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File Tax Plan

JOINT STATEMENT OF SENATOR JAMES McCLURE, CHAIRMAN, SENATE REPUBLICAN CONFERENCE, AND CONGRESSMAN JACK KEMP, CHAIRMAN, HOUSE REPUBLICAN CONFERENCE, ON BIPARTISAN TAX PLAN

It is high time that the Congress override the obstructionism of the Democratic leadership in the House of Representatives and enact the Bipartisan Tax Plan.

Last year, President Reagan made tax rate reduction for the American people the central theme of his campaign. He won the election, carrying 44 of the 50 states. He received a clear mandate from the people for his across-the-board tax rate reduction.

It has been seven months since that election, but the Democratic leadership in Congress has made no progress toward enacting the President's tax package. The President made every effort to achieve a consensus with the Democratic leadership. He has included in his bipartisan tax package several provisions the Democratic leadership said it wanted, including cutting the top marginal income tax rate immediately from 70% to 50%. Still, the Democratic leadership refuses to join with the President and yet is apparently unable to produce an alternative proposal. It seems clear that the Democrats are more interested in killing the tax bill and the prospects for economic recovery than in doing what is right for the nation.

There are several issues raised by the opposition of the Democratic leadership. The first is simple honesty. President Reagan's original 30% cut in marginal income tax rates, enacted January 1, 1981, would barely offset the real tax increases which are anticipated over the next several years. He frankly announced this to the nation. The Democratic leadership, on the other hand, while talking vaguely about a 15% tax cut, refuses to admit that it is proposing a $100 billion tax increase over the next three years.

The second issue is fairness. President Reagan has proposed to treat all taxpayers alike, cutting everyone's tax rates by the same percentage. Democratic leaders, on the other hand, are trying to play one group off against another. They are not doing so very adeptly, either. For example, the Democratic leaders argue that treating everyone equally somehow favors the rich. Yet it was a Democratic proposal to provide an immediate 30% cut in the highest income tax rate, which they refuse to extend to all taxpayers. The Democrats also speak about "doing more for the middle class." Aside from the questionable practice of inciting envy, it does not take a genius to figure out that the middle class would be better off with a 25% or 30% tax-rate cut for everyone than with a 15% cut, no matter how it is redistributed by the Democratic leadership.

The third question is effectiveness. If anything has emerged from our long debate over tax policy, it is this: only a cut in marginal tax rates can affect economic incentives. Only a change in the tax rate on additional income can change the incentive to earn more income by working, saving, or investing. Since even the

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Democratic leadership now concedes this point, its opposition to the bipartisan tax plan is even less tenable on economic than on other grounds.

The Democratic leaders question whether cutting marginal income tax rates will encourage savings. This is ironic, since until recently they were telling us that saving is a drag on the economy. In any event, special credits do less for personal savings than across-the-board marginal rate reductions. There are two ways to increase personal saving: by saving a larger share of the same income or the same share of a larger income. "Targeted" incentives may result in one or the other. Cutting marginal tax rates on both wages and savings accomplishes both. In fact, studies published by the Treasury and the Research Department of the Federal Reserve Bank of San Francisco both observe that after the Kennedy cut in tax rates, personal saving increased by more than the size of the tax cuts.

The fourth issue is whether it is appropriate to enact a multi-year tax rate reduction in advance. The Democratic leadership argues that the tax cut should be scaled down to one or two years, with further cuts contingent on the performance of the economy. The best answer to this odd argument was given by President John F. Kennedy, when opponents demanded that future tax-rate cuts should be triggered only by achievement of spending restraint by Congress. In a letter to the Ways and Means Committee, Kennedy wrote: "I see no reason for placing any conditions or contingencies on the effectiveness of the second phase of the tax reduction programs. On the other hand, any delay or contingent feature would substantially reduce the effectiveness of the legislation in stimulating the economy, reducing unemployment, and increasing incentives. This in turn could lead to decreases in revenues below expectations and greater deficits than now projected."

The fifth issue concerns spending restraint. The Democratic leadership is well aware that the tax-rate reductions are, as the President has stated, an integral part of a comprehensive economic policy package. Not only are the tax-rate cuts to be accompanied by spending restraint, but significant spending restraint will not be possible without the cuts in tax rates. Since every deterioration in the economy causes higher spending and lower revenues, the economic incentives in the tax program are necessary to the success of the overall fiscal program. And if the Democratic leadership does not accept this fact, can it be that it objects to cutting tax rates because it opposes significant reductions in federal spending?

The final issue is timing. Thanks to the footdragging of the Democratic leadership, little progress has been made on the tax bill. The Ways and Means Committee has barely begun to consider it. And since the Democratic leadership apparently still does not know what provisions it wants in the bill, this stage of consideration could take many weeks.

From all of this, it is clear that the Democratic leadership in the House is abusing the patience of the American people and the President they elected to straighten out our nation's mismanaged economy. The supporters of the bipartisan tax plan want to enact tax rate reductions for all Americans immediately. We call upon the Democratic leadership to end its self-interested obstructionism and to join in cutting income tax rates for all working and saving Americans.

news update
SENATE REPUBLICAN CONFERENCE

FOR IMMEDIATE RELEASE
CONTACT: Carter Clews

GOP CONFERENCE CHAIRMEN BLAST
DEMS $100 BILLION TAX INCREASE

WASHINGTON, D. C., June 25, 1981 -- Senator James A. McClure (R-ID), Chairman of the Senate Republican Conference, and Congressman Jack Kemp (R-NY), Chairman of the House Republican Conference, today sharply criticized the House Democratic leadership for "proposing a $100 billion tax increase over the next three years."

In a joint six-point statement issued by the two Conference chairmen, McClure and Kemp charged, that by restricting middle-income Americans to only a 15% tax cut, the House Democratic leadership is actually proposing a high tax increase. The Reagan proposal, by contrast, calls for 30% tax cut intended to fully offset anticipated real tax increase caused by inflationary bracket creep.

"It is high time," the Conference chairmen stated, "that the Congress override the obstructionism of the Democratic leadership in the House of Representatives and enact the Bipartisan Tax Plan."

Democratic Leadership Abusing People's Patience,
Say McClure/Kemp

Stressing that Reagan won the Presidency last November by making tax reduction the main theme of his campaign, McClure and Kemp listed several key issues now being raised by those at odds with

-More-

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the Democratic leadership. Those issues include:

* Honesty. Democratic leaders are attempting to pose as tax cutters when their proposals, with inflation and real tax increases considered, would amount to a $100 billion tax hike within 3 years.
* Fairness. Democratic leaders support a 30% tax cut for the rich, but refuse to extend this same rate cut to the middle class.
* Effectiveness. To stimulate production, economic incentives must be provided by cutting the taxes on extra incomes. By refusing to do so, Democratic leadership discourages savings and investment.
* Prudence. Democratic leaders argue that it is not wise to cut tax rates in advance of an economic upswing. This policy, however, was successfully urged on Congress by President John Kennedy, with notable results.
* Fiscal integrity. Democratic leaders continue to fight Reagan's spending cuts. In doing so, they are fighting to preserve a high level of government spending by blocking tax cuts that would make possible reductions in spending.
* Timing. The Democratic leadership is deliberately stalling the President's economic recovery program, though they themselves have offered no alternative solutions.

"From all of this," the Conference chairmen conclude, "it is clear that the Democratic leadership in the House is abusing the patience of the American people and the President they elected to straighten out our nation's mismanaged economy."

Democratic Leadership To Blame For Tax Relief Delay, Say Conference Chairmen

The McClure/Kemp statement comes on the heels of a two-week delay by the House Ways and Means Committee in enacting the Bipartisan Tax Plan. The House Committee began official mark-up of the tax bill on June 10 and 11, but to date no votes have been taken.

"Thanks to the footdragging of the Democratic leadership, little progress has been made on the tax bill," said the Conference chairmen.

"The Ways and Means Committee has barely begun to consider it."

The House Democratic leadership "footdragging," the chairmen charged, is part of a concerted strategy designed to frustrate tax relief for hard-pressed middle Americans. The Democratic leadership in the House, said McClure and Kemp in their statement, has yet to agree on a tax cut plan alternative, yet they insist that the Reagan plan be scrapped.

"It seems clear that the Democrats are more interested in killing the tax bill and the prospects for economic recovery than in doing what is right for the nation," said the Conference chairmen.

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ECON0611 GATE LIST REPORT DATE: 8 JUN 1981

Economic Reception

FOR EVENT: Economic Recovery Program

OPL - Labor - Agern

ACCEPT AND NO REPONSE

NAME		NAME	
Reception for Supporters		Brooke, Doug (Mrs.)	A
Thursday, June 11, 1981		Brown, Judie (Ms.)	A
5 p.m.		Brown, Paul (Mr.)	A
SW Gate/Mailgram Invitation		Brown, Virgil (Mr.)	
Contact: Social Ofc. x7788		Brubaker, Rep. Harold	
THE PRESIDENT		Buckley, Padrick (Mr.) 546-3004	
		Burtis, Theodore A. (Mr.)	A
Adduci, V. J. (Mr.)	A	Buzzell, Harold (Mr.)	A
Albertine, John M.			
Alexander, Claude (Mr.)	A	Cabarocchi, Nick (Mr.)	
Alexander, Hon. Lamar		Calhoon, Jesse M. (Mr.)	A
Alexander, Willis (Mr.)	A	Campbell, Senator William	
Andujar, Senator Betty		Cannon, Jim	A
Austin, James A.	A	Carlson, Renee (Mrs.)	A
		Carter, Harlon (Mr.) 861-0304	
Bagge, Carl E. (Mr.)	A	Ceverha, Rep. William	
Bailey, Chuck (Mr.)	A	Chen, Justina (Mrs.)	A
Baize, John		Cianci, Mayor Vincent	
Baker, Eugene (Mr.)	A	Clark, George (Mr.)	
Baker, Joe M. Jr. (Mr.)		Clark, William L. (Mr.)	A
Baldwin, Robert (Mr.)	A	Clayton, Jack (Mr.) 768-5228	
Bangerter, Connie (Mrs.)	A	Clifton, James A. (Mr.)	A
Bangerter, Jack M.	A	Climer, Jerry (Mr.)	A
Barackman, Bruce M.		Clinkscales, C. C. III (Mr.)	A
Barnes, Earl (will arr. late)	A	Clower, W. Dewey (Mr.)	A
Baroody, Joe (Mr.)		Collins, Joann (Mrs.)	
Barreto, Hector (Mr.)		Conkling, Ray F. (Mr.)	A
Bassett, Earl P. (Mr.)	A	Coughlin, Paul J. (Mr.)	A
Bayoud, George (Mr.)		Coverdell, Nancy (Mrs.)	A
Beatty, Hubert (Mr.)	A	Coverdell, Senator Paul D.	A
Beck, Robert A. (Mr.)	A	Crawford, Tim (Mr.)	A
Berkley, Mayor Richard L.		Curtiss, Rep. Aubyn	
Bevel, George			
Biebel, Fred (Mr.)	A	Dalton, Hon. John N.	
Biebel, Fred (Mrs.)	A	Davis, R. Hilton (Mr.)	A
Billings, Bill (Mr.)	A	Davis, Terry (Mr.)	A
Billington, James (Mr.)	A	Dawkins, Maurice (Dr.)	
Bingham, Jean (Ms.)	A	DePasse, Derrel (Ms.)	A
Bond, Hon. Christopher (Kit		Detweiler, Steven H. (Mr.)	A
Boswell, G. Stewart		DiBona, Charles J. (Mr.)	A
Boyd, Ray (Mr.)	A	Dingman, Richard (Mr.)	A
Bradford, Robert (Mr.)	A	Dolan, John T. (Mr.)	A
Bradley, Frank (Mr.)	A	Dort, Dean R. II (Mr.)	A
Bradley, Wayne W.	A	Doyle, Mortimer B. (Mr.)	A
Breault, Richard L. (Mr.)	A	Driesler, Steve (Mr.)	A
Bromberg, Mike (Mr.)	A	Dugan, Robert Jr. (Mr.)	A
Brooke, Doug (Mr.)	A		
		Earle, Paul (Mr.)	A

FOR EVENT: Economic Recovery Program

ACCEPT AND NO REPONSE

NAME	
Eckels, Bob (Mr.)	A
Edgeworth, Arthur	A
Edwards, Macon (Mr.)	A
Ehrhart, Charles	
Ellis, Tom (Mr.) -919-828-7206	
Emery, James L. (Assemblyman)	A
Engman, Lewis (Mr.)	A
Eves, Jeffrey (Mr.)	A
Fales, Heea (Mrs.)	A
Fales, John (Mr.)	A
Falk, Bernard H. (Mr.)	A
Falk, Ed (Mr.)	A
Falk, Justina (Mrs.)	A
Falwell, Jerry (The Reverend)	A
Fellwock, Arthur J. (Mr.)	A
Feulner, Ed (Mr.)	A
Fischer, Richard L.	A
Fisher, John (Mr.)	A
Font, Jose Antonio (Mr.)	A
Foster, Robert W. (Mr.)	A
Freeman, Lewis R. (Jr.)	
Freeman, Michael (Mr.)	A
Frey, Thomas (Dr.)	A
Frisby, Owen (Mr.)	A
Gannon, John (Mr.)	A
Gemma, Peter (Mr.) 536-7650	
Gibson, Nita (Mrs.)	A
Glasson, Vernie	A
Gleason, Thomas (Mr.)	A
Gnau, John (Mr.)	A
Goldsmith, Samuel L. Jr.(Mr.)	A
Goodall, Don A. (Mr.)	A
Gorham, Rep. Bradford	
Gottlieb, Alan (Mr.)	A
Gottlieb, Alan (Mrs.)	A
Grace, J. Peter (Mr.)	
Greif, William (Mr.)	A
Gross, David (Mr.)	A
Guay, Richard F.	A
Hallett, Assemblywoman Carol	
Hance, Margaret (Mayor)	A
Hanley, John W. (Mr.)	A
Hardy, Rep. Archie	
Harris, Bill (Mr.)	A

NAME	
Harris, Hubert L. (Mr.)	A
Harrison, Mayor Ferd	
Harvey, William (Dr.)	A
Harwick, Chuck (Assemblyman)	A
Haselton, William R.	
Hasty, Walter (Mr.)	A
Heckman, Robert (Mr.)	A
Heitman, Betty (Ms.)	A
Hermann, P. D. (Mr.)	A
Herrity, John F. (Mr.)	A
Heuter, Joan (Ms.) 333-1592 OR 298-6010	
Hilton, Gregg (Mr.)	
Hines, Emmett W. (Mr.)	A
Hinshaw, Jerry (Mr.)	
Hodges, Ralph D. Jr.(Mr.)	
Holden, Jeff (Mr.)	A
Holloway, Rep. Edward	A
Horty, Christine (Mrs.)	A
Horty, John (Mr.)	A
Hudnut, Mayor William III	A
Hunt, Richard (Mr.)	A
Inhofe, James (Mayor)	A
Inhofe, Kay (Mrs.)	A
Israel, George (Mayor)	A
Jacobs, Patricia (Ms.)	A
Janklow, Hon. William J.	A
Jefferson, Edward (Mr.)	A
Jehle, Philip (Mr.)	A
Johnston, James (Mr.)	A
Jones, Frank P. Jr.(Mr.)	A
Jones, Gordon (Mr.) 224-3041	
Jones, Joseph	
Joseph, Jeffrey H. (Mr.)	A
Kahler, Richard (Mr.)	A
Kamalii, Kinaii (Rep.) Ms.	A
King, Aubrey (Mr.)	A
King, Hon. Edward J.	
Kittle, Ralph (Mr.)	A
Klocko, John J.. III(Mr.)	A
Kogutek, Michael J. (Mr.)	A
Kucera, Anthony	A
Kurth, Walter R. (Mr.)	A
Lane, Mike (Mr.)	A

FOR EVENT: Economic Recovery Program

ACCEPT AND NO REPONSE

NAME	
Larson, Reed (Mr.)	A
Laun, Louis (Mr.)	A
Lesher, Richard L. (Dr.)	
Liebenow, Robert C. (Mr.)	A
Lillquist, Richard A. (Mr.)	
Lindeman, Senator Anne	
Lowen, Capt. Robert J.	
Lucas, Henry (Dr.)	A
Lukens, Senator Donald E.	
Mack, Curtis (Mr.) 979-7609	
Mallick, Earl W. (Mr.)	A
Malloy, J. Wilson (Mr.)	A
Marck, Charles T. (Mr.)	A
Mazewski, Aloysius A. (Mr.)	A
McCLain, Hugh (Mr.)	A
McCahey, Hugh (Mr.)	A
McCants, Lynn (Mr.)	A
McClean, James H. (Mr.)	A
McCloskey, Peter F. (Mr.)	A
McCollam, William Jr.(Mr.)	A
McKevitt, James D. (Mr.)	A
McMahon, Alex (Mr.)	A
McMurty, Frances	A
Medell, Robert (Mr.)	A
Mengden, Walter H. Jr.(Mr.)	
Milliken, Hon. William G.	
Mitchell, Tom (Mr.)	A
Molpus, C. Manly (Mr.)	A
Momboissee, Raymond (Mr.)	A
Monier, Hon. Robert B.	
Moody, Tom (Mayor)	A
Moore, Janis (Ms.)	A
Morris, Dan (Mr.)	
Morris, Emily (Mrs.)	A
Moshontz, Michael (Mr.)	A
Mosier, Maurice (Mr.)	
Motley, John (Mr.)	A
Murphy, William J. (Mr.)	A
Naden, Kenneth D. (Dr.)	A
Nelson, Nick Van (Mr.)	A
Nichols, Annie Sue (Mrs.)	A
Nichols, Daniel (Mr.)	
Nichols, J. Hugh (Mr.)	A
Northcott, J . Hallock (Mr.)	
Nugent, Jack (Mr.)	A

NAME	
O'Donnell, John J. (Mr.)	A
O'Hara, Thomas G. (Mr.)	A
Oelman, Brad (Mr.)	A
Offen, Neil H. (Mr.)	
Olmstead, Ralph	A
Ong, John D. (Mr.)	
Oreffice, Paul F. (Mr.)	A
Orr, Hon. Bob	A
Orr, Roy (Mr.)	
Pannullo, Helen (Mrs.)	
Pannullo, Helen (Mrs.)	
Parker, Jay (Mr.)	A
Peake, Richard (Mr.)	A
Peden, Neal (Ms.)	A
Petro, William (Mr.)	A
Petrus, Paul F. (Mr.)	A
Phillips, Howard (Mr.)	A
Pickard, Sam (Mr.)	A
Pitcher, Virginia (Ms.)	A
Plank, Jayne (Mayor)	A
Pollock, Howard W.	
Pollock, Howard W.	
Pont, Hon. Pierre S. du IV	
Ponticelli, Tony (Mr.)	A
Pope, Albert (Mr.)	A
Popeo, Dan (Mr.)	A
Post, John (Mr.)	A
Quie, Hon. Albert H.	
Quinones, Humberto Jr.(Mr.)	A
Quinones, Humberto Sr.(Mr.)	
Raftery, William A. (Mr.)	
Rahn, Richard W. (Dr.)	A
Ramonas, George (Mr.)	A
Randall, Donald A. (Mr.)	A
Randol, Gayle (Mrs.)	A
Rapp, Jerry (Mr.)	A
Reed, Dwight C. (Mr.)	A
Reene, Charles W. (Mr.)	A
Reinecke, Robert (Dr.)	A
Rettgers, Forrest (Mr.)	A
Reynolds, Nancy C.	
Rhodes, Hon. James A.	A
Rice, Theron R. (Mr.)	

GATE LIST

FOR EVENT: Economic Recovery Program

ACCEPT AND NO REPONSE

NAME	
Richards, Richard (Mr.)	A
Richardson, H. L. (The Honorable)	A
Roberts, Milnor (Maj. Gen.)	A
Robison, James (The Reverend) 817-268-4606	
Roderick, David M. (Mr.)	A
Rogers, Ed (Mr.)	A
Ropog, Louise (Ms.)	A
Rosenker, Mark (Mr.)	A
Roth, Rep. Audrey G.	
Rowland, James C. Jr. (Mr.)	A
Ruff, Howard (Mr.) 801-225-8520	
Ryan, John F. (Mr.)	A
Ryskind, Alan (Mr.) 546-6561	
Sanchez, Leon (Mr.)	A
Schabarum, Peter F. (Mr.)	
Scheer, Julian (Mr.)	
Schlafly, Phyllis (Ms.)	A
Schoellhorn, Robert (Mr.)	A
Semerad, Roger (Mr.)	A
Sewell, J. Richard (Mr.)	A
Shockley, W. Ray (Mr.)	A
Simmons, Pat (Miss)	A
Simms, Lorraine (Ms.)	A
Sinnot, Nancy	A
Skladany, Barney (Mr.)	A
Slack, Carstens (Mr.)	A
Smiley, Donald (Mr.)	A
Smith, Baker (Mr.)	A
Smith, Roger B. (Mr.)	
Smithey, Wayne H. (Mr.)	A
Smoley, Sandra (Mrs.)	
Somers, Frederick P.	A
Sonneborn, Charles (Dr.)	A
Specter, Joan (Mrs.)	A
Spindler, G. Montgomery (Mr.)	A
Stahl, David E. (Mr.)	A
Stahlman, Rhonda (Ms.)	A
Steel, Robert H. (Mr.)	A
Steinberg, Commander Irvin	A
Steinberg, William (Mr.)	
Stella, Frank D. (Mr.)	
Stinehert, Chris (Mr.)	A
Stivers, T. W. "Tom" (Rep.)	A
Stone, Roger (Mr.)	A
Swan, J. W. (Bill) (Mr.)	A
Thayer, W. Paul (Mr.)	A

NAME	
Thomas, Dewey (Mr.)	
Thomas, Larry L. (Mr.)	
Thompson, Hon. James R.	
Thornburgh, Hon. Dick	
Tisdale, Kim (Miss)	
Tobin, Kenneth E. (Mr.)	A
Totten, Don (Mr.)	
Totten, Senator Donald L.	
Trowbridge, Alexander (Mr.)	A
Uhler, Lewis (Mr.)	A
VanDongen, Dirk (Mr.)	A
VanMeter, William (Mr.)	A
VanSchooneveld, Gelnn R. (Mr.)	A
VanderJagt, Guy (Cong.)	
Ventura, Santiago Jorge (Mr.)	A
Verdeja, Sam (Mr.)	A
Vickerman, John C. (Mr.)	A
Vinovich, Ralph (Mr.)	A
Wagner, Paul (Mr.)	
Wall, Shannon J. (Mr.)	A
Wallace, Mike (Mr.)	A
Walter, Shea	
Ward, C. D. (Mr.)	A
Ward, Gregg (Mr.)	
Webber, Frederick (Mr.)	A
Weed, Robert (Mr.)	A
Westbay, Harry H. III (Mr.)	A
Weyrich, Paul (Mr.) — Charles Moser —	
Wheeler, Clyde A. (Mr.)	A
Wheeler, Edwin M. (Mr.)	A
White, Gordon (Mrs.)	
White, Hon. Frank	
Whittaker, John A. (Mr.)	A
Wick, Charles (Mr.)	
Wick, Charles (Mrs.)	
Willett, Edward (Dr.)	A
Williams, L. Stanton (Mr.)	A
Williams, Morgan (Mr.)	A
Williford, Frederick L. (Dr.)	
Winter, Tom (Mr.)	A
Wood, Gordon E. (Mr.)	A
Woods, William E. (Mr.)	A
Wright, James (Mr.)	A
Wright, Larry (Mr.)	A

REPORT DATE: 8 JUN 1981

GATE LIST

FOR EVENT: Economic Recovery Program

ACCEPT AND NO REPONSE

NAME		NAME
Young, Alex (Mr.)	A	
Young, Claudia (Ms.) 309-682-5157		
Zachem, H. M. (Mr.)	A	

Total Accepts/ No Response 351

GATE LIST

FOR EVENT: Economic Recovery Program

REGRETS AND SUBSTITUTES

Reception for Supporters
Thursday, June 11, 1981
5 p.m.
SW Gate/Mailgram Invitation
Contact: Social Ofc. x7788
THE PRESIDENT

NAME	
Affleck, James G. (Dr.)	R
Anderson, Senator Warren M.	R
Araskog, Rand V. (Mr.)	R
Atiyeh, Hon. Victor	R
Bailey, Ralph E. (Mr.)	R
Barnard, Rollin (Mr.)	S
Bertsch, Anthony A. (Mr.)	R
Brophy, Theodore F. (Mr.)	R
Buehler, Robert D. (Mr.)	R
Butcher, Williard G. (Mr.)	R
Campanella, Vincent C. (Mr.)	R
Carlson, Jack (Dr.)	S
Chilcoat, Theodore (Mr.)	S
Clements, Hon. William P. Jr.	R
Dee, Robert F. (Mr.)	R
Delano, Robert B. (Mr.)	S
Denhom, David (Mr.)	S
Doven, Senator Ross O.	R
Dreyfus, Hon. Lee S.	R
Drozak, Frank (Mr.)	S
Ferry, Sen. Miles "Cap"	S
Garvin, Clifton C. Jr.(Mr.)	R
Goodwin, Robert F. (Mr.)	R
Guthman, Richard (Mr.)	R
Hammond, Hon. Jay S.	R
Harding, Ralph L. Jr.(Mr.)	S
Holiday, Harry Jr.(Mr.)	R
Hoppe, Dave (Mr.)	S
James, Hon. Forrest H. Jr.	R
Jenkins, Kempton B. (Mr.)	S
Jensen, Harry A. (Mr.)	S
Johnson, Hon. Dave	R
Johnson, Rady (Mr.)	S

NAME	
List, Hon. Robert	R
Low, James P. (Mr.)	R
MacDonald, Peter (Mr.)	R
Macomber, John D. (Mr.)	R
Marchant, Hon. Thomas III	R
Marshner, Connie (Ms.)	R
McAdam, Robert (Mr.)	S
McKone, Don T. (Mr.)	R
Meredith, Ellis E. (Mr.)	S
Monroney, Michael (Mr.)	R
Mosher, Sol (Mr.)	S
Olson, Hon. Allen I.	R
Overton, J. Allen Jr.(Mr.)	R
Pannullo, John N. (Mr.)	S
Pasztor, Laszlo C. (Mr.)	S
Quick, Richard G. (Mr.)	R
Ray, Frank (Mr.)	S
Ray, Hon. Robert D.	R
Ray, Oakley M. (Mr.)	S
Roberts, John (Mr.)	R
Roland, Robert A. (Mr.)	S
Schoessling, Ray (Mr.)	R
Shide, Marijo (Mrs.)	R
Sigler, Andrew C. (Mr.)	R
Smale, Jaohn G. (Mr.)	R
Snelling, Hon. Richard A.	R
Spellman, Hon. John	R
Sullivan, Leon (Reverend)	S
Taylor, Mayor Noel	R
Thone, Hon. Charles	R
Treen, Hon. David C.	R
Warner, Rawleigh Jr.(Mr.)	R
Watts, George (Mr.)	R
Whiting, Milton A. (Mr.)	S
Williams, Roy (Mr.)	S
Wilson, Mayor Pete	R
Winegardnere, Roy (Mr.)	R

FOR EVENT: Economic Recovery Program

REGRETS AND SUBSTITUTES

NAME	NAME

GATE LIST

FOR EVENT: Economic Recovery Program

NAME						NAME

	TOTAL		ACCEPTS	NORSVP	REGRETS	SUBS
INVITEES:	409	=	242	97	47	23
GUESTS:	12	=	11	1	0	
TOTALS:	421	=	253	98	47	23

CHAMBER OF COMMERCE OF THE UNITED STATES

ECONOMIC OUTLOOK

April 1982

We view the present quarter as a period of consolidation in which the forces of economic recovery are gathering. The present slump in gross national product (GNP) appears to be shaping up as a recession of average depth and length.

The February and March data on retail sales are encouraging when the decline in gasoline station sales is eliminated. In March, retail sales (not including gasoline station sales) increased by 0.3 percent following a comparable increase of 3.2 percent in February. Consumer buying power is increasing due to the small increases in net consumer installment debt outstanding in November through February, and the substantial decline in inflation. The ten percent cut in the rate of taxes withheld beginning in July will insure an acceleration in consumer spending.

Thus, in our view, the pattern of recovery for the remainder of 1982 begins with a substantial increase in inventory investment (a slower decline in inventories). Offset by other negative elements, this yields flat growth for the second quarter. With consumer spending increasing rapidly from midyear as a result of tax reductions and indexed federal benefits, the latter half of 1982 will exhibit the beginnings of a sustainable period of economic growth.

The Inflation Outlook Continues to Improve

The best news is on the inflation outlook. For the three months ending in February, the Consumer Price Index (CPI) increased at a 3.7 percent annual rate. We expect the CPI to increase by 5.0 percent in 1982 and decelerate further to a 4.6 percent rate in 1984. A similar deceleration is expected for the broader Implicit Price Deflator for GNP. The anticipated reduction in inflation results from a moderate rate of growth in the money supply which affects inflation rates after a lag of one to two years. Money supply growth has been slowing since 1979.

In our forecast employee compensation is expected to increase more slowly in 1982 as compared to 1981. The real source of inflationary pressure is the rate of increase in the money supply, and the expected decline in compensation growth is consistent with that explanation of inflation.

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The Foreign Sector

The foreign sector is not expected to be a major source of stimulus for the U.S. economy this year. Economic recoveries abroad remain lackluster and are expected to result in an increased demand for U.S. exports only by mid-summer, when the U.S. recovery will already be underway.

Industrial production in Canada and the European countries which are members of the OECD has been quite weak in the past two years and is expected to recover only slowly in 1982. In the last quarter of 1981, real economic activity fell in Canada, West Germany, and Great Britain. Only the French and Italian economies gained some momentum at the end of 1981.

At the same time that foreign demand for U.S. goods weakened, the dollar remained quite strong due to the combined effects of relatively high U.S. interest rates and the remarkable improvement in U.S. inflation. The trade-weighted exchange value of the dollar rose by 8.9 percent in 1981.

As the recoveries abroad gather strength towards the end of 1982, the combined industrial production index of our major trading partners (Canada, France, Italy, West Germany, Great Britain, and Japan) is projected to grow by 4.1 percent in 1983 and 3.3 percent in 1984. At the same time, falling U.S. interest rates will contribute to a decline in the U.S. dollar exchange rate. Only then will merchandise exports be able to regain somewhat their competitive position. Exports net of inflation are expected to grow only slightly during the second quarter and then gather strength towards the end of the year. For 1982 as a whole, real exports are expected to decline by 2.3 percent from their 1981 level following a 0.4 percent decline in 1981 over 1980. During 1983 and 1984, real exports are expected to grow at an average annual rate of 5.3 percent.

As the U.S. recovery gathers strength, demand for imports also grows resulting in an average annual rate of growth for real imports of 6.7 percent between 1982 and 1983. Real imports are expected to grow faster than exports.

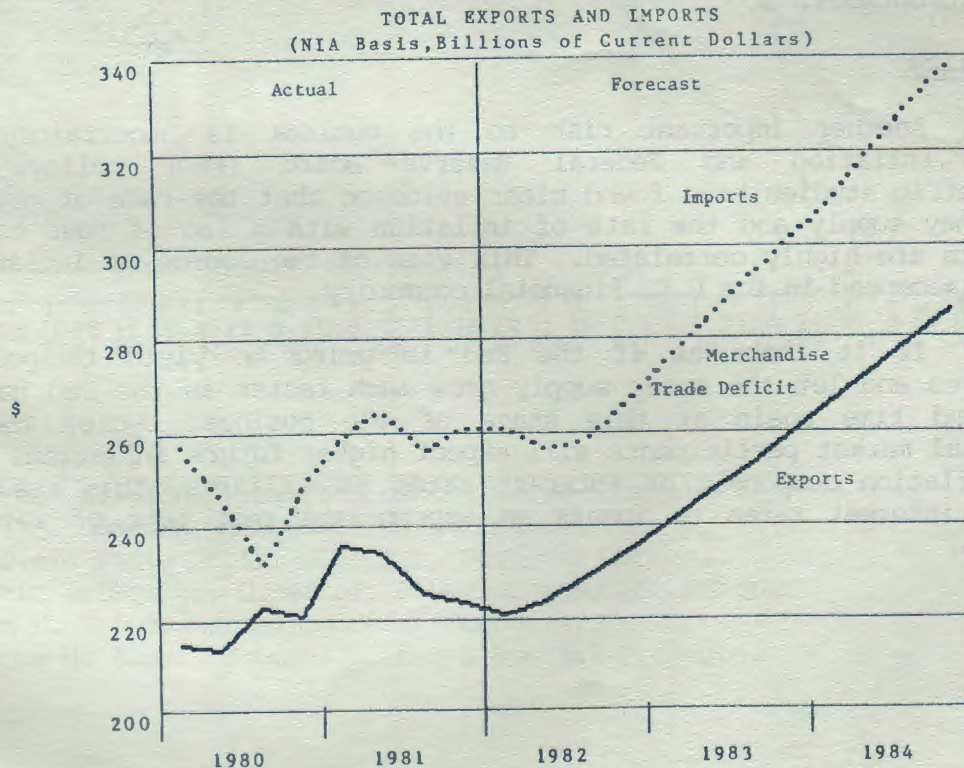
The surplus on current account improved by $3.9 billion in 1981, due in large part to gains in the services balance (particularly income from investments abroad) which offset a slight deterioration in the merchandise trade balance. The decline in world oil prices and in the volume of U.S. oil imports contribute to the projected surplus in the current account.

Balance of Trade
(NIA Basis, Billions of Current Dollars)

	Actual			Forecast		
	1979	1980	1981	1982	1983	1984
Merchandise Balance	-32.0	-27.7	-30.6	-33.6	-38.1	-47.7
Exports	177.0	218.2	229.8	226.9	250.0	276.4
Imports	209.0	245.9	260.4	260.5	288.1	324.1
Services Balance	45.0	51.0	56.6	60.8	66.7	75.4
Other*	-12.0	-19.6	-19.4	-19.7	-17.6	-17.9
Current Account Balance	1.4	3.7	6.6	7.5	11.0	9.8

*Includes net retained earnings of foreign affiliates, net government interest to foreigners and net transfers to foreigners.

Chart I



RISKS TO THE OUTLOOK

The main risk to the outlook grows out of concern about how large federal deficits will be in 1983 and beyond. The risk is that Congress will make the wrong choice and attempt to reduce these projected deficits by raising taxes. Congress is now considering options which include up to $120 billion in higher taxes over the next three years.

Tax Increases

Such a large increase in taxes would have several implications -- each of them harmful. First, it would reduce pressure to slow the growth of federal spending; slower federal spending growth is essential to increase private sector incomes and productivity over the longer term. Second, it would demonstrate once again that Congress cannot resolutely maintain an announced policy long enough to give it a chance to work without abandoning it in pursuit of short term business cycle objectives. Third, it would reduce the economic incentives to save and invest in new capital goods which are so badly needed to provide the foundation for sustainable and healthy economic growth. Fourth, in its direct macroeconomic effects it would slow the pace of the economic recovery and result in higher rates of unemployment.

The problem of the deficit must be addressed, but the large anticipated deficits reflect a larger problem -- runaway federal spending. It causes harmful economic disincentives and has an adverse effect on productivity growth which it stains into the fabric of the economic system. Reducing deficits by planning for higher taxes would probably not be viewed favorably by those who are deferring investments and are unwilling to lend at long term because of uncertainty about the economic outlook.

Fed Policy

Another important risk to the outlook is uncertainty about future inflation and Federal Reserve Board (Fed) policy. Many econometric studies have found clear evidence that the rate of growth of the money supply and the rate of inflation with a lag of four to seven quarters are highly correlated. This view of the source of inflation is widely accepted in the U.S. financial community.

If it looks as if the Fed is going to yield to political pressures and let the money supply grow much faster as the Fed has done time and time again at this stage of the business cycle, then the financial market participants will expect higher future inflation. Since the inflation component of interest rates is so large, this results in higher interest rates to insure an appropriate real rate of return to lenders.

Chart two illustrates that from week to week and month to month in 1981 the market determined 90-day Treasury Bill rate rose when money supply growth accelerated and fell when money supply growth slowed. This strongly suggests that steadily slowing the growth of the money supply would reduce the uncertainty about Fed policy and future inflation rates and would bring interest rates down. Although the annual average rate of growth of the money supply has slowed since 1979, its quarterly variations have been extremely volatile. The periods of rapid acceleration have suggested to some that the Fed was yet again caving in to pressures to allow the money supply to grow faster.

Chart 2

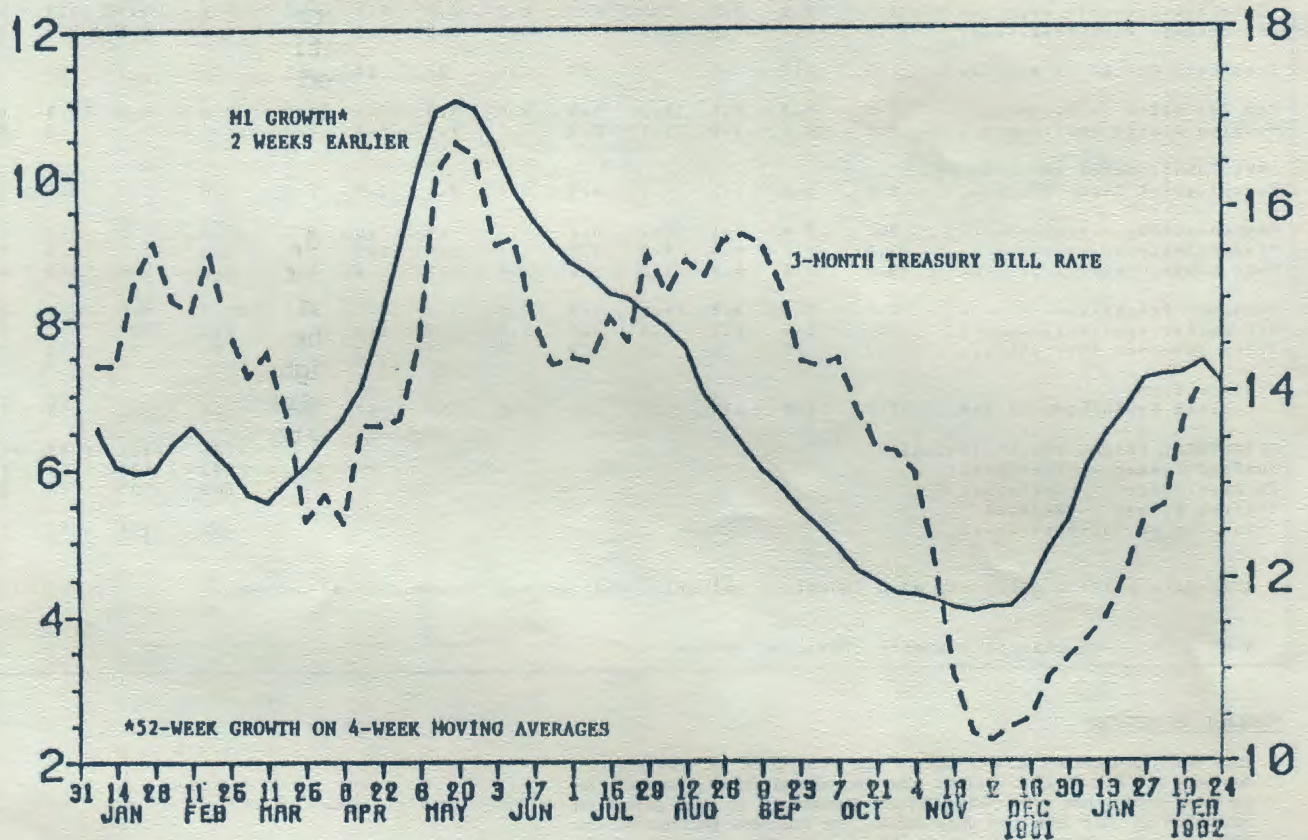


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Table 1

UNITED STATES ECONOMIC OUTLOOK 1982-1984
Prepared by the U.S. Chamber of Commerce

Percent change from previous period at seasonally adjusted annual rates unless otherwise noted.

	QUARTERS									YEARS			
	Actual	Forecast								Actual	Forecast		
	81:4	82:1	82:2	82:3	82:4	83:1	83:2	83:3	83:4	1981	1982	1983	1984
GROSS NATIONAL PRODUCT													
Real GNP....................	-4.5	-4.2	0.8	5.0	3.0	4.1	5.3	5.5	4.7	2.0	-0.9	4.2	4.6
Consumption...............	-2.2	2.4	0.2	5.0	4.0	4.3	3.4	4.9	4.5	2.5	1.4	4.0	3.7
Residential Investment....	-27.5	-4.7	20.7	34.4	30.0	40.5	38.8	22.5	15.4	-6.1	-5.7	32.1	16.8
Business Fixed Investment.	-2.9	-11.5	-3.3	-0.2	1.8	4.3	6.2	7.1	7.8	2.5	-3.4	3.7	8.0
Equipment................	-7.9	-11.3	-1.0	1.6	3.1	5.8	7.6	8.5	9.0	1.3	-3.9	5.2	9.0
Structures...............	9.2	-11.9	-8.0	-3.9	-1.0	0.9	3.3	4.1	5.1	5.4	-2.2	0.4	5.6
Exports....................	-6.6	-5.9	0.9	4.7	5.8	6.2	5.7	4.8	6.2	-0.4	-2.3	5.3	5.3
Imports....................	4.5	2.5	2.8	5.2	7.9	8.3	7.0	6.3	6.0	5.9	4.7	6.8	5.9
Government Purchases......	10.2	-1.7	-5.9	-1.6	-6.4	-0.5	2.9	3.2	-1.8	0.6	-0.9	-1.1	1.9
Inventory Change ($ B).....	9	-17	-2	8	15	14	21	23	30	16	1	22	36
New Car Sales (mil. units).	7.4	8.3	7.8	8.9	9.5	9.8	9.9	10.5	10.9	8.6	8.6	10.3	11.5
Housing Starts (mil. units)	0.9	0.9	1.0	1.1	1.3	1.5	1.6	1.6	1.7	1.1	1.1	1.6	1.8
EMPLOYMENT, WAGES AND PRICES													
Unemployment Rate (%)......	8.4	8.8	9.1	9.1	8.9	8.7	8.4	7.9	7.6	7.6	9.0	8.1	7.4
Compensation...............	6.2	8.4	7.1	6.7	6.2	6.7	6.9	7.0	6.8	10.0	7.6	6.7	6.9
Productivity...............	-6.6	-2.7	0.3	5.0	4.5	3.5	2.6	1.5	1.9	0.9	-1.2	3.2	2.1
Unit Labor Costs...........	13.8	11.4	6.8	1.5	1.6	3.1	4.2	5.4	4.8	9.0	8.8	3.4	4.8
Consumer Prices............	7.8	3.8	3.8	4.0	4.2	4.5	4.3	4.1	4.0	10.3	5.0	4.8	4.6
GNP Deflator...............	9.5	5.1	6.1	6.0	6.3	5.7	5.5	5.2	5.3	9.2	6.8	5.7	5.2
Prime Interest Rate (%)....	17	17	15	14	14	13	13	12	11	19	15	12	9
Profits from Current Production ($ B)*	110	109	115	129	131	142	154	162	163	114	121	155	178
GOVERNMENT FISCAL POLICY ($BILLION)										FY81	FY82	FY83	FY84
Unified Budget -- Receipts.										603	626	661	726
Unified Budget -- Outlays..										660	733	776	827
Unified Budget -- Federal Surplus or Deficit.......										-58	-107	-115	-101

* Corporate profits after tax with inventory valuation and capital consumption adjustments.

SOURCE: U.S. Chamber of Commerce, Forecast Center.

FORECAST ASSUMPTIONS

- This month's forecast adopts all of the provisions of the Economic Recovery Tax Act of 1981 (ERTA). The second and third phases of the personal income tax rate reduction are assumed to go into effect as scheduled in July 1982 and July 1983. The business portion of the ERTA is also assumed to remain in place. The combined static revenue loss of both the personal and corporate tax cut under ERTA is $49 billion in 1982, $105 billion in 1983 and $145 billion in 1984.

- In line with the President's recent proposal, corporate taxes are assumed to increase by $7.7 billion in fiscal 1983 and $14 billion in fiscal 1984. The corporate tax increase takes the form of selected revisions in the tax code such as modified coinsurance.

- On the spending side, we have assumed that the President gets most but not all of the cuts he requested. Federal government nondefense spending is reduced by $31.5 billion in fiscal 1983 and $45.8 billion in fiscal 1984. Real defense spending is assumed to grow at an average annual rate of 5.5 percent between 1982 and 1984 -- a slower rate of growth than proposed by the President.

- The Federal Reserve is assumed to hold the growth of the money supply (M-1) to an average annual rate of 5.9 percent between 1982 and 1984. M1 velocity grows at an average annual rate of 4.3 percent between 1982 and 1984.

TABLE 2
TRENDS IN COMMERCE

	Current Period	Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (millions) February, 1982	231.2	231.1	229.0	+ 0.1	+ 1.0
Gross National Product ($bill)*** First Quarter, 1982	2,993.5	2,998.3	2,965.0	- 0.2	+ 9.6
Gross National Product (bill $ 1972) First Quarter, 1982	1,481.2	1,498.4	1,516.4	- 4.5***	- 2.3
PEOPLE AND THEIR MONEY					
Personal Consumption Expenditures ($bill)*** February, 1982	1,955.4	1,940.4	1,806.9	+ 0.7	+ 8.2
Personal Consumption Expenditures (bill $ 1972) January, 1982	962.4	959.4	959.9	+ 0.3	+ 3.7
Disposable Personal Income ($bill) February, 1982	2,111.5	2,101.6	1,946.6	+ 0.6	+ 10.8
Disposable Personal Income (bill $ 1972) January, 1982	1,042.4	1,045.6	1,030.4	- 0.3	+ 2.5
Savings as a Percent of Disposable Personal Income February, 1982	4.9	5.2	4.7	- 0.3	+ 0.2
Employment (millions)*** March, 1982	99.5	99.6	100.4	- 0.1	- 0.9
Percent Unemployed*** March, 1982	9.0	8.8	7.3	+ 0.2	+ 1.7
Non-Supervisory Workers Hourly Earnings-Total Private ($) March, 1982	7.55	7.54	7.10	+ 0.1	+ 6.3
Installment Credit Outstanding ($bill) February, 1982	327.4	327.3	309.3	+ 0.0	+ 5.8
Consumer Price Index All Urban Consumers 1967=100 February, 1982	283.4	282,5	263.2	+ 0.2	+ 7.7
Purchasing Power of the Dollar (1967=$1.00) February, 1982	.353	.354	.380		
Prime Interest Rate (%) April 13, 1982	16.5	16.0	17.5	+ 0.5	- 1.0
Misery Index February 1982	11.4	12.4	19.3	- 1.0	- 7.9
BUSINESS PROFITS AND OUTPUT					
Corporate Profits after Tax ($bill)***** Fourth Quarter, 1981	117.6	127.6	125.4	- 7.8	- 6.2
Industrial Production (1967=100)*** February, 1982	141.8	139.6	151.8	+ 1.6	- 6.6
Manufacturing Capacity Utilization Rate February, 1982	71.8	70.6	79.8	+ 1.2	- 8.0
Housing Starts (thous. units)*** February, 1982	953	895	1,294	+ 6.5	- 26.4
Business Failures					
January 1, - April 8, 1982	6,205		3,991		+ 55.5
Latest 4 weeks	1,807				
New Business Incorporations January 1, to December 31, 1981	581,661		533,520		+ 9.0
BUSINESS COSTS					
Unit Labor Costs-Private Business (1977=100)*** Fourth Quarter, 1981	149.7	145.2	137.2	+ 3.2	+ 9.2
Unit Non-Labor Costs (1977=100)**** Fourth Quarter, 1981	132.5	132.4	122.7	+ 0.0	+ 8.0
Producer Price Indexes March, 1982 unadjusted indexes					
Crude Materials	321.5	319.9	328.1	- 0.9	- 2.2
Intermediate materials supplies and components	310.9	311.3	301.6	- 0.3	+ 3.1
Finished goods	276.9	277.4	266.0	- 0.1	+ 4.1
FEDERAL SPENDING AND DEBT					
Federal Spending Index (1967=100)*** February, 1982	457.2	453.9	426.9	+ 0.7	+ 7.1
Gross Federal Debt ($bill) February 28, 1982	1,042.2	1,032.7	946.5	+ 0.9	+ 10.1
Federal Squeeze Index January, 1982	195.5	195.8	202.0	- 0.1	- 3.2
Computed annual interest charge on Federal debt ($billions) February, 1982	116.8	114.5	96.3	+ 2.0	+ 21.3
WHAT'S AHEAD?					
Index of Leading Indicators (1967=100) February, 1982	124.9	125.3	134.2	- 0.3	- 6.9

*Current period refers to the date indicated below variable.
**Previous period refers to month or quarter prior to current period.
***Seasonally adjusted annual rate.
****Married worker with three dependents.
*****Non-financial corporations.

NOTES ON TABLE 2

TRENDS IN COMMERCE

April, 1982

Gross National Product (GNP) - The Department of Commerce, in its "flash" first quarter estimate, indicated that the broadest measure of economic activity, real GNP, declined 1.1 percent, a 4.5 percent annual rate, during the first quarter. This is identical to the fourth quarter, 1981 decline. The average real GNP decline for all postwar recessions has been about 2.7 percent.

Employment - Unemployment increased to 9.0 percent in March -- up 0.2 percentage points from the February level of 8.8 percent. In March, the percent of industries in which employment increased during the last month was 31.4 percent. Some of the recent increase in unemployment is attributable to the transitional element of reducing the size of government. During the past 12 months there has been a decline of 305,000 government employees. This accounts for nearly 60 percent of the loss in employees on nonagricultural payrolls.

Prices - The Consumer Price Index (CPI) in February rose at an unexpectedly low 0.2 percent rate despite bad winter weather which drove vegetable and fresh fruit prices up 1.6 percent, and resulted in higher prices for meats, poultry, fish, and eggs. Contributing to the consumer price weakness were new car rebates, reducing both new and used car prices, and the continued decline in gasoline prices which are now lower than before decontrol last year. March producer prices of finished goods declined by 0.1 percent after seasonal adjustments. The more volatile part of the producer price index, crude goods, is now 2.0 percent below the year ago level. Crude goods were down 0.9 percent in February for the seventh time in eight months.

Housing - Privately owned starts rose six percent in February to a seasonally adjusted annual rate of 953,000, 26 percent below the year ago level. Permits for housing construction rose by one percent in February. Building permits have now risen for four consecutive months and are 16 percent above last October's recession low.

Business Costs - Unit labor costs are up 9.2 percent from the year ago level while non-labor costs are up by 8.0 percent. Private sector productivity, as measured by output per hour, was up annually in 1981 for the first time since 1977. The most recent data for the fourth quarter of 1981 indicates that non-labor costs for the quarter were virtually unchanged.

Business Failures and Formations - Dun and Bradstreet's business failures data indicate bankruptcies from January 1 through April 8, 1982 were up over 55 percent from the year ago level. Bankruptcies continued to rise in 1982 after reaching a 20 year high in 1981. However, new business incorporations also continued to grow. Latest available data indicate there were 581,661 business incorporations in all of 1981, an increase of 48,141 from 1980.

Federal Spending - The "Federal Spending Index", a U.S. Chamber devised index which measures the monthly change in federal expenditures, indicates that federal outlays during February 1982 were up 0.7 percent for the month and seven percent from the year ago level (after adjusting for the double Social Security payment in December which resulted in no Social Security payment on the federal books in January).

Federal revenues for the first five months of fiscal year 1982 were up 13 percent even after the tax cut, and federal expenditures were up about 10 percent even after the spending cuts. The surprising aspect of the Federal budget picture is that the deficit for the first five months of fiscal year 1982 was $2 billion less than the same period in fiscal year 1981. However, most budget forecasts indicate that the fiscal 1982 deficit will be more than $45 billion greater in the seven remaining months of fiscal 1982 than it was in the same eight months of 1981. This would mean the Federal government would incur $47 billion more in new debt in the March to September 1982 period compared to about $2 billion in the same period a year ago.

The latest "Federal Squeeze Index", which measures the difference between the percentage increase in gross weekly pay and federal taxes for a married nonsupervisory worker, indicated that the "Federal Squeeze" on such an average worker declined by 0.1 percent in January due to revised data showing a decline in income from December. By taking advantage of the new tax law that allows all workers to create IRA accounts, a worker could reduce his 1982 tax burden and the squeeze to below the 1978 level.

Leading Indicators - The index of leading economic indicators declined in February by 0.3 percent. The Leading Index has fallen 9.7 percent since its peak last year, compared with aggregate declines of 14 percent in the 1980 recession and 20 percent in the 1973-75 recession. However, the index of coincident indicators, an approximation of aggregate economic activity, increased 0.7 percent in February.

Savings - Personal savings as a percent of disposable income averaged 6.0 percent in the fourth quarter of 1981 compared to 4.6 percent in the first quarter. The increase in fourth quarter savings was $17 billion at an annual rate, $2 billion more than the 1981 tax cut.

Retail Sales - Retail sales bounced back in February, increasing by 2.6 percent, but then declined 0.5 percent in March. The March decrease was due mainly to the decline in gasoline station sales resulting from a combination of lower prices and continued conservation. Department store sales were up 2.1 percent, auto dealers reported a 3.2 percent increase and furniture stores showed a 1.8 percent jump from their February levels.

Misery Index - The misery index, the combined total of the inflation rate as measured by consumer prices and the unemployment rate, fell to 11.4 percent in February from January's 12.4 percent. The index was at 19.3 percent in February of 1981.

COMMENTARY

PRODUCTIVITY GROWTH IN JAPAN: CAPITAL IS THE KEY

by
John Volpe

The U.S. Chamber has long been involved in ways to improve America's productivity performance. Among other activities, it recently has published the findings of two surveys on attitudes of management and labor toward productivity, motivation and incentives. In addition, it has published several booklets describing the U.S. postwar productivity performance and discussing options for enhancing America's productivity growth. It has also co-sponsored a conference on productivity as the key to revitalizing the American economy.

Because Japan has made great strides in improving productivity, the U.S. Chamber, in February of this year, conducted an Industrial Study Mission of selected Japanese firms and organizations to review those factors that have contributed to that nation's enviable productivity growth record. More specifically, the purpose of the mission was to study human resource management techniques, analyze the impact they have on Japan's productivity growth, and determine the extent to which they can be instituted or utilized more intensively in the United States.

The mission consisted of businessmen from leading U.S. corporations and attorneys specializing in the labor and personnel field. It met with a large and diverse collection of people from Japanese businesses and labor institutions in Tokyo, Kyoto, and Osaka. Among the list of host organizations were the Japanese Confederation of Labor (Domei), the Japanese Federation of Employer's Associations (Nikkerien), Ishikawajima-Harima Heavy Industries and its workers union, Nippon Steel Corporation, NCR Japan and the Fuji Bank.

U.S. participants concluded that Japan's human resource management techniques and the emphasis (in the large corporations) on lifetime employment, seniority-based wages, and company unions contributed significantly to the nation's enviable productivity record over recent decades. They also noted, however, that there was very little they had witnessed with respect to ways of enhancing worker productivity that was not already in use, in some cases quite intensively, in the United States.

In addition, they felt that lower economic growth rates anticipated by the world community for the foreseeable future, and the rapidly rising high-technology manufacturing capabilities of the advanced developing countries such as Brazil, Taiwan, and Mexico, coupled with a rededication on the part of American business and government to fostering competitive excellence, would increase the competition Japan faces in world markets. These developments will add to the difficulty Japan undoubtedly will face in funding those factors mentioned above which have contributed so heavily to productivity growth.

Finally, tours of corporate facilities revealed an extensive amount of new capital equipment which undoubtedly contributes, perhaps even more decisively than management techniques, to Japan's productivity growth. Indeed, in testimony given this month before a Senate subcommittee, J.R. Norsworthy, Chief of the Division of Productivity Research for the Bureau of Labor Statistics, concluded discussion of his research on productivity trends in the United States and Japan with the following comment: "These results should go some distance to dispel the aura of mystery that surrounds some discussions of productivity growth in Japan. For in the main, we see that rapid growth in the capital stock, which can be viewed as raising the workers' capacity to process a greater volume of materials, is a major source of Japanese growth. And while this rapid growth in capital and materials inputs can be thought of as representing substantive technological change, the overall efficiency of Japanese manufacturing as measured by growth in the productivity of all inputs combined has not shown remarkable growth relative to that in the U.S."

Poor rates of capital formation in the United States over the past two decades have undoubtedly contributed significantly to America's poor productivity performance. Certainly, high effective rates of taxation on corporate domestic income impeded the capital formation process. In fact, while it may be difficult to draw firm conclusions due to the complexities involved in assessing tax burdens within and between countries, a study published several years ago concluded that the effective rate of taxation on corporate domestic income was significantly higher in the United States than it was among our leading industrialized competitors. Fortunately, elements of President Reagan's tax package will reduce this competitive disadvantage.

Consumer Opinion Survey

Survey Research Center
U.S. Chamber of Commerce

APRIL 1982

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Consumer Confidence

Consumer attitudes toward buying cars and big items for the home remain depressed, almost unchanged from one year ago. Some improvement since December may well be due to less pessimistic inflationary expectations (Table 1).

Expectations about changes in income relative to inflation, little changed since December, are considerably more optimistic than they were just six months ago.

As recently as September 1981, 60 percent expected their incomes to rise less than prices during the next 12 months. This figure declined by 11 percentage points by mid-March this year, when 49 percent expected their incomes to rise by less than prices during the next 12 months. Forty-four percent expect their incomes to go up as much or more than prices, compared with 35 percent in September (Table 2).

These results are in line with Gallup Poll findings which show that while people are not optimistic about the effects of the Reagan program on the economy in the near term, they are more optimistic as the time horizon is extended.

A striking change in consumer attitudes is the continued decline in the percentage of people who expect house values to go up during the next couple of years. Only 18 percent expect house values to go "up a lot," compared with 28 percent in September of 1981, and 44 percent in October of 1980 (Table 3).

People still want the tax rate cuts already enacted to go into effect. Although they do not like deficits, they do not want taxes to be raised. And they still support further cuts in federal spending.

These conclusions are from the latest quarterly survey of the public, conducted by The Gallup Organization in March for the U.S. Chamber Survey Research Center. The results are based on face-to-face interviews with a nationwide representative sample of the public.*

---

* The survey involved 1,580 face-to-face interviews by The Gallup Organization with a representative sample of the U.S. public, 18 years and older conducted during March 12-15, 1982. It is very probable (95 chances out of 100) that the survey findings are within three percentage points of the figures that would have been obtained if the entire adult population had been interviewed. Because of sample size, the margin of error for subgroups is larger. Totals in this report may not sum to 100 because of rounding.

Taxation and Government Spending

People are evenly divided in their opinion as to whether the tax rate cuts scheduled for July this year and July 1983 will go into effect as scheduled (42 percent), or whether one or more of the tax cuts will be postponed (42 percent). The question was asked:

> Some people have recently proposed that the tax cuts scheduled for this July 1982 and July 1983 should be postponed. What is your best guess -- will these two tax cuts go into effect as scheduled, or will they be postponed?

	As scheduled	Postponed	One as scheduled, other postponed (Volunteered)	One as scheduled, other eliminated (Volunteered)	No tax cuts at all (Volunteered)	Don't know
All Respondents	42%	38%	4%	1%	1%	15%
By Union Membership[1]						
Union Members	45	41	2	*	1	10
Non Union Members	41	37	4	1	1	16
By Family Income						
Less than $15,000	36	35	3	1	1	23
$15,000 and over	46	39	4	1	1	9

[1]Union Members = respondent, or spouse, or both.
*Less than 0.5 percent.
Note: Total may not sum to 100 because of rounding.

Answers to another question suggest that many people will be disappointed if the tax cuts are postponed. More than six out of ten people (62 percent) oppose postponing the personal tax rate cuts already enacted, including 19 percent who would favor putting them into effect six months earlier. Union members are more supportive of advancing the date than are non union members.

Some people have proposed that the tax cuts scheduled for July 1982 and July 1983 both be postponed six months in order to reduce the deficit in the federal budget. Other people have proposed that in order to increase employment these tax cuts both be put into effect six months earlier -- that is the July 1982 cut would be made effective retroactive to January 1982 and the July 1983 cut would be moved up to January 1983. Which would you favor -- having the tax cuts put into effect six months earlier, or postponing them six months, or letting them go into effect in July 1982 and July 1983 as scheduled?

	Put into effect six months earlier	Postpone six months	Effect as scheduled	No tax cut at one or other time or both (Volunteered)	Don't know
All Respondents	19%	21%	43%	3%	14%
By Union Membership[1]					
Union Members	27	22	38	2	11
Non Union Members	17	21	44	3	16
By Family Income					
Less than $15,000	18	19	38	3	23
$15,000 and over	20	23	46	3	8

[1] Union Members = respondent, or spouse, or both.
Note: Total may not sum to 100 because of rounding.

Considering the Administration-estimated federal deficit in the next three years, 47 percent of the public favor reducing spending, and only four percent favor raising taxes. Twenty percent favor both reducing spending and raising taxes, while 18 percent would do neither, leaving the deficit as it is. People with family incomes of less than $15,000 are more likely than higher income people to leave the deficit as it is.

The Reagan Administration has estimated that the deficit in the federal government budget in the next three years will add to a total of 246 billion dollars. Which of the following would you favor -- raising taxes, reducing spending, both raising taxes and reducing spending, or doing neither and leaving the deficit as it is?

	Raising taxes	Reducing spending	Both raising taxes & reducing spending	Neither; leave deficit as is	Don't know
All Respondents	4%	47%	20%	18%	11%
By Union Membership[1]					
Union Members	3	50	20	20	7
Non Union Members	4	47	20	17	12
By Family Income					
Less than $15,000	5	39	19	22	16
$15,000 and over	3	54	22	15	7

[1] Union Members = respondent, or spouse, or both.
Note: Total may not sum to 100 because of rounding.

If additional budget cuts are made, 17 percent would prefer cuts in defense spending, while 39 percent would prefer cuts in other kinds of spending. Thirty-six percent say cuts should be made in both defense and nondefense spending. Higher income people are more likely to support nondefense spending cuts.

If there are additional cuts made in federal government spending, which would you prefer: cuts in defense spending, cuts in other kinds of government spending, or should cuts be made in both defense and other government programs?

	Cuts in defense spending	Cuts in other kinds of spending	Cuts in both	Don't know
All Respondents	17%	39%	36%	9%
By Union Membership[1]				
Union Members	20	39	36	5
Non Union Members	16	39	36	10
By Family Income				
Less than $15,000	19	34	33	14
$15,000 and over	15	43	37	5

[1]Union Members = respondent, or spouse, or both.
Note: Total may not sum to 100 because of rounding.

By almost two to one the public thinks the business tax reductions that were made last summer should be kept in order to stimulate the economy. Only 29 percent believe that business taxes should be increased in order to reduce the deficit. Support for keeping the tax reduction was greater among non union members than union members, although almost half(49 percent) of union members think the business tax reductions should be kept.

Last summer, reductions were made in the taxes that businesses are required to pay. Now, some people have proposed increasing business taxes in order to reduce the deficit. Others propose keeping the business tax reductions in order to stimulate the economy. What do you think -- should business taxes now be increased, or should last summer's business tax cuts be kept as they are?

	Taxes should be increased	Tax cuts should be kept	Don't know
All Respondents	29%	56%	16%
By Union Membership[1]			
Union Members	39	49	12
Non Union Members	25	58	17
By Family Income			
Less than $15,000	26	54	20
$15,000 and over	31	57	12

[1] Union Members = respondent, or spouse, or both.
Note: Total may not sum to 100 because of rounding.

Social security payments, which are linked to changes in the Consumer Price Index, rose by 40 percent during the last three years, while average after-tax earnings rose by 22 percent. Asked what we should do now, 46 percent of respondents opt for continuing to link social security payments to the C.P.I., while 31 percent say social security payments should be linked to the increase in average earnings. Twelve percent feel there should be a one-year freeze in social security payments. Older people, those with lower incomes, and union members are more likely to favor linking the increase in payments to the C.P.I.

As shown on this card, social security payments have increased by more than the increase in average after-tax earnings. What do you think should be done now -- should there be a one-year freeze on social security payments, or should the increase in social security payments be linked to the increase in average earnings rather than to the consumer price index, or should social security payments continue to be linked to the consumer price index?

	Freeze social sec. payments for one year	Link social security payments to avg. earnings	Leave social security payments linked to C.P.I.	Don't know
All Respondents	12%	31%	46%	11%
By Union Membership[1]				
Union Members	12	31	48	9
Non Union Members	12	31	45	12
By Family Income				
Less than $15,000	10	24	53	13
$15,000 and over	14	36	40	10
By Age				
18-29	8	36	43	13
30-44	12	36	41	11
45-64	15	28	47	11
65 +	16	19	56	9

[1]Union Members = respondent, or spouse, or both.
Note: Total may not sum to 100 because of rounding.

Savings

Assuming the scheduled tax cuts do go into effect, business could get a shot in the arm as consumers spend much of the extra money. The median respondent would be likely to save 20 percent of the additional income retained.

Last summer, federal income tax rates were cut by 25 percent, and scheduled to go into effect in three stages as shown on this card. The schedule calls for a ten percent cut this July and a final ten percent cut in July 1983. Assuming you do get these scheduled cuts, so that you pay twenty percent less than now, approximately what proportion of the extra money would you be most likely to save, looking at the bottom of the card?

Save 0%; spend 100%	25%
Save 10%; spend 90%	19
Save 20%; spend 80%	15
Save 40%; spend 60%	8
Save 60%; spend 40%	6
Save 80%; spend 20%	4
Save 90%; spend 10%	2
Save 100%; spend 0%	4
Pays no federal income taxes now(Volunteered)	6
Don't know	12

The recent changes in the tax law mean that everyone who has wage and salary income is now eligible to set up an Individual Retirement Account. As of now, a majority(52 percent) of the public say it is not likely that they will set up an IRA for this year, while 15 percent say it is likely. Six percent already had set up IRAs.

It may not be surprising that relatively few people think it likely they will set up an IRA: first, almost all people who are newly eligible already had a pension plan; second, as noted by Mr. Jay Schmeideskamp, Vice President at Gallup, "many people may be reluctant to commit funds long term in the face of recession and economic uncertainty"; third, people still have a year to examine the concept of IRAs and the many IRA alternatives available to them, before filing their 1982 tax forms. The question was:

Because of changes in the tax law, everyone with wage or salary income is now eligible to set up an Individual Retirement Account -- commonly called an I.R.A. -- as described on this card. Looking at the bottom of the card, how likely is it that you will set up an I.R.A. account for this year -- or have you already done so this year?

	Very likely	Somewhat likely	Might; might not	Not very likely	Not at all likely	Already set up IRA this year	Already had IRA earlier	Already retired	Not eligible	Don't know
All Respondents	8%	7%	6%	18%	34%	4%	2%	9%	6%	6%
By Union Membership[1]										
Union Members	7	8	5	21	40	4	1	6	3	6
Non Union Members	9	7	6	18	32	3	3	10	7	6
By Family Income										
Less than $15,000	3	5	4	15	35	1	1	17	10	9
$15,000 and over	13	9	7	21	33	5	3	4	3	3
By Age										
18-29	9	10	7	25	39	3	*	*	4	3
30-44	10	9	8	23	33	4	3	1	2	7
45-64	11	7	5	13	37	6	4	6	6	6

[1] Union Members = respondent, or spouse, or both.
*Less than 0.5 percent.
Note: Total may not sum to 100 because of rounding.

Income is saved whenever it is not spent, but is used to add to savings and reserve funds, to add to investments, or to reduce the amount of debts owed. Four out of ten consumers expect to save less money(or get into debt more) this year than last year. Three out of ten expect to save more(or reduce debt more) this year. At the same time, almost one-fourth volunteered that they would save the same as last year. Thus, 53 percent expect to save as much or more this year than last.

Each year, every dollar of a person's income is either spent, or it is saved in one of the three ways noted on this card. All things considered, what do you think is most likely for you this year -- will you save more money this year than last, or save less money this year, or what?

	Save more money this year	Save less money this year	Save the same as last year (Volunteered)	Don't know
All Respondents	29%	39%	24%	7%
By Union Membership[1]				
Union Members	27	41	26	6
Non Union Members	30	39	24	8
By Family Income				
Less than $15,000	20	45	24	10
$15,000 and over	36	35	24	5

[1]Union Members = respondent, or spouse, or both.
Note: Total may not sum to 100 because of rounding.

TABLE 1

Whether Now is a Good or Bad Time for People to Buy:	Mar. 1980	June 1980	Sept. 1980	Dec. 1980	Mar. 1981	June 1981	Sept. 1981	Dec. 1981	Mar. 1982
	(Percent of All Families)								
Cars									
Good time	N.A.	30%	N.A.	30%	33%	25%	N.A.	25%	34%
Good and bad		8		7	8	7		8	7
Bad time		53		57	53	59		54	51
Don't know		9		6	6	9		13	8
		100%		100%	100%	100%		100%	100%
Big Things for the Home[1]									
Good time	39%	28%	33%	34%	34%	31%	27%	27%	34%
Good and bad	14	12	13	13	14	15	13	11	11
Bad time	39	53	48	49	47	48	55	51	47
Don't know	8	7	6	4	5	6	5	11	8
	100%	100%	100%	100%	100%	100%	100%	100%	100%

N.A. = Not Available

[1] "like major appliances, furniture, or a t.v. set"

TABLE 2

EXPECTED CHANGES IN CONSUMER INCOMES
NEXT 12 MONTHS

	Mar. 1980	June 1980	Sept. 1980	Dec. 1980	Mar. 1981	June 1981	Sept. 1981	Dec. 1981	Mar. 1982
	(Percent of All Families)								
Incomes will rise:									
Less than prices	58%	55%	53%	53%	61%	57%	60%	50%	49%
Same as prices	27	31	30	33	25	28	26	32	36
More than prices	9	8	10	10	10	9	9	11	8
Don't know	6	6	7	4	4	6	5	7	7
	100%	100%	100%	100%	100%	100%	100%	100%	100%

TABLE 3

EXPECTED HOUSE VALUES DURING NEXT COUPLE OF YEARS

	Oct. 1979	June 1980	Oct. 1980	June 1981	Sept. 1981	Mar. 1982
Up a lot	43%	26%	44%	34%	28%	18%
Up a little	38	48	40	46	48	46
Same or down	15	18	10	15	19	30
Don't know	4	8	6	5	5	6
	100%	100%	100%	100%	100%	100%

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White House Office of Policy I

NEWS L...

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Washington, DC Number 2 March 21, 1983

THE CASE FOR TAX INDEXING
A Collection of Recent Thoughts

Ronald Reagan On Tax Indexing ... selected quotations

There is one unarguable answer in this time of inflation to the unfairness prevalent in our tax system. It is an answer to the problem of ... the income tax which moves you up into a higher tax rate when your increase in pay is only enough to match the increased cost of living -- it is called indexing.

-- Radio Script, February 1977

Q. Do you favor indexing to the income tax?
A (RR). Yes.

-- Interview, San Diego Union, June 1977

Indexing is an idea whose time has not only come -- it is overdue.

-- Radio Script, June 1977

We need some indexing of the tax structure. We need an end to people who get only a cost of living increase to keep pace with inflation, but who find they have moved up into higher surtax brackets and are paying the government a profit on the inflation the government created.

-- Free Enterprise Speech, 1977

We need an indexing of the surtax brackets, a halt to government's illicit profiteering through inflation.

-- Article, Imprimis, January 1978

The most insidious tax increase is the one we must pay when inflation pushes us into higher tax brackets. As long as inflation is with us, taxes should be based on real income. Federal personal income taxes should be indexed to compensate for inflation, once tax rates have been reduced.

-- International Business Council Speech, September 9, 1980

The major changes that will be proposed (include) ... (i)ndexing for inflation of the personal income tax brackets after the full 30 percent rate reduction is phased in.

-- Fact Sheet, September 9, 1980

... because we indexed future taxes to the rate of inflation, we took away Government's built-in profit on inflation and its hidden incentive to grow larger at the expense of American workers.

-- State of the Union Address, January 26, 1982

Q. If Congress decides instead to modify the July personal tax cut or to repeal indexation, would that provoke a veto?
A (RR). Yes, because those two things are a definite part of the economic plan.

-- Business Week, February 14, 1983

THE WALL STREET JOURNAL, March 1, 1983

Why Tax Indexing Must Not Be Repealed

By MARTIN FELDSTEIN

The most important legislative battle this year will be the attempt to repeal the indexing of the personal income tax that is now scheduled to begin in 1985. Although tax indexing may seem at first to be a rather technical tax matter, it actually holds the key to controlling the future growth of government spending and to preventing a resurgence of spiraling inflation. The long-term success or failure of Ronald Reagan's economic program is likely to hinge more on retaining tax indexing than on any other piece of legislation.

In practice, an indexed tax system prevents inflation from pushing individuals into higher tax brackets and increasing the share of income taken in taxes. This is achieved by increasing each of the bracket points by the rate of inflation during the previous year. For example, in 1984 the 18% tax bracket will include income between $16,000 and $20,200. If consumer prices rise by 5% in the year ending Oct. 1, 1984, the 18% tax bracket for 1985 would be adjusted to the range from $16,800 to $21,210. Indexing would also raise the personal exemption from $1,000 to $1,050.

The repeal of indexing would mean that bracket creep would raise taxes higher and higher, permitting Congress to finance ever greater amounts of government spending without having to vote explicitly for any increase in tax rates. The repeal of indexing would permit Congress to reduce the budget deficit over time without any cuts in government spending by just waiting while tax receipts grow and grow.

Taxes Would Be Higher

Even with inflation declining gradually over the next few years as the administration forecasts, the repeal of indexation would raise tax revenue by $17 billion in 1986, $30 billion in 1987, $44 billion in 1988 and ever higher amounts in later years. A $44 billion tax increase in 1988 would mean that the repeal of indexing had raised taxes by more than 10%. And after a decade of inflation at just 4% a year, taxes without indexing would be 25% higher than if indexing is retained.

Of course, a higher rate of inflation would mean more bracket creep and thus a bigger tax increase each year. If inflation averaged 6.5% for the next five years, the extra tax revenue in 1988 would be about $80 billion instead of $44 billion. And a replay of the inflation experience of the Carter years—with inflation rising from 6.5% in 1985 to 13.5% in 1988—would raise tax receipts by about $120 billion more in 1988 if the tax system is not indexed.

The repeal of indexing would thus give Congress a strong incentive to pursue inflationary policies. With indexing gone, spiraling inflation would generate a surge of tax revenues that could finance greater government spending while permitting Congress the political luxury of voting occasional "tax cuts" that actually failed to offset inflation but provided a framework for further income redistribution.

Many financial investors and others would interpret the repeal of indexing as an indication that inflation would soon be on the rise. This change in the expected rate of inflation would raise interest rates, especially long-term interest rates on bonds and mortgages. Higher interest rates could threaten the recovery in housing and other interest-sensitive sectors and possibly bring the incipient recovery in the economy as a whole to a premature end.

Those who want to repeal indexing frequently wrap themselves in the cloak of fiscal responsibility and argue that "with the large budget deficits that we now face, we cannot afford an indexed tax system." What they should say is that the large budget deficits in future years mean that we must either cut spending or raise taxes or both. The administration's budget calls for a balanced package of spending cuts and revenue increases, including a standby tax equal to 1% of GNP that will go into effect in October 1985 unless very rapid economic growth between now and then has reduced the deficit to less than 2.5% of GNP.

If tax revenue must be raised, the repeal of indexing isn't a satisfactory substitute for an explicit tax increase. Because the repeal of indexing is a hidden way of increasing taxes, it removes the pressure to choose between spending cuts and more taxes. And unlike voting an explicit tax increase, repealing indexing doesn't provide a fixed amount of additional tax revenue but starts a money machine that will squeeze more and more money from taxpayers in the years ahead. The repeal of indexing is politically tempting to many in Congress because it increases revenue without explicitly increasing taxes. But it is the very opposite of responsible budgeting.

A common alternative rationale for repealing indexing is given by those who mistakenly believe that the combination of indexed benefits and indexed taxes inevitably produces budget deficits because "indexing raises benefits but reduces taxes." This argument is wrong because it misrepresents what indexing is all about. The indexing of benefits means that benefits just keep pace with inflation. The indexing of tax rates means that tax receipts don't rise faster than inflation through bracket creep. With complete indexing, inflation doesn't alter the real value of either benefits or taxes and therefore doesn't increase or decrease the real value of the deficit.

There are finally whose who claim that they don't want to repeal indexing but just to postpone it for a year or two to help shrink the budget deficit. In reality, postponing indexing would have relatively little effect on future budget deficits. Slipping the starting date for indexing to 1986 would only raise an extra $12 billion in 1988. It is hard to avoid the suspicion that those who advocate postponement believe that if indexing is postponed once, it will be postponed again and again until it is eventually repealed. It is critically important to start indexing on schedule in 1985 because once the American taxpayers experience indexing it will be here to stay.

If indexing were repealed, the resulting tax increases would be relatively greatest for the lowest income taxpayers. It is the lowest income taxpayer who benefits most from the indexing of the $1,000 personal exemption and the $3,400 zero bracket amount. In addition, since the tax brackets are narrower at lower incomes, bracket creep is more severe. Eliminating indexing would cause the 1985 tax liability of those with incomes under $10,000 to rise by more than 9% while the tax liability of those with incomes over $100,000 would rise by less than 2%.

The liberals who want to repeal indexing are unconcerned about this increase in the tax burden on low-income taxpayers. They know that the vast increase in tax revenue that would result from de-indexing would permit Congress to vote futher tax cuts for these lower income groups that would more than offset the effect of bracket creep on their tax liabilities. Tax reform would thus be deflected from a proper concern about incentives and simplification and would be focused instead on annual debates about egalitarian redistribution.

No Natural Constituency

The current congressional discussion about the repeal of indexing is counterproductive in several ways. By raising the possibility that indexing might be repealed, it increases the risk of high inflation in future years and thereby keeps current long-term interest rates higher than they should be. By focusing attention on the indexing issue, Congress avoids facing the difficult decisions about the control of spending and about the explicit tax changes that must eventually be made as part of this year's budget process.

Unfortunately, despite the critical importance of the indexing issue, it doesn't generate much pressure on Congress from individuals or from representative groups. While proposed policies that would affect a segment of the population often induce intensive lobbying activity, a major subject like indexing that influences the entire economy doesn't have a natural constituency. There is therefore the danger that Congress won't recognize how important indexing is to the public both now and in the future.

President Reagan strongly supports indexing as a central feature of his tax program. He has said clearly that he will veto any legislation that would repeal indexing or postpone its starting date. The president believes that an unindexed tax system is fundamentally dishonest. The repeal of indexing would eliminate political accountability and encourage wasteful government spending. It would make greater inflation an aid to politicians and an extra burden to taxpayers. It would initiate a continuous battle over the distribution of the tax burden.

The indexing of the personal income tax is the most fundamental and far-reaching aspect of Ronald Reagan's tax program. It must not be repealed.

Mr. Feldstein is chairman of the Council of Economic Advisers.

THE NEW YORK TIMES, March 6, 1983

A Way to Keep the Government Honest

By BOB DOLE

THERE are certain things that everyone is in favor of as a matter of principle, but that somehow never seem to win out when real decisions are made and votes are counted. Balancing the budget is one example; getting rid of pork-barrel projects in the Federal budget is another. At times we make some progress to support these goals, but the fact remains that real, signifiant, lasting political reforms are rare indeed. That is why we ought to consider very carefully before we undo the most vital reform of the past decade — the decision to index our progressive income tax to inflation.

The problem that tax indexing addresses is simply stated. For many years we have held fast to the notion that those who have more ought to contribute more to support public services and provide for our national needs. To achieve that goal we have instituted a system of income taxation with a series of tax brackets, with the applicable rate of tax increasing as the taxpayer's income rises, from the lowest to the highest bracket.

Inflation, however, plays havoc with the system, first by eroding the dollar's purchasing power. As a consequence, it also erodes the real value of cut-off points for each tax bracket, which are stated in dollar terms. As the value of the dollar declines in real terms, effective tax rates go up. A $15,000 income is taxed at the same rate even after, say, 10 percent inflation. Yet that $15,000 is worth 10 percent less to the taxpayer.

Take the example of a family of four in 1980 that had a 10 percent cost of living increase in its annual income, to $16,500 from $15,000. This pushed it from a tax bracket of 18 percent to the 21 percent tax bracket. The value of the personal exemption — $1,000 per taxpayer — also fell by 10 percent because of inflation. Thus, this family's tax bill rose by more than 23 percent — from $1,242 to $1,530 — while its income grew by only 10 percent.

As a simple matter of equity, it would seem that tax indexing to eliminate this unlegislated bracket creep ought to have universal support. To be fair, opponents of indexing generally acknowledge that bracket creep is a real problem; they simply reject indexing as a solution. Generally, they make two arguments: that Congress provides ad hoc inflation adjustments by periodically legislating tax cuts and that fiscal policy in a period of inflation requires bracket creep to automatically dampen the economy and keep up with the rising cost of Government.

Unfortunately, these arguments are self-contradictory, and both miss the real point. Congress does cut taxes, but it tends to redistribute the tax burden when it does — it does not compensate all taxpayers equally for their inflation tax increases. Further, automatic tax increases do not stabilize the economy when inflation is accompanied by little or no real growth. In any event, the Government always manages to find a way to spend whatever revenues it can get its hands on. The fact that the Government can always use more money is no justification for unlegislated tax increases.

Eliminating tax indexing is no solution to the deficit problem. Fiscal responsibility means making the necessary legislative choices to bring revenues and expenditures as nearly into balance as the state of the economy permits. We may make mistakes, but at least we will be making decisions, openly and honestly, that the public can judge on their own merits.

THAT is just what we in Congress have been trying to do over the past two years. It is a slow and painful process, but it is necessary. It has to continue. With tax indexing, revenues will continue to rise with inflation — they simply will not rise faster than inflation, as they do under the nonindexed system. That should be adequate to finance increments in Government expenditures caused by inflation. If we need to spend still more, for defense, food stamps or whatever, we can vote to raise the necessary revenues.

Proponents of tax indexing have no reason to be on the defensive. It is the advocates of repeal who had better be prepared to explain their case to the American people. As President Reagan has stated, this is fundamentally an issue of accountability. Will we take responsibility for our tax and spending decisions, or will we again resort to evasion of the inflation tax? Low- and moderate-income taxpayers — who are hit hardest when we fail to index the rate bracket, the zero bracket and the personal exemption — will be watching what we do. No issue is more vital to the working man and woman than tax indexing.

But the voters will not be the only ones watching. Financial markets and economic decision-makers around the world understand the implication of tampering with tax indexing. As Martin Feldstein, chairman of the Council of Economic Advisers, said last year, eliminating indexing would send a signal that the Government intends to reduce the deficit by inflating the economy, pushing taxpayers into higher brackets, and collecting more taxes.

Tax indexing is a potent symbol of our will to resist inflating the economy. At this crucial juncture in our campaign to achieve long-term stable growth, we need tax indexing more than ever before. It is not only a pledge to be honest with the American people: It is a sign of our commitment to lead the world to an economic recovery that will last. Indexing will have lasting significance for our political process and for our economy. This is one political reform that should be preserved. ■

Senator Bob Dole, Republican of Kansas, is chairman of the Senate Finance Committee.

THE NEW YORK TIMES, March 10, 1983

Truth in Taxing

What a difference two years make. An incidental feature of the big tax reduction in 1981 now looms as the biggest tax issue of 1983. The issue is indexing, one of the fairest pieces of tax law in many a year. There is heavy pressure to repeal indexing before it even takes effect. President Reagan deserves support as he digs in to preserve it.

Indexing means that starting in 1985 tax brackets will be annually adjusted to offset inflation. If the Consumer Price Index rises by, say, 5 percent in 1984, tax brackets would be moved up 5 percent in 1985. For example, the 18 percent bracket, which will apply to incomes between $16,000 and $20,200, would rise to a range of $16,800 to $21,210. At the same time each personal exemption would go up 5 percent, to $1,050.

Think of it as a taxpaying couple with $20,000 in taxable income. Then you get a 5 percent raise, to $21,000, which offsets inflation. Under the present system, that puts you in a higher tax bracket, where the last $800 is taxed not at 18 percent but at the next higher bracket rate of 22 percent. This "bracket creep" creates a hidden tax increase. Year after year, Presidents and Congresses have thus been piggybacking on inflation to increase the *proportion* of income taxed — raising taxes without ever voting to raise them. Indexing will end the deception.

Congress did not fully realize what it was doing when it added indexing to the 1981 bill by a separate vote. The idea had been around for years, a little complicated but sensible. Now, however, many legislators realize that good old "bracket creep" was the politician's dream twice over: a tax increase that no one had to vote for, to finance popular new spending and even an occasional and popular tax *reduction.*

Mr. Reagan, too, shrugged when the proposal was first advanced. Today he defends indexing as he would the keys to the Treasury. If indexing is repealed and tax collections swell again, he says, there'll be no discipline on spending.

Indexing's effect on revenues will be smaller now that the inflation rate has been cut in half. Even so, tidy sums are at stake. Assuming no great change in the inflation rate, it will cost the Government — or, if you prefer, save the taxpayers — $17 billion in fiscal 1986, $30 billion in 1987, $44 billion in 1988, and still more thereafter. These are tempting sums when Congress is under pressure to find agreeable ways to reduce future deficits.

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Indexing is worth having for honesty's sake alone. If the Government needs more money, let it raise taxes openly and permit the citizenry to judge. But there are other good reasons for it.

First, the problem of those future deficits: they would decline faster, of course, without indexing, but its repeal or delay would signal that Congress is more interested in a cheap fix than in facing up to long-term tax and budget issues. Second, indexing favors low-income taxpayers — a point apparently lost on liberals who want repeal. The lower tax brackets are narrower than the upper ones, so a small increase in income pushes you up the ladder faster at the low end.

The Government clearly will need more revenue in coming years. The easy but dishonest way is to let "bracket creep" take over again. The honest but difficult way is for elected politicians to weigh all special interests against the interests of the public at large and then to stand up and be counted.

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Chamber of Commerce of the United States

1615 H STREET, N.W.
WASHINGTON, D.C. 20062

TAX POLICY CENTER

202-659-6132

Taxes, Budgets, and the Economy

Two current proposals are for rate increases, hidden or explicit: a deferral of the third-year rate cut, which amounts to a hidden 10 percent increase compared to what current law promises, and a surcharge. The last explicit rate increase occurred in 1968-69, and it provides disturbing evidence as to the economic effects of rate increases.

In mid-1968 Congress approved a 10 percent tax surcharge, effective January 1, 1968, for corporations and July 1 for individuals. Thus the effective rate increase in 1968 was 10 percent for corporations, 5 percent for individuals. In 1969, the surcharge remained at a 10 percent rate all year. In 1970, the surcharge dropped to 5 percent for the first half, then zero, for a 2.5 percent effective annual rate.

In fiscal 1969 (July 1, 1968 to June 30, 1969) the unified budget ran a surplus for the first time since fiscal 1960. But this surplus resulted more from a sharp slowdown in spending than from a rise in taxes. Outlays, which had risen by an average of $20 billion per year in the three preceding fiscal years, rose by only $5.5 billion in fiscal 1969. Receipts went up by $34 billion, but the surcharges accounted for less than $12 billion of this amount.

Meanwhile, the economy paid a heavy price for this steep tax rate increase (receipts jumped from 18.4 percent of GNP in fiscal 1968 to a peacetime record 20.5 percent of GNP in fiscal 1969). Real GNP, which had grown at an average annual rate of 4.9 percent from 1961 through 1968, rose only 2.8 percent in 1969 and fell by 0.2 percent in 1970, the first drop in more than a decade.

Changes in the savings rate also tracked the tax rate changes closely. The savings rate had risen steadily from 5.4 percent of personal disposable income in 1963 to 8.1 percent in 1967, following the 19 percent across-the-board rate cuts of 1964-65. In 1968, the savings rate fell to 7.1 percent; in 1969 it dropped to 6.4 percent. The rate climbed back to 8.0 percent in 1970 and to 8.1 percent in 1971, once the surcharge was eliminated.

The difference in dollars between the 8.1 percent savings rates in 1967 and 1971 and the actual levels in 1968-70 is very close to the additional tax receipts attributable to the surcharges in those years, implying that individuals reacted to the surcharge almost entirely by cutting saving. The reduced saving in 1968-69 contributed to slower growth in 1970-71 and most likely to the erratic growth in the following decade.

The surcharge hurt business saving, too. Retained earnings (undistributed profits) of nonfinancial corporations fell from average of $22.5 billion per year in 1965-67 to $20.4 billion in 1968, $17.1 billion in 1969, and $11.3 billion in 1970, depriving firms of a major source of internal funds for investment.

Neither the surcharge nor the elimination of the deficit can be credited with lowering interest rates. The average rate on 3-month Treasury bills rose from 4.3 percent in 1967 to 5.3 percent in 1968 and 6.7 percent in 1969. The rate fell for the next three years, to 4.1 percent in 1972, even as the budget went from a $3 billion surplus in fiscal 1969 to a $23 billion deficit in fiscal 1972.

Equity Considerations in a Freeze on Federal COLAs

- The rapid growth of automatic cost-of-living adjustments (COLAs) for federal programs has been a major cause of budget uncontrollability. From 1978-1981, automatic COLAs cost the American taxpayer $69 billion, and in the next two years are expected to cost $47 billion.

- Before 1970, only nine federal programs were indexed. Since 1970, 49 programs have become indexed according to the Congressional Budget Office. Federal civilian and military pensions, railroad retirement benefits, Social security, veterans pensions, and supplemental security income are among the major programs now having COLAs. Altogether, 70 programs comprising 50% of the total federal budget are now indexed through COLAs.

- Most federal COLAs compensate fully for increases in the Consumer Price Index. By contrast, less than 5% of private pensions have automatic COLAs at all. And, the average yield of COLAs in collective bargaining agreements is about 60% of CPI, not 100% as with federal COLAs. This is a great inequity in cost-of-living protection.

- In all but two years since 1970, Social Security benefit increases have been greater than average wage increases. Benefits have increased 19% faster on average than wages and salaries since 1975, largely because of inequities in COLA protection. Moreover, since Social Security benefits are tax free and wage increases are not, the disparity in real inflation protection is even greater. Real income is being transferred from working citizens to the retired as a direct result.

- Another inequity inherent in full CPI protection is to be found in federal civilian and military retirement where full COLAs recently have led to pensions for many retirees that are larger than the incomes of workers now in those jobs.

- There is a fourth dimension to the inequity. Because of flaws in the Consumer Price Index leading to an over- statement of inflation, full federal COLAs have over-compensated beneficiaries by $21 billion since 1978.

- There is a final dimension to the equity problem. Equity in fiscal restraint requires that large indexed entitlements (along with defense) bear their fair share of the burden so that non-defense discretionary programs are not singled out and disproportionately squeezed.

- As ridiculous as it sounds today, when Social Security was first indexed in 1975, experts believed it would lead to lower benefit increases than past ad hoc adjustments. That was before double digit inflation led to increases in Social Security benefits of 9.9% in 1979, 14.3% in 1980, and 11.2% in 1981 as a result of an automatic COLA.

- It is a complete falsehood to equate retired persons with the "poor and needy." In 1980 15.7% of the elderly were officially classified as below the poverty line, less that half the 1959 rate of 35.2%. This comparison excludes non-cash benefits paid to retirees for Medicare and Medicaid which averaged $2,081 per family unit in 1978. It excludes other non-cash benefits, including nutritional and energy assistance programs and housing services. Together non-cash transfers make up over one-fourth of their total income. It neglects that fact that 80% of the aged own their own homes, with 70% of those having paid-up mortgages. It neglects the great appreciation realized on these homes, and the greater assets generally held by retired persons compared to the young.

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- If after-tax incomes are compared and in-kind transfer payments are added to money incomes, the incidence of poverty is almost twice as high for those under 65 as for those over 65 (7.6% vs. 4.1%) according to a recent CBO study.

- The table below summarizes the major proposals for changing automatic COLAs for major federal programs.

Deficit Reduction From COLA Changes*

	Deficit Reduction Outlays ($, Billions)	
	FY '82-3 mos, FY 1983	FY 1984
1) One year freeze on automatic COLAS (Latta)	$20	$19
2) CPI minus 3%	$ 9	$15
3) 60% of CPI	$ 9	$14
4) One year freeze, followed by CPI minus 3% (Hollings/Domenici)	$20-21	$24-26
5) President's proposal	$ 0.6	$ 1.3
6) Lesser of CPI or average wage increase	$ 3.4	$ 0

* Savings based on Administration's forecast for CPI.

- No other spending proposal will have as great a downward impact on interest rates as a COLA freeze because a dollar saved on indexed entitlements is permanently saved. For this reason, a COLA freeze is the key mid-course correction needed for economic recovery.

- The aged, blind, disabled and poor should be protected against inflation, but they should not be over-indexed nor should they have greater COLA protection than that available to most working Americans, whose taxes are used to provide this protection.

- A one year freeze on automatic COLAs would just compensate for over-indexation to the Consumer Price Index since 1978. Moreover, the Social Security Administration's actuaries estimate a freeze would solve the short-run financial problems of Social Security for ten years.

- A one year freeze followed by a permanent change in the COLA formula to 60% of CPI would establish equity between COLA protection in industry and federal transfer payments while eliminating the unintended inequities of the past four years.

- With inflation coming down rapidly each month since last September, the economic need for full, automatic COLAs has disappeared. There is encouraging evidence of significant wage and COLA concessions in industry this year. Comparable deflationary action on indexed entitlements should be government's fair share in the fight against inflation.

- As a recent Washington Post-ABC News poll makes clear, an overwhelming majority of working Americans under 45 years of age think that Social Security will have disappeared by the time they are eligible to receive it. A one year freeze will put confidence back into the system and prevent it from becoming a major election issue.