grow. Many of these programs, such as Social Security, are good programs and should grow as real needs increase. In addition, our national defense is in a perilous state. We are now second to the Soviet Union in overall strength. This is a situation that you cannot tolerate and I, if elected President, will not tolerate.

Federal spending will continue to rise. The question is, how much and how fast? Jimmy Carter projects an increase of 63 percent by 1985. That's far too much, especially when it is realized that his 1985 budget would still amount to almost 22 percent of GNP. If I am elected President, I pledge to submit budgets over my first term that would gradually but firmly reduce the rate of Federal spending relative to GNP from the inflationary 23 percent that now prevails to no more than 19 percent in 1985.

What would this mean to total spending? Instead of rising 63 percent to $946 billion, as in the Jimmy Carter plan, my suggested spending limit would top out at $819 billion (19 percent of a projected GNP in FY 1985 of $4.3 trillion). With revenues plugged in at $1,052 billion, the resulting surplus of funds available for reductions in the tax burden on hard-working, enterprising Americans would come to a very handsome $233 billion.

Pie-in-the-sky? Not by any means. The arithmetic is simple. Let's walk through it again.

Jimmy Carter's projected Federal spending for FY 1985 is $946 billion, or 21.9 percent of GNP. Projected revenues are $1,052 billion. The difference of $106 billion is the revenues available for tax reduction.

My Five Year Fiscal Plan calls for Federal spending in FY1985 of $819 billion, or 19 percent of GNP. With revenues of $1,052 billion, that would result in money available for tax reduction of $233 billion.

This $233 billion in available revenues would easily accommodate my proposed reductions in individual and business taxes. According to impartial experts that do budget and tax work for the Congress, those two measures would cost about $220 billion -- with an important but obviously overly conservative assumption, namely, that these cuts in tax rates will do absolutely nothing to cause the "feedback" or "reflow" of additional tax revenues that has resulted from every tax cut since World War II. In other words, taxes are so high and repressive to economic activity, that a sensible reduction in the rates will so stimulate economic activity that taxable incomes of individuals and businesses will rise significantly. When that happens, the loss in revenues you would expect from a cut in tax rates is partially offset by the growth in individual and corporation income subject to Federal taxes.

This is not academic theory. It is a product of experience. And that experience has caused Congressional budget experts to estimate a "feedback effect" of up to 40 percent for a well constructed tax cut.

My tax proposals would produce even more "feedback" of additional tax revenues than usual. This is because my proposed 30 percent cut in individual tax rates over three years would exert a strong "supply-side" effect by reducing high marginal rates. (The marginal rate is the tax rate paid on the last dollar you earn, ranging from 14 percent in the lowest tax bracket to 70 percent at the top.) High marginal rates strongly discourage efforts of individuals to work, save and invest. With lower rates, people will work harder, save and invest more -- all activities which contribute to real economic growth, a broader tax base, and higher Federal tax revenues.

My proposed cut in business taxes is even more targeted to "supply-side" factors. Cuts in taxes for depreciation of business plans and equipment provide a very big bang for the buck; no business gets the tax cut unless it has first put money into this new investment. And since this type of investment is what is so badly needed to build jobs and create economic growth, the return through broadening the tax base and promoting revenue "reflow" can be especially large.

In addition, my tax cut proposals lay out carefully designed reductions for several years -- three years in the slashing of high individual tax rates, and five years for simplification and liberalization of taxes on business depreciation. As the distinguished economist, Dr. Martin Feldstein, has so aptly pointed out, announcement of a future reduction in tax rates that impede economic activity can have an immediate stimulative effect on the economy. Individuals and businesses increase their efforts to work, save, invest and produce <u>now</u> in anticipation of lower tax rates later.

Given past experience, plus the special stimulative nature of my tax cut proposals, the revenue picture by 1985 should be much better than that projected by Jimmy Carter -- some $80 billion, if the 40 percent feedback estimate is met. That's all to the good, for any additional funds could be used for further tax cuts to promote work, saving and investment, or to reduce our huge national debt. This latter step would cut back on the Government's borrowing needs, relieve pressures in credit markets, and make more funds available to individuals who want to borrow for a home, to State and local governments, and to other borrowers. It would also reduce the interest charges which account for more than 10 percent of the budget.

How doable is my Five Year Fiscal Plan? The crucial question is whether we can over the next four years slow the rate of Federal spending enough to reduce the budget to 19 percent of GNP. Given the excessive 23 percent level that Jimmy Carter and the Democratic Congress have foisted upon the American people, that's a big order. Some critics say it is impossible. Jimmy Carter wouldn't even try.

To say that we cannot cut back on even the increase in the growth of Federal spending is an admission of failure -- failure in the ability to control our future by stopping the inflation which is caused by too much Federal spending, failure to reduce the ever-growing tax burden on the American people. Americans are too strong and too smart to accept this counsel of dispair.

And they need not accept it. The goal of reducing Federal spending to 19 percent of GNP by fiscal year 1985 is as feasible as it is deairable. Remember the early 1960's, when John F. Kennedy was President? Those were great years for the American people. Spirits were high and optimism prevailed. Economically, things were perhaps the best in the history of the country. GNP and personal income rose strongly. The consumer price index increased by less than one percent per year. The expansion in personal incomes was therefore real, not dissipated by inflation. Unemployment declined. The increase in American living standards was both substantial and widely enjoyed.

Budget policy during that period is especially noteworthy. Most significantly, the budget relative to GNP averaged about 19 percent. Still, we provided adequately for both domestic needs and our national defense.

Total Federal spending increased by only 28 percent between 1960 and 1965. Looking ahead, if we hold the increase in Federal spending to 40 percent -- as contrasted with the 63 percent projected by Jimmy Carter -- we can re-establish the spending-to-GNP ratio of the Kennedy years.

How would I, if elected President, lead the nation in this task?

The key to achieving fiscal restraint is people -- mature, experienced, hard-working men and women to take over the Federal departments and agencies, dedicated to providing the American people an honest value for the hard-earned dollars they are forced to send to Washington. These are the type of men and women I would call to public service in filling the 0,000 positions open, over a four-year period, to Presidential appointment. They would be people of unquestioned integrity. They would understand management in government, how to make government more efficient.

My first directive to them would be to move with maximum speed to eliminate fraud and waste in Federal programs. I am not talking about cutting back on worthy programs. I am referring instead to the minimum of ten to fifteen percent that voters know results from sloppy management, overstaffing, and make-work projects.

To be sure, some types of spending include little leeway for improvement; that applies to the $64 billion budgeted this year for payment of interest on our huge national debt. But a 10-percent saving spread across other programs would amount to $60 billion this year and, on the basis of Jimmy Carter's five-year budget, $90 billion by 1985.

With the right people in charge -- men and women who have genuine respect for the taxpayer's dollar -- we can save at least ten percent on a big part of the budget. Those savings will go a long way toward releasing Federal dollars for other purposes. For example, the funds saved by cutting fraud and waste could more than pay for the increase in defense spending over that projected by Jimmy Carter -- especially when it is realized that the Defense Department would also be subjected to rigorous control of costs and promotion of efficiency.

Budget planning cannot stop with elimination of fraud and waste. Any new Administration -- especially one dedicated to meaningful fiscal restraint -- must get off the blocks early with its new direction for spending policies. In the case of a Reagan Administration, this means that firm imprint must be put on the budgets for fiscal year 1981, which begins October 1, 1980, and 1982, which begins a year later. The problem is that Jimmy Carter presented his bloated budget for 1981 to Congress last January. By the time I'm sworn in, if elected, Congress will probably have approved the appropriations' bills for that year. As to the 1982 budget, that will be presented by Jimmy Carter in January, regardless of who wins the election.

If elected, I am determined to put my stamp on those budgets. If Federal spending is to be reduced relative to GNP, we cannot wait until January 1982 to begin reordering priorities. However, I cannot now, in the middle of the campaign, spend the large number of hours necessary for a new direction in budget policy. Nor do I have staff available for so huge a task, which can only be done from within the Federal government, not from outside.

To deal with this problem, I have asked George P. Shultz, one of the most respected public servants of our time, to form a blue-ribbon task force of former Federal officials closely familiar with the budget process to begin work, now, on my Five Year Fiscal Plan.

I am very pleased that George Shultz has agreed to accept this responsibility.

In discussing the matter with Mr. Shultz, the following approach has been agreed upon. During the next few weeks -- from now until shortly after the election -- Mr. Shultz and his task force will meet with leaders throughout the country to obtain their views on Federal budget problems and policies. These will include former government officials, governors and other state and local officials who must work with Federal programs, academicians, and leading members of Congress, especially key members of the budget, tax-writing, appropriations, and economic committees.

Then, immediately after the election, I shall, if elected, request President Carter to make available the necessary staff and space in Washington, not just for the usual transition planning between outgoing and incoming administrations, so that Mr. Shultz and his task force can conduct a top-to-bottom review of spending plans and priorities for the next five years.

The goal of this effort would be a report to me and designated Cabinet officers shortly after Christmas, with recommendations keyed especially to the fiscal year 1981 and 1982 budgets. Any changes in the former would, under the Budget Act of 1974, have to be submitted to the Congress in the form of amendments to the spending legislation approved this year. Also under that Act, the President by March of 1981 will have to send to the Congress proposed changes in the budget then under consideration for fiscal year 1982, which begins October 1, 1981.

With this report in hand, I would then schedule a series of intensive meetings with key members of the House and Senate -- before Inauguration Day -- to discuss budget priorities for 1981 and beyond. The power of the President in shaping spending policies is large, but -- as the great Speaker of the House, Sam Rayburn, liked to say -- "the President proposes, but Congress disposes." These early meetings with leaders in Congress would be aimed at paving the way for the tax and spending changes necessary not only to get this country moving again, but also to rebuild our nation's defenses, bring inflation to a halt and, by the end of my first term, balance the budget.

I would hope that the spending priorities can be re-ordered through a cooperative effort between my administration and Congress. But if not -- if the "spend-tax-elect" politicians are too firmly entrenched -- then I shall not hesitate to use the powers vested in the President by the Constitution, the power of veto to protect the public interest. We must achieve the re-ordering that is essential for the long-run survivability of this country and our way of life.

Jimmy Carter has said and will continue to say that my program is impossible, or that the restraint in spending increases cannot be achieved without unduly harming deserving Americans who receive a large volume of transfer payments through Federal programs.

My firm intention to slow the rate of increase in Federal spending in no way reflects a lack of concern for dealing with the problems of the poor, the elderly, minorities, or any other part of American society. George Shultz has spoken eloquently to this point, articulating a philosophy which fits exactly with my own. Mr. Shultz said:

> . . .the main reason for immediate uncontrollability in the budget is that current outlays are dominated by funds flowing through transfer programs in which legislation has created rights to payments for any qualifying individual.
>
> Transfer payments, with all their faults, are our principal vehicle for the political expression of equity concerns. Although equity arguments are all too often used as a guise to support narrow self-interest, that does not alter the basic appeal that the idea of a

"fair shake" has to the body politic -- and for that matter to me. A key problem for policy is to recognize the legitimacy of the concern for the poor and the disadvantaged, but to avoid having the rhetoric of poverty become the servant of well-placed interests. . . .

This is precisely the philosophy that underlay my approach to the transfer payment problem in California, an approach which almost all observers agree achieved the biggest "bang" for the taxpayer's "buck," while increasing benefits to the truly deserving.

A final word about this Five Year Fiscal Plan. It should not be viewed as a rigid blueprint, but as a long overdue application of sensible long-range planning, much like that so successfully used in the private sector, to the biggest enterprise of all, the Federal government. With the tax burden so high, and the economy mired in recession, the reductions in taxes that I have proposed should be effected as rapidly as possible -- the individual tax cuts of 30 percent during the first three years of my administration, the business cuts over a five-year period. This will mean, of course, that budget deficits will be higher earlier in the period. But as the five year plan for spending restraint takes effect, and as the economy resumes vigorous real expansion, the deficits will peak and then decline. Most important, the combination of tax cuts and spending restraint, coupled with other economic actions to free the private sector in order to produce, will restore a balanced economy. That balance in the economy will pave the way for a truly balanced budget in the mid-1980s.

It is therefore important to view the five years as a whole, to gauge the progress toward the ultimate goals, not the deficit figures along the way.

I repeat the key question: Is this Five Year Fiscal Plan achievable? Can we sufficiently restrain Federal spending so that, by 1985, the budget relative to our GNP will be down to 19 percent, but still meet our national needs? George Shultz and other trusted fiscal experts assure me that we can. All it takes is leadership.

And in this respect, let me repeat what I said in accepting the nomination of the Republican Party for President last July in Detroit. I said:

> The first task of national leadership is to set honest and realistic priorities in our policies and our budget and I pledge that my Administration will do just this.

I repeat that pledge today.

# # #

#1

Estimated Tax Liability and Receipts Effect
of the Republican Tax Reductions
Expanded to Include Full Roth/Kemp

($ billions)

	1981	1982	1983	1984	1985
Liability Changes by Calendar Year					
Ten percent tax rate reduction for individuals	-30.3	-63.1	-110.6	-165.1	-222.0
10-5-3 depreciation for businesses	-4.4	-11.4	-24.8	-41.5	-59.8 *
Total	-34.7	-74.5	-135.4	-206.5	-281.8
Receipt Changes by Fiscal Year					
Ten percent tax rate reduction for individuals	18.4 ~~-8.4~~	-61.1	-92.7	-144.5	-200.6
10-5-3 depreciation for businesses	-1.8	-7.8	-17.4	-32.3	-49.7
Total	-10.2	-68.9	-110.2	-176.8	-250.3
Addendum: Percent of total calendar year tax reduction allocated to business	12.7%	15.3%	18.3%	20.1%	21.2%

July 16, 1980

Notes: Estimates are based on a May 1, 1981 enactment date, June 1, 1981 withholding, with proposals retroactively effective January 1, 1981.

Estimated tax losses do not measure secondary effects on the economy.

Details may not add to totals due to rounding.

* Liability for 10-5-3

1985 - 59.8
1986 - 74.0
1987 - 82.9
1988 - 84.7
1989 - 81.8
1990 - 77.9

Estimated Tax Liability and Receipts Effect
of the Republican Tax Reductions Announced June 25, 1980

($ billions)

	1981	1982	1983	1984	1985
Liability Changes by Calendar Year					
Ten percent tax rate reduction for individuals	-30.3	-36.5	-43.0	-50.0	-57.4
10-5-3 depreciation for businesses	-4.4	-11.4	-24.8	-41.5	-59.8
Total	-34.7	-48.0	-67.8	-91.5	-117.1
Receipt Changes by Fiscal Year					
Ten percent tax rate reduction for individuals	-8.4	-44.6	-40.6	-47.4	-54.6
10-5-3 depreciation for businesses	-1.8	-7.8	-17.4	-32.3	-49.7
Total	-10.2	-52.4	-58.0	-79.7	-104.3
Addendum:					
Percent of total calendar year tax reduction allocated to business	12.7%	23.8%	36.5%	45.3%	51.0%

July 16, 1980

Note: Estimates are based on a May 1, 1981 enactment date, June 1, 1981 withholding, with proposals retroactively effective January 1, 1981.

Estimated tax losses do not measure secondary effects on the economy.

Details may not add to totals due to rounding.

Kemp/Roth Tax Reduction for 1981
by Expanded Income Class

(1979 Levels of Income)

Expanded income class	Present law		Kemp/Roth 1981			
			Tax liability		Tax change	
	Tax liability	Percentage distribution	Amount	Percentage distribution	Amount	Percentage reduction
($000)	($millions)	(percent)	($ millions)	(percent)	($ millions)	(percent)
Less than 5	-249	-0.1	-323	-0.2	-73	*
5 - 10	6,770	3.2	5,738	3.0	-1,032	-15.2
10 - 15	17,395	8.2	15,324	8.1	-2,071	-11.9
15 - 20	24,234	11.4	21,445	11.3	-2,789	-11.5
20 - 30	52,561	24.7	46,848	24.7	-5,713	-10.9
30 - 50	50,921	24.0	45,327	23.9	-5,594	-11.0
50 - 100	31,000	14.6	27,705	14.6	-3,295	-10.6
100 - 200	14,239	6.7	13,035	6.9	-1,204	-8.5
200 and over	15,663	7.4	14,584	7.7	-1,079	-6.9
Total	212,535	100.0	189,684	100.0	-22,850	-10.8

June 26, 1980

e: Details may not add to totals due to rounding.

DISTRIBUTION OF TAX CHANGES UNDER THE REPUBLICAN PROGRAM

Question: The Kemp-Roth proposal for 1981 has been called a 10 percent across-the-board tax rate cut. However, the distribution of the tax reduction is shown to be slightly progressive, can you explain this?

Answer: The Kemp-Roth proposal for 1981 reduces marginal tax rates for each taxable income bracket by 10 percent except in cases where rounding was required to eliminate fractional tax rates. On the low end of the rate schedules, this rounding has the effect of reducing rates by more than 10 percent in 1981. Furthermore, for taxpayers receiving the earned income credit to partially offset tax liabilities under present law, a 10 percent reduction in tax before credits implies a greater than 10 percent reduction in the tax after credit liability.

For taxpayers receiving the benefit of the maximum tax on personal service income, the highest marginal tax rate under current law is 50 percent. Therefore, the 10 percent reduction of the highest tax rates will not reduce the tax liability on personal service income already taxed at the maximum. For this reason, the Kemp-Roth cut in 1981 is less than 10 percent for the $100,000 and over expanded income class.

July 15, 1980