

Remarks About Federal Tax Reduction Legislation at a White House Luncheon for Out-of-Town Editors and Broadcasters

July 22, 1981

Ladies and gentlemen, please go on eating your dessert. It won't bother me a bit; I got mine already. I want to take a moment just to welcome you to the White House and tell you how delighted we are to have you here. Actually, we were thinking of inviting Tip O'Neill to be here with us, too, but then I remembered that my good friend, the Speaker, just can't stomach the idea of a free lunch. [Laughter]

Anyway, it's good to see you all. You know, I always realized that each of you, your group, command great respect, but I never realized how much until today. You've corralled nearly half our top people and arranged it so that you were getting all the briefings on taxes, and I wasn't. [Laughter] So, finally I decided if you can't lick 'em, join 'em. So, you'll get a little more briefing here.

As you'll notice, I didn't come unprepared. I brought along a little art work to highlight what we believe is the single most important part of this entire tax debate. Our bipartisan coalition offers a real tax reduction, while the House Democratic leadership, I think, is offering still another make-believe tax cut that dissolves into a huge tax increase.

As you can see -- the first chart on the right -- they're offering only a 15-percent tax cut against nearly a 22-percent built-in tax increase. Now, of course, we're being told that there's -- I should say, in 1984 they offer no tax cut at all. Now, of course, we're being told there's a possibility of triggering a third-year tax cut if the economic conditions improve. But by holding the people's tax reduction hostage to future economic events, we'll be removing the certainty that they need to begin saving or investing more of their money, precisely what is needed to get our economy back in shape.

I have said before, and will repeat: Government does not tax to get the money it needs; government always finds a need for the money it gets. And so that third possible tax cut would be dangling out there. A trigger will do far more to preclude a third-year tax cut than to promote one. And that's why, on this chart on the right, I like that line marking the break-even point on taxes at about 22 percent. It's colored ocean-blue because, obviously, that's the line every taxpayer must remain above to stay afloat. But under the other proposal you won't, you're sunk.

Now, maybe that's why when I asked their leadership last week how they can look the American public in the eye and say, "We're reducing your taxes," I got no answer. They had no answer. And then I wondered why they're willing to give a business tax cut for at least 7 years, staged out in advance, but they think it's too dangerous to give individuals a commitment for 3 years. We're still waiting for an answer to that one, too, but we shouldn't hold our breath. It seems they rest their entire case on just one claim -- that their bill does more for middle-income Americans. And

today, we're going to bury that fairytale also. To paraphrase a wise Englishman, Samuel Johnson, these fellows have had only one idea their whole life long, and what a pity because it's dead wrong.

You see, if we're sincere about giving the American people real tax reduction, then we have to do better than the typical one-shot, here today and gone tomorrow rebates of old. We must make the people a commitment, the kind of commitment that says if you work or save more tomorrow than you did today, then your reward will be higher. More of every added dollar that you earn will be yours to keep. And that's why it's so important to reduce tax rates.

Now, for all those who will work hard for their families, and who could succeed over time in raising their incomes, we must make a commitment that they won't be punished by tax rates designed only to feed the already bloated Federal budget. So, this is why in addition to reducing tax rates, we must also reduce those rates across the board. Only then can we look the public in the eye and say we're providing real incentives that will help all Americans create, build, and share in growing prosperity. And only then can we truthfully say we're making a commitment to your future and not just to the next election. We think that's the real difference between our bill and the House leadership bill.

We make this commitment without qualifications. They offer half a loaf and a vague promise. Take a look at these charts on the left which show what the real tax payments will be for income earners between \$15,000 and \$30,000 under the two bills. The dotted line is theirs. Yes, it goes down and, as they have boasted, a little bit more sharply in the first year than ours. But you come to this point down here where their tax cut stops and starts going back up again, not only in the form of social security taxes that have already been adopted, but in the form of bracket creep through inflation. And you will notice that our tax line does not go down as steeply beyond there but continues to go on down. And that orange space in there is the money that you'll have in your pocket, differing -- between which tax you'll have in your pocket or out of your pocket, depending on which one of those tax programs we choose.

By 1983, under their bill, your tax cut as you can see is already a thing of the past. Your taxes are rising again, and they'll begin shooting higher and higher as time goes on. They want to rig the tax code to take back their tax cut as quickly as possible, and that way they'll be able to spend more and more. Under our proposal working Americans do much better, because the bipartisan bill makes a commitment to get rates down, and we're going to keep them down.

I believe these charts speak wonders about two very different views of the world. And we're going to do everything we can to be sure the public sees them, because while they show the bipartisan bill making a genuine commitment to the future of middle-income Americans, they show the Democrat leadership bill throwing the public a bone now, knowing they'll get it back -- if you'll forgive the expression, with an arm and a leg attached.

The bottom line then is not a choice between two different versions of a tax cut as so many have said. It's a choice between reducing taxes on the American people or increasing them. And that's why we're so determined to hang tough on our bill.

The simple truth is that there is a gigantic tax increase presently built into the tax system, and what we're really talking about with our tax bill is eliminating that tax increase. We go a few percentage points beyond. The tax increase that's built in is 22 percent. Our tax cut is about 25 percent. And we look forward, when we get out of the hole and have some leeway, we're already talking about a second tax cut bill in which we'll correct some more of the inequities that still exist. But we have to get that rate of growth up there.

I don't have a chart for this. You'll have to just look at my arms. The simple truth is we're not, in our budget cuts, trying to do that line of growth in government down that way; we just want to lower it. And we want the tax bill that is being taken from the people lowered. And there will be the legitimate growth built-in that we will need for our increase in size, for just normal growth that takes place. The difference will be that where we have been increasing spending in the government about 14 percent a year, we seek to bring it down to half that, to about a 7-percent increase a year.

And now, I have to apologize. I'm running late, but I've got a cousin here who's going to take over for me, Don Regan, with any questions that you may have. And I'm sorry that I can't stay to hear those. But one of these days, I'm going to find where that place is here where they tell me what I'm doing every 15 minutes a day. And heads will roll. [Laughter]

Thank you all very much for being here.

Don Regan, Secretary of the Treasury.

Note: The President spoke at 1:15 p.m. in the State Dining Room at the White House.