

Remarks at a White House Meeting With Members of the American Business Conference

March 13, 1985

Thank you very much, and good afternoon, and welcome to the White House.

It's good to be meeting with you again. In the last 4 years, the American Business Conference has been a staunch and much-appreciated ally in the battle to liberate our economy from the old ideas of over-taxation, overspending, and government control. But as we've been seeing recently in Congress, old habits die hard, very hard.

I've been thinking of starting a new counseling group up in Congress along the lines of Overeaters Anonymous. [Laughter] We'd call it Big-Spenders Anonymous. It could meet every week or so, and the members would get together and talk about how, try as they might, they just can't stop squandering the people's money. [Laughter]

The scene in the Senate Budget Committee this past week was a disappointing one, I think, for the American people. They seem to be in full-scale retreat from spending cuts and are talking about raising people's taxes again. When push comes to shove, I guess it's always easier to let the taxpayer take the fall. Well, let them be forewarned: No matter how well intentioned they might be, no matter what their illusions might be, I have my veto pen drawn and ready for any tax increase that Congress might even think of sending up. And I have only one thing to say to the tax increasers: Go ahead, make my day. [Laughter]

The defense budget has also become a convenient scapegoat for those in Congress who aren't willing to face up to the tough budget decisions. The fact is, however, that the recent growth in the deficit has nothing to do with defense spending. I know that's going to be hard for some to believe in view of all that you're hearing and that has been printed. But in the last 2 years the projected defense spending we had projected for the fiscal year 1985 has decreased by \$26 billion in real terms. Now, this wasn't waiting for someone up on the Hill to do it. We ourselves and the Defense Department found that we could reduce that much by differences in management and inflation and things that had happened. And during that same period, while that was going down \$26 billion, expected total revenues for this year have increased \$30 billion in real terms.

But projected nondefense, non-debt service spending has increased about double that amount -- around \$60 billion. It seems that despite all the rhetoric about the deficit, Congress has been carrying on its old pork-barreling politics as usual. We're now seeing dramatic growth in our economy, the kind of growth that used to be called impossible. Revised figures for '84 show a 6.9-percent increase in the gross national product, but no economy can grow faster than Congress can write a check.

While I'm on the subject, let me say that we just need your support for our strategic modernization program, especially the Peacekeeper-MX. The Peacekeeper's already included in

the budget. It's shortsighted in the extreme to try to make savings by cutting out a program so essential to our national security and to the success of our arms reduction talks that are now underway in Geneva. The effort of some to cut the Peacekeeper is just another example of scapegoating by those who are unwilling to face up to their budget responsibilities.

If special interest group pressures on Congress are too great for them to get spending under control, let's do as Senator Mack Mattingly has proposed and give the Presidential line-item veto a 2-year trial run. That's all that he's asking for. Let's try it for a couple of years; see if it works. Somebody's got to stop this spending splurge, and I'm willing to take the political heat. To tell you the truth, I'll enjoy it. [Laughter] Somebody has to start looking out for the long-term interests of the American people as a whole.

Later in this session of Congress, we'll be presenting our proposals for tax reform that will lower tax rates, broaden the tax base, and make the tax code simpler and fairer. We're looking at a top rate on personal income taxes of 35 percent, very possibly less. And we'll be sure that incentives for capital formation are maintained. And I just want to reemphasize one thing: Tax reform will not be a tax increase in disguise. We're also moving forward on the new GATT negotiations -- a series of trade liberalization talks with our trading partners, developed and developing alike.

These three initiatives -- tax reform, budget control, and trade liberalization -- are the heart of our economic program. And taken together, they can produce an economic renaissance in this country. With the political will to carry these programs through, I'm convinced that we can grow stronger and faster than even the most optimistic economists are predicting.

We can look back to the midsixties to see another period of dramatic growth liberated by tax cuts and trade liberalization at that time. But we have an advantage they didn't have back then. Today's economy is being powered by a high-tech explosion whose effects are only beginning to be felt. The face of American industry is being transformed daily by revolutionary new inventions and breakthroughs in productivity.

But we should keep in mind as we work to reform our tax code that misguided tax policies back in the seventies almost destroyed America's position as the leader of the high-tech revolution. Exorbitant tax rates together with a high rate of inflation almost wiped out the venture capital markets in this country, forcing American entrepreneurs to look abroad for financing.

One such case is the story of Gene Amdahl, the inventor of what many consider the most successful computer ever built. Back in the seventies he decided to start his own company, but he couldn't find the venture capital that he needed in this country, and he was forced to go to Japan, to a large, high-tech competitor in Japan. They gave him the money in return for his ideas.

High tax rates were literally producing an exodus of American high-tech to foreign countries. We were creating tax refugees out of our best minds and talents and most successful entrepreneurs. But when tax rates were cut, the dollars committed to venture capital exploded -- from barely 39 million in 1977 to over 4 billion last year.

One of the first rules of economics is if you tax something, you get less of it. High tax rates discourage work, risk-taking, initiative, and imagination. And they're really a tax on hope, optimism, and our faith in the future. And they penalize the very people that give the most -- the risk-takers, the entrepreneurs who create whole new businesses and industries, often out of no more than a dream and some hard work.

Bob Swiggett, a member of ABC, started the Kollmorgen Corporation in his garage. George Hatsopoulos, founder of Thermo Electron, and Dermot Dunphy, chief executive officer of Sealed Air Corporation, came to this country as immigrants. Entrepreneurs such as these may have started with very little, but they have added immeasurably to the wealth and the prosperity of our nation. They took hold of the opportunity that America offers, and they used it to create opportunity for others.

I got a letter from one such entrepreneur a few days ago -- well, let's say it's a week or so ago -- and they'd mentioned -- he and his partner mentioned what a pleasure it would be if someday they could come in and say hello. And I turned some people loose on this, found out that they had a business trip planned -- those two partners -- to Richmond, and so I had Kathy [Kathleen Osborne, Personal Secretary to the President] get on the phone and tell them that if it was possible for them to come by way of Washington, I'd be very happy to see them. I was kind of curious to see them, two very bright young fellows and their lovely young wives. They came in, and the reason I was intrigued was that the fellow's name who wrote to me was Cain. And he told me that he and his partner started a business in 1981 with \$1,000 capital between them. And everybody told them they could never make it. Last year they did a million and a half in business and are expecting to do \$2.5 million this year. And isn't this typical of entrepreneurs in America? The White House operators were kind of awestruck when they called me back to tell me that I had them on the phone, that they were there to talk to me, because their business is now known as Cain and Able. [Laughter] He found a fellow named Able and -- [laughter]. Cain and Able, an electric company -- [laughter] -- have 35 employees.

Well, the entrepreneurial, high-growth firms of the American Business Conference created new jobs 10 times faster than the overall economy and more than 10 times faster than the Fortune 500. America's entrepreneurs are this country's lifeblood. We must allow them the wherewithal to follow through on their dreams and to build a great future for our country.

Taxes are simply the price of government, and democratic governments just like businesses exist in a highly competitive environment. Individuals are constantly making choices about the quality and extent of their participation in the taxed economy. Do high taxes make hard work less rewarding and increased leisure more attractive? Do they make investment less profitable and competition relatively cheaper? Do they channel the remaining investment out of the productive sector into tax shelters and nontaxable assets? And, finally, does the taxed economy begin to lose out altogether to an expanding underground economy?

This was the story of the high-taxed decade of the seventies when more and more Americans decided that the price of government was simply too high. But just as businesses can increase profits by cutting prices and expanding their share of the market, governments can increase revenues by cutting tax rates and expanding the tax base.

This is what Japan did between 1954 and '74 when they cut effective tax rates practically every year. These were, of course, years of unparalleled prosperity for Japan that catapulted them out of the league of underdeveloped nations and into the front ranks of the world's leading economic powers.

Our historic tax cut in '81 gave the United States the same kind of upward push. It's no accident that revenues increased by 11 percent in 1984, which was the first full year when all three elements of our tax cut were in place. There's no better time than now to follow through with a tax reform that will continue to stimulate the entrepreneurial genius of the American people.

You know, it's sometimes been said -- and I can tell this. I can't tell ethnic stories anymore, but -- [laughter] -- present job. But having gotten my degree in economics, I can tell stories about economists. [Laughter] It's been said that if you line a thousand economists up end to end, they still won't reach a conclusion. [Laughter]

But the American Business Conference and other companies that are on the cutting edge of our economy know the importance of the growth scenario of tax reform, budget control, and trade liberalization. We're poised on the threshold of an era of unrivaled prosperity, and we'll be looking to you for your support in the crucial months ahead to make it happen.

I thank you very much, and God bless all of you.

Note: The President spoke at 1:19 p.m. in Room 450 of the Old Executive Office Building. At the conclusion of the President's remarks, Arthur Levitt, Jr., chairman and founder of the American Business Conference, presented the President with an award commending his efforts in promoting entrepreneurship in America.