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THE WHITE HOUSE

WASHINGTON

February 2, 1984

MEMORANDUM FOR: JAMES A. BAKER, III

FROM: MARLIN FITZWATER Marlin Fitzwater

SUBJECT: Feldstein Briefing on Economic Report

Per your request, following are highlights from the press briefing at 9:30 a.m. this morning on the Economic Report by Martin Feldstein, Chairman of the Council on Economic Advisers. The Chairman met privately with about 20 "economic reporters" at 8:15 a.m. this morning, following his appearance on CBS "Morning".

Deficits and the Recovery

"...We can't count on growing our way out of these deficits. And if we don't deal with them, we can't have the kind of economic recovery that we want. Unless they are reduced over the next several years down to a small fraction of our GNP, we're going to continue to have abnormally high real interest rates. We're going to continue to see that investment is depressed, as a share of GNP. We will continue to have a lopsided recovery in which a strong dollar has adverse effects on our export industries and those that compete with imports from abroad."

Defense Cuts

"I'm saying these negotiations I expect that -- to get a compromise, to get $100 billion plus over the next few years agreed to quickly, we're going to have to have additional tax revenue, we're going to have to trim back on the size of the defense authorizations, and we're going to have to have domestic spending cuts."

Financial Markets

"...I think if we get negotiations settled in the next few weeks that produce $100 billion plus of deficit reduction over the next few weeks that produce $100 billion plus of deficit reduction over three years -- and I think $100 billion is the minimum, by no means the ceiling -- I think if we get $100 billion plus over three years and that's interpreted correctly as a downpayment, as a first step to be followed up in 1985, then I think that there will be the kind of confidence in financial markets and among business investors that can keep this recovery moving in the way that we have forecast it."

$100 Billion a Year

"...Let me be clear. What we're looking for in the negotiations is a $100 billion cumulative over three years, '85, '86 and '87, as least $100 billion.

If we get $100 billion total, that will presumably mean something like $40 billion or $50 billion a year in 1986, '87 and beyond. The only way we're going to do that is to come back after the elections in 1985 and make the more difficult decisions that will reduce the annual deficits by $100 billion or so."

Tax Increases after 1985

"I think you're going to have to wait and see what happens in 1985. Unless there is -- let me say this -- unless there is a significant change in priorities, we are going to have to have more tax revenue."

Secret Budget Plan for after the Election

"There is no plan. We have to face that problem. It will have to be dealt with in '85. There are going to have to be very difficult decisions, because we're talking about substantial numbers of dollars, but at this time there is no plan."

Entitlements

"There are proposals in this budget which deal with what I think are sometimes called entitlements. There's the pensions for -- they're not low-income means tested entitlements. They are things like civil service and military pensions. And we propose in this budget to delay the COLA increases in those.

There are a lot of things that would fall under the rubric of entitlements that have to be dealt with now as well as in the future. There are small changes in the Medicare and Medicaid program that were in the Congressional Reconciliation bill last year that we hope will be part of the discussions in these negotiations."

President's Position on Tax Increases

"Let me refer you back to what he said to all of you when he came into the Briefing Room about a month and a half ago, which he said that he wants to bring down outlays, reduce cost of government as much as possible. But if that doesn't balance the budget, if that doesn't bring spending and receipts into balance, then he will look at the receipt side."

Cutting the $305 Billion for Defense

"...We understand that the $305 billion for DoD that is in the authority request for 1985 will have to be trimmed as part of these negotiations. How far? More than the President would like, less than some of the people we're negotiating with would like. But we'll have to wait until we see what the negotiations lead to."

Q: Secretary Weinberger yesterday testified on the Hill, said just the opposite. He said that we couldn't accept any cuts in this $305 spending authority request. Why do you then today say what's negotiable and we expect that there will be cuts?

A: "I haven't heard the Secretary's statement but I know what was our understanding in the administration when we announced that we wanted these negotiations. That has been said over and over again. Nothing is ruled out, including defense and taxes.

Q: So the $305 -- is that a fake figure that you put up artificially high so you could bargain it down?

A: No, no. That figure was, as you know, cut down by about $17 billion from the figure that was carried over from last year.

Q: Yes, but you're saying that this figure is artificially --

A: It is clearly less -- it is clearly less than the Defense Department would like, but we have to make changes if we're to get these deficits down and there is a complete commitment to doing that.

Marginal Tax Rates

"The President agreed to authorize the additional tax revenue that is in this budget because he makes an important distinction between closing tax loopholes and raising marginal tax rates across the board. There is no direct impact on marginal tax rates in these proposals."

Chairman Feldstein Interviews/Appearances Related to the Budget/Economic Report

Thursday, January 26		ABC "Good Morning America"
Wednesday, February 1		CBS "Nightwatch" Interview with ABC-TV "Evening News"
Thursday, February 2	*	CBS "Morning"
		Briefing for economic reporters, 8:15 a.m.
		Brief the White House Press Corps, 9:30 a.m.
	*	PBS "McNeil-Lehrer"
Friday, February 3		CNN "Take Two"
Sunday, February 5		ABC "This Week with David Brinkley"

* Part of the Office of Communications Public Affairs plan for the Budget/Economic Report

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THE WHITE HOUSE

Office of the Press Secretary

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February 2, 1984

BRIEFING BY THE
CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS,
MARTIN FELDSTEIN
ON THE ECONOMIC REPORT

The Briefing Room

9:33 A.M. EST

MR. FITZWATER: This morning's briefing is on the Economic Report by Martin Feldstein, Chairman of the Council of Economic Advisers. The report is embargoed for 10:00 a.m. this morning. And we have extra copies for any of you who didn't get one earlier.

DR. FELDSTEIN: I'm sure you've all had lots of time in the last few days to read the report. I don't have a formal prepared statement. But let me just make a brief remark about the report.

There's no way to summarize it; but there are certain themes that run through it. And one that's clearly prominent in the first two chapters and that comes up again in some of the other discussion is the problems of the budget deficit. That's something that we in this report and that the budget message also pointed out as the single most important problem that has to be dealt with in the years ahead. We can't count on growing our way out of these deficits. And if we don't deal with them, we can't have the kind of economic recovery that we want. Unless they are reduced over the next several years down to a small fracti of our GNP, we're going to continue to have abnormally high real interest rates. We're going to continue to see that investment is depressed, as a share of GNP. We will continue to have a lopsided recovery in which a strong dollar has adverse effects on our export industries and those that compete with imports from abroad.

And in the longer term, as the report and the budget both make clear, the interest payments on our national debt will reporesent a very large share of total tax revenue, 30 percent or perhaps as much as 40 percent of personal income tax revenue by the end of the decade will have to be devoted to paying the interest on the national debt. So reducing the deficit has to be one of our highest priorities.

I am, as many of you know, quite optimistic that these bipartisan negotiations that are scheduled to begin next week are going to be fruitful, that what we couldn't accomplish by sending up the kind of budget that was sent up last year can be accomplished in quiet negotiations between the leadership of the Republicans and the Democrats in the Congress and the administration.

Q Excuse me. Are you announcing that the Democrats have agreed to meet next week?

DR. FELDSTEIN: No, I'm not announcing any news. I believe that --

Q -- again next week.

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DR. FELDSTEIN: I believe that Mr. Wright and Senator Inouye are expected to come next week. And I believe that's been public information for quite a while.

Q It's news to us.

Q And you're characterizing --

DR. FELDSTEIN: -- I'm not intending to break any news -- Not saying anything that I don't believe I've read in the newspapers.

Q You know, heaven forbid, news should break out here, Dr. Feldstein; but to what was this -- What were the difficult choices, the difficult decisions that we were told yesterday would have to be made in 1985, if there is no progress on the deficit? What kinds of choices?

DR. FELDSTEIN: I wouldn't even put it that way. I would say that difficult decisions are going to have to be made in 1985, even if, as I expect, these negotiations are fruitful.

Q What can you tell us about what we face right after the election?

DR. FELDSTEIN: I can't tell you very much because it's still clearly unknown. But even with success, $100 billion plus in these negotiations, we will have significant deficits in the years ahead. And the other only that they're going to be brought down is to go beyond what the President called "the less contentious issues" and to take on some of the tough parts in the budget.

But I'm not going to say more about the specifics of that until we get to 1985.

Q You're saying that there are going to have to be taxes, there are going to have to be spending cuts.

DR. FELDSTEIN: I'm saying these negotiations I expect that -- to get a compromise, to get $100 billion plus over the next few years agreed to quickly, we're going to have to have additional tax revenue, we're going to have to trim back on the size of the defense authorizations and we're going to have to have domestic spending cuts.

All that has to be done now. And I think it can be done and be done quickly.

Q In these negotiations, are you saying?

DR. FELDSTEIN: In these negotiations.

Q What day next week --

DR. FELDSTEIN: I can't be telling you something you don't already know. The administration has said over --

Q -- negotiations was going to focus on -- We were going to focus on the less contentious issues.

DR. FELDSTEIN: Yes, but that would include dealing not only with domestic spending but also with increased tax revenue through closing loopholes, going beyond the items that are in the budget. And, also, we expect we'll require trimming back the defense appropriations.

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Q Is some kind of general tax increase inevitable? Is that something we're going to have to do in 1985?

DR. FELDSTEIN: I don't think we can answer that at this point.

Obviously, what we're talking about is finding another, roughly, $100 billion beyond what can be done in this downpayment package. And we have to see just how that can be done.

Q Marty, how much worse is the economic situation going to be because you're waiting and not solving the problem now? Because you're putting it off because it's an election year?

DR. FELDSTEIN: I don't think -- If we get these negotiations to a fruitful conclusion the economy will suffer. Let me be more explicit. I think if we get negotiations settled in the next few weeks that produce $100 billion plus of deficit reduction over three years -- and I think $100 billion is the minimum, by no means the ceiling -- I think if we get $100 billion plus over three years and that's interpreted correctly as a downpayment, as a first step to be followed up in 1985, then I think that there will be the kind of confidence in financial markets and among business investors that can keep this recovery moving in the way that we have forecast it.

Q But what if all that's accomplished is what the President has proposed? How much worse is it that he, in his budget, has decided to do nothing in 1984 and to wait until 1985?

DR. FELDSTEIN: I think that -- Our attitude, as you should know, is that these negotiations really supercede the budget, that the budget is not what we want to see happen in 1985, that the budget is a --

Q So why did you send it up, Marty?

DR. FELDSTEIN: Because last year we tried to do the opposite. We sent up a budget that called for substantial spending cuts, called for a large contingent in tax increase and it got no where. It was just -- no reception at all in the House of Representatives. And the result, I think, was that we made no progress.

Therefore, if we're going to make progress, we have to do it a different way. We have to get the key people together in a room to talk about what can be done, rather than turn it into a public debate.

Q Marty, since when is the budget supposed to be a political assessment? Isn't it supposed to be a budget?

DR. FELDSTEIN: It is a budget. It is a budget that explains most of the things that have to be done in the coming year. But it doesn't explain how we can make the additional cuts and tax increases that are required. It describes the funds that are going to be needed to run all the agencies and all the programs. But we do need to find, beyond that, additional cuts.

Q Dr. Feldstein, you're saying $100 billion from the negotiations over three years and then another $100 billion you must get --

DR. FELDSTEIN: A year. A year.

Q -- in fiscal '85 and beyond, each year?

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DR. FELDSTEIN: No, no. Let me be clear. What we're looking for in the negotiations is a $100 billion cumulative over three years, '85, '86 and '87, at least $100 billion.

If we get $100 billion total, that will presumably mean something like $40 billion or $50 billion a year in 1986, '87 and beyond. That, obviously, won't get the deficits down to a balanced budget. The only way we're going to do that is to come back after the elections in 1985 and make the more difficult decisions that will reduce the annual deficits by $100 billion or so.

Q Don't you have to go to a tax increase to do that?

DR. FELDSTEIN: We're going to have to wait until '85 to see what can be done then.

Q Why?

Q But realistically -- you can't get it all from spending, can you?

DR. FELDSTEIN: I think you're going to have to wait and see what happens in 1985. Unless there is -- Let me say this -- unless there is a significant change in priorities, we are going to have to have more tax revenue.

Q You've said repeatedly the waiting until '85 to enact some kind of budget plan will put such a dampening effect on demand in the economy that it's going to have some effect on GNP growth. You've said that throughout this year. What kind of effect will a package of this proportions, that you're telling us is absolutely necessary, will have on economic growth?

DR. FELDSTEIN: The crucial thing is what people expect about future years. If they see this downpayment as a serious

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effort, and as an indication that Congress and the administration will be able to go on working together, then, I think, the economy can produce the kind of solid growth over the next few years that we're forecasting.

I think that's the crucial part -- whether or not they see this as a downpayment to be followed up in '85 by additional legislation that'll continue to shrink the deficits in the coming year.

Q Dr. Feldstein, aren't you really being dishonest on the -- You're saying you need tough choices in 1985 but because you have an election, you don't want to say what those choices are. With a President seeking re-election, isn't that really dishonest not to say what it is that you want, intend to do in 1985?

DR. FELDSTEIN: I think the President has said in very general terms what he wants to do. What he has said --

Q -- exactly the opposite. You've said -- you said he said want new taxes. You say that you'd want to -- you're going to need new taxes. He says he doesn't want to cut defense spending. You're saying that he's going to have to.

DR. FELDSTEIN: I'm going to tell you what I think the President has said, and then you tell me where you think I'm wrong. What I believe the President has said and what the administration has made very clear about these negotiations is that in these negotiations, in the $100 billion over three years --

Q I'm not talking about the negotiations.

DR. FELDSTEIN: Okay. Well, that's what I was talking about when I said that we're going to have to do something to --

Q No, you said that after the election that you need, unless there was a significant change of priorities, you'll need additional taxes.

DR. FELDSTEIN: Because you mentioned defense. The defense I --

Q I was talking about taxes as well.

DR. FELDSTEIN: Let me clear because maybe not everybody else is as clear as you are on this. In the negotiations --

Q -- clear.

DR. FELDSTEIN: -- everything is on the table -- in the negotiations everything is on the table. That includes taxes, it includes defense, it includes domestic spending. Now, what happens after the election? I can't say what's going to happen after the election. We face a deficit even with this downpayment that is on the order of two and a half or three percent of GNP.

Q What I'm saying is for a candidate seeking re-election, doesn't he have an obligation to say what will happen after the election?

DR. FELDSTEIN: What he said is -- what he has said is that he believes that he wants to start on the spending side. He wants to start on the spending side and see how much can be done on the spending side. What he said when he came and spoke in this room about a month and a half ago is that if one see that spending has been reduced as much as possible, cost of government has been brought down as much as possible, and that still doesn't balance receipts and outlays, then something has to be done on the receipt side. And he's emphasized that he wants the Treasury to develop options for substantial tax reform and simplification so that whatever taxes are collected are collected

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in a way that burdens the economy less.

Q Aren't you not telling us what you want to do in 1985 because you're trying to duck a political issue?

DR. FELDSTEIN: I'm not even going to be here in 1985 so I don't know what the administration is going to decide in 1985.

Q You're not even going to be here tomorrow after this. (Laughter.)

Q Dr. Feldstein, how in the world can you be optimistic about the decision for compromising negotiations when the Democrats are not going to go for significant domestic spending cuts and the President has already overruled advisors like yourself on the prospect for real tax increases or defense cuts?

DR. FELDSTEIN: I think you're wrong. What has been said repeatedly -- Jim Baker said it on television awhile ago; Dave Stockman and Don Regan and I all said it in the general press briefing yesterday -- is that everything is negotiable this time. We expect there to be a trimming down in the proposed defense outlays in this budget. We expect there to be more tax revenue than is in this budget, and we expect to get domestic spending cuts.

Q You're a dead man. (Laughter.)

DR. FELDSTEIN: You haven't been listening to what my colleagues have been saying recently. All this has been repeated over and over and over again.

Q I've only listened to what one person has been saying and he hasn't gotten the word.

Q What does the President mean, then, when he says not on your life that we're going raise taxes to reduce the deficit?

DR. FELDSTEIN: What the President means is we're not going to have a general rate increase for everybody. What he is prepared --

Q -- for the poor, huh?

DR. FELDSTEIN: No, now, in these negotiations. What he wants to do -- Allow me to deal with that in a minute, Sam.

Q Okay.

DR. FELDSTEIN: What he wants to do is to include as part of this package additional tax revenue. Recall that in this budget there are $33 billion over the next three years in additional tax revenue. But it doesn't come from an across-the-board increase. It doesn't raise marginal rates directly. What it does is raise tax revenue by closing tax loopholes. In the President's mind that is a fundamental distinction -- raising marginal tax rates by an across-the-board increase and closing tax loopholes.

Q How much additional can be raised above the $33 billion through the same process?

DR. FELDSTEIN: Again, I don't want to anticipate in detail what the negotiations are going to have to focus on but you probably heard yesterday when Bob Dole and Dan Rostenkowski were on television and said that they could quickly agree to $50 billion over three years, if they were given the opportunity. I think that the leadership in the Congress really can deal with this and deal with it in a very fast schedule.

Q Marty, speaking of 1985, there is really no secret as to where you're going to have to cut because cuts in discretionary programs, as Stockman said, it is fortunate that you are already down to the bone. And he mentioned the places where it's going to have to be cut. Indeed, he mentioned them yesterday, didn't he? So you are talking about such things as entitlements. You are talking about such things as medicare -- are you not?

DR. FELDSTEIN: We don't know what we're talking about for '85. (Laughter.)

Q That'll get on. (Laughter.)

Q I realize, I realize that --

DR. FELDSTEIN: Well, right now we have the budget that has just been presented -- to be discussed, and negotiations to be dealt with. Why can't we wait until a year from now to talk about next year's budget?

Q Because there's an election campaign on, and you are saying, rather frankly from the podium yesterday, that you just don't want to get into the politics of this year and present these targets for everybody to shoot at. But the fact is that there are a hell of a lot people out there who are worried about what is going to happen during the next four years. You implied, very strongly, that the first priority of the President, as you quoted him, was to first see if he could get domestic spending down, as much as possible, and then go to the rest. Now, that domestic spending -- there are few areas left. Will you not acknowledge that they include medicare and entitlements?

DR. FELDSTEIN: I don't want to point to any particular part of the budget for 1985. There have been no discussions -- there

Q Will you tell --

DR. FELDSTEIN: -- have been no decisions within --

Q Will you tell, will you tell us that --

DR. FELDSTEIN: -- this administration about 1985.

Q -- Will you tell us that social security, entitlements, and medicare are out of bounds in the next four years?

DR. FELDSTEIN: I can't tell you anything because there's been no discussion in the administration about the budget to be submitted a year from now.

Q Why is it that Stockman in the Fortune interview specifically -- and yesterday -- mentioned that?

DR. FELDSTEIN: Medicare is clearly a problem part of the budget. The medicare outlays do not meet medicare receipts over the next decade. There has been a quadrennial commission that has reported and said that the medicare program is going to be hundreds of billions of dollars short over that period, that either has to be made up by additional revenue -- earmarked for that -- or otherwise, or it has to be made up by finding ways of trimming the medicare program.

But at this point, no decision has been made other than the very small changes that are in this budget for medicare.

Q Marty -- what you and Dave Stockman were saying yesterday, and you again today, is that there's some sort of secret plan to deal with all of these problems, but don't ask us until after the election. I mean, is that fair to the voters?

DR. FELDSTEIN: I will swear to you that there is no secret plan.

Q There's no secret plan -- it's taxes and spending cuts in places like medicare.

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DR. FELDSTEIN: There is no plan. We have to face that problem. It will have to be dealt with in '85. There are going to have to be very difficult decisions, because we're talking about substantial numbers of dollars, but at this time there is no plan.

There's an approach. The President said he wants to go through the budget, see what is politically and economically possible on the spending side, before he turns to the revenue side.

Q Respectfully, after three years in office, doesn't this man have an obligation to have a plan --

Q No --

Q -- which he can present to the voters?

DR. FELDSTEIN: He has been making progress in bringing down domestic spending, and I think we just have to wait and see what happens in 1985.

Q Will you bring the deficits down?

DR. FELDSTEIN: If the negotiations work, the deficit will be coming down.

Q Do you disagree with Mr. Stockman who said yesterday that next year they were clearly going to have to look at entitlements? He said that in plain English, look at, meaning --

DR. FELDSTEIN: There are proposals in this budget which deal with what I think are sometimes called entitlements. There's the pensions for -- they're not low-income means tested entitlements. They are things like civil service and military pensions. And we propose in this budget to delay the COLA increases in those.

There are a lot of things that would fall under the rubric of entitlements that have to be dealt with now as well as in the future. There are small changes in the Medicare and Medicaid program that were in the Congressional Reconciliation bill last year that we hope will be part of the discussions in these negotiations.

Q But Mr. Stockman said there's going to be a very tough bullet to bite next year, which implies strongly that there's going to be a major whack taken at entitlements next year once the election's --

DR. FELDSTEIN: I don't know whether that's going to be possible. I don't know whether that's going to be proposed. All I know is

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the President had made it clear that he is committed to getting these deficits all the way down. He's committed to eventually balancing the budget. That's going to require very substantial reductions in outlays or increases in taxes.

And I know his starting point. His starting point is to look at the spending side.

Q How do you know he's committed to getting the deficits down? That's not what he's saying.

DR. FELDSTEIN: Because he has said that repeatedly inside this administration.

Q Not at the cost of taxes or defense increases.

DR. FELDSTEIN: Let me refer you back to what he said to all of you when he came into the Briefing Room about a month and a half ago, which he said that he wants to bring down outlays, reduce cost of government as much as possible. But if that doesn't balance the budget, if that doesn't bring spending and receipts into balance, then he will look at the receipt side.

Q But he's also --

Q That's not what he's saying in his campaign speeches.

Q Yes, he goes out there and he tells these people --

DR. FELDSTEIN: Just repeat to you what he said to you in this room. I can't give you a better citation than what he said to you personally.

Q I'm suggesting it's been outdated.

Q You said that the negotiations, the deficit negotiations supercede the budget and the budget is not what you want. What do you want in terms of defense spending? You must have a bottom line.

DR. FELDSTEIN: We don't have a specific bottom line. We are prepared to negotiate. We understand that the $305 billion for DOD that is in the authority request for 1985 will have to be trimmed as part of these negotiations. How far? More than the President would like, less than some of the people we're negotiating with would like. But we'll have to wait until we see what that negotiation leads tol

Q Secretary Weinberger yesterday testified on the Hill, said just the opposite. He said that we couldn't accept any cuts in this $305 spending authority request. Why do you then today say what's negotiable and we expect that there will be cuts?

DR. FELDSTEIN: I haven't heard the Secretary's statement but I know what was our understanding in the administration when we announced that we wanted these negotiations. That has been said over and over again. Nothing is ruled out, including defense and taxes.

Q So the $305 -- is that a fake figure that you put up artificially high so you could bargain it down?

DR. FELDSTEIN: No, no. That figure was, as you know, cut down by about $17 billion from the figure that was carried over from last year.

Q Yes, but you're saying that this figure is artificially --

DR. FELDSTEIN: It is clearly less -- it is clearly less than the Defense Department would like, but we have to make changes if we're to get these deficits down and there is a complete commitment to doing that.

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Q So why didn't you give the actual figure on defense that you really were willing to accept?

DR. FELDSTEIN: The reasons which I'm sure you're fully aware of, that if we had proposed not $305, but $301, that would be the starting point for any negotiations --

Q So --

Q Negotiating position, right?

DR. FELDSTEIN: It was the position that we came to internally before the agreement to negotiate was decided upon.

Q Dr. Feldstein, how can you say --

Q Feldstein. (Laughter.)

Q How can you say that --

Q Here we go again.

Q -- taxes are not ruled out of negotiations when the President has ruled them out in two weeks of speeches?

DR. FELDSTEIN: Let me repeat what I said to somebody here before. A general across-the-board tax increase doesn't fit even within the scope of the kind of downpayment plan that we're talking about. But we have not ruled out at all -- we have not ruled at all additional tax revenue. We expect there to be additional tax revenue. We expect it to be a substantial part of this $100 billion or $100 billion plus. There's no debate about that.

There's no debate about dealing with defense. That's something that the Secretary of the Treasury and the Director of OMB and I said very clearly to the entire press corps yesterday. So that is not a point of contention.

Q But the President doesn't draw that distinction. He says, no taxes. He doesn't say, no general tax. He says, no taxes.

DR. FELDSTEIN: The budget -- you've seen this budget before?

Q I know, but I'm only telling you what he says when the words come --

DR. FELDSTEIN: And what does it have in here? Whose budget is it?

Q Well, what's he doing? Talking out of --

Q Well, we don't know. You wrote it though.

Q And you don't like it.

DR. FELDSTEIN: The President agreed to authorize the additional tax revenue that is in this budget because he makes an important distinction between closing tax loopholes and raising marginal tax rates across the board. There is no direct impact on marginal tax rates in these proposals.

Q So you're saying there's not going to be a request for marginal tax rates.

MR. FITZWATER: Marty has testimony on the Hill, so we'll just have to take one question.

Pat.

Q Well, wait a minute.

Q You said that the downpayment on the deficit is important because it's necessary to send the right signal. How important is the actual dollar amount that's cut, this $100 billion figure, or is the more important thing just to show that Tip O'Neill and Ronald Reagan can sit down in civil fashion and discuss and make some progress on economic business?

DR. FELDSTEIN: We look at 1986, and '7, and beyond. We're going to need more than the reductions that can come out of this negotiation. We're going to need more than $40 or $50 billion a year. So it's just a starting point. But, obviously, the more you do now, the easier it's going to be to get those deficits down later. So doing $20 billion a year now just wouldn't be enough. The more we can do, the better.

Q It's the working together that's the key? Is that what --

DR. FELDSTEIN: It is very important. It is very important to indicate that we really -- and I think the language -- calling this a downpayment, is very important because it emphasizes the commitment to go on reducing these deficits in the future.

Q What day do the negotiations begin next week to the best of your knowledge?

DR. FELDSTEIN: Well, since I seem to be saying something that was a surprise to you I should probably stop there, but I believe that there will be a meeting next week.

Q Do you know when?

MR. FITZWATER: We don't have it -- no date's been set.

Q You say in your report that you don't want to have such big downpayment because it could suppress the growth and that it should be gradually and only step by step over the next few years. So how much do you really want this year?

DR. FELDSTEIN: Well, what I said in the report was that a large reduction of the deficit in '84 coming suddenly could be a mistake if it were too large. But I think we're talking about FY '85, '6, and '7 in these negotiations. So I don't expect any significant change in '84 at all.

Q Dr. Feldstein, there are a number of people, as you well know, in this administration who say they're basically suffering your presence until you leave in September, but that you're not --

DR. FELDSTEIN: They didn't say it to my face.

Q Well, that you're not a player anymore. What is -- what are the messages that you are getting? I mean, do you have any role in this administration anymore or -- what's your status here?

DR. FELDSTEIN: Of course I have a role in this administration. I have the same role that I've had all along in the discussions about the budget that's been prepared and in generally advising the President.

MR. FITZWATER: Thank you very much.

THE PRESS: Thank you.

END 9:58 A.M. EST

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AM-BUDGET (3 TAKES)

Reagan Administration May Compromise on Defense Spending

By Michael Posner

Washington, Feb 2, Reuter - White House economic advisers today agreed President Reagan's 1985 defense spending request might have to be cut but differed over whether major new tax increases were required to reduce huge federal budget deficits.

Budget director David Stockman, Treasury Secretary Donald Regan and Chief Economic Adviser Martin Feldstein said the administration might be willing to compromise on Reagan's $264.4 billion arms budget.

But Feldstein took a different line on the tax issue, telling reporters: ''Unless there is a significant change in priorities we are going to have to have additional tax revenues.''

The White House willingness to compromise on defense spending was seen as a major election-year concession to Congress.

In the past, Defense Secretary Caspar Weinberger has drawn the line on any cuts, saying the arms buildup must take [illegible]ecedence over domestic political concerns to counter a perceived Soviet military threat.

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PRESERVATION COPY

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AM-BUDGET 2 WASHINGTON

Stockman, Regan and Feldstein testified today before Congressional committees on Reagan's budget for the 1985 financial year which begins on October 1.

It proposes spending $925.5 billion and projects continuing defects in the $180 billion range for the next several years.

At the White House, press spokesman Larry Speakes called Reagan's defense spending request realistic.

But opposition Democrats in Congress attacked the 9.3 per cent increase over the current year and warned Weinberger the administration would not receive all the funding.

[illegible] Democrat Ron Dellums called the request ''a level [illegible]cenity I don't understand and cannot be rationalized.''

Reagan also has called on Congress for help in making a ''downpayment'' on deficit reduction by trimming $100 billion from it over three years.

''We are willing to go into negotiation with the Democrats on a $100 billion package that puts everything on the table,'' Speakes said today.

The deficit now is the major U.S. economic problem. It is sure to be a key issue in the presidential election.

MORE 1424 MP

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AM-BUDGET 1STLD 3 WASHINGTON
FELDSTEIN TOLD THE CONGRESSIONAL JOINT ECONOMIC COMMITTEE
THAT IF DEFICITS WERE NOT REDUCED ''INTEREST RATES ARE NOT
LIKELY TO FALL OVER THE NEXT FIVE YEARS AS WE HAVE PROJECTED.''
HE SAID NEGOTIATIONS WITH CONGRESS FOR A $100 BILLION
DEFICIT CUT WOULD TAKE PRIORITY AND THAT FUNDS FOR THE DEFENSE
DEPARTMENT ''WILL HAVE TO BE TRIMMED.''
AT THE SENATE BUDGET COMMITTEE, STOCKMAN ALSO CONCEDED THAT
MILITARY SPENDING MIGHT BE REDUCED. REAGAN'S REQUEST WAS NOT
''CHISELLED IN STONE,'' HE SAID.
STOCKMAN ONLY GRUDGINGLY INDICATED HE FULLY FAVORED THE
1985 BUDGET PLAN WHICH HE SAID WAS PUT TOGETHER BY VARIOUS
MEMBERS OF THE ADMINISTRATION AND NOT HIM ALONE.
ASKED IF IT HAD HIS STAMP OF APPROVAL, HE REFUSED TO REPLY
DIRECTLY. WHEN PRESSED, HE POUNDED A FIST ON THE TWO-INCH THICK
DOCUMENT, SAYING ''STAMPED, FOR WHATEVER IT'S WORTH - YES.''
STOCKMAN URGED CONGRESS TO WORK ON THE $100 BILLION DEFICIT
''DOWNPAYMENT.'' HE WARNED AGAINST SETTING A HIGHER GOAL, SAYING
IT WOULD BE ''A MIRACLE'' EVEN TO GET A CUT OF THAT SIZE.
AT THE SENATE FINANCE COMMITTEE, REGAN ALSO EXPRESSED THE
ADMINISTRATION'S WILLINGNESS TO DISCUSS THE DEFENSE BUDGET.
''THE QUESTION IS HOW MUCH, WHERE AND WHY,'' HE SAID.
REUTER 1427 MP

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By ROBERT MACKAY=
WASHINGTON (UPI) _ Budget director David Stockman told Congress
Thursday it is technically impossible to freeze military spending as a
way to save money and cut deficits because of the major new weapons
systems now being built.<
President Reagan's 1985 budget proposes to virtually freeze
non-defense domestic spending next year and increase military spending
by 13 percent _ or $47 billion.<
Senate Budget Committee Chairman Pete Domenici, R-N.M., bluntly
told Stockman during a hearing that Reagan's proposed military increase
is ``inappropriate.''<
``We can't afford it and we're going to have to restrain it and cut
back on it,'' Domenici said.<
Stockman said Reagan is willing to consider less military spending
and more taxes to shrink huge federal deficits the budget director
called ``a national predicament.''<
Stockman said he hoped Congress would settle on a military budget
somewhere between the president's $305 billion proposal and the $289
billion projection Congress made last year for fiscal 1985.<
Asked to react to a proposal to freeze military as well as
non-defense spending, Stockman replied, ``I don't believe it would be
possible . technically it would not be possible.''<
He explained that few cuts can be made in the military budget now
to help reduce the deficit because canceling production of major weapons
systems Congress approved two years ago would now cost more than
completing them He cited the B1 bomber as an example, where quick
production cuts cost.<
``If we slow down the B1, the unit cost will explode,'' Stockman
said <
Democrats on the Senate Budget Committee denounced Reagan's budget
proposal, which contains no major tax increases or spending cuts and
projects deficits of $180 billion a year. A few Republicans discarded it
and even Stockman himself refused to endorse it wholeheartedly.<
``I do support this budget, but I would not pretend for a moment
that I would recommend everthing that's in it,'' Stockman said.<
Sen Donald Reigle, D-Mich., told Stockman, ``It's a bad budget.
It's the most irresponsible spending binge we've had in our nation's
history.''<
Sen. J. James Exon, D-Neb., called it ``not only reckless, but
~~ruinous I think it's a prescription for financial disaster.''<~~
Sen Joseph Biden, D-Del., urged his colleagues to put partisanship
aside to find a solution to the deficits.<
``I think we're really in trouble and the future is slipping from
our grasp,'' Biden said.<
``The administration has indicated that all issues are on the table
_ domestic spending, defense spending and revenue increases'' _ to help
shrink the deficits, Stockman said.<
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^By SALLY JACOBSEN=
^Associated Press Writer=

WASHINGTON (AP) - President Reagan's top economic adviser said today that the nation can't wait another year to deal with troublesome budget deficits and that the administration is prepared to see its new budget - including military spending - trimmed.

``The budget is not what we want to see happen in 1985,'' Martin Feldstein said in a series of briefings with reporters.

But the president's chief spokesman maintained in a separate session with reporters that the administration budget request is ``realistic. We think it can be achieved.''

Asked if, as Feldstein seemed to be saying, Reagan would agree to defense spending cuts, spokesman Larry Speakes said, ``The point is we've submitted a budget (with) realistic figures, necessary figures, achievable figures.''

He added that Reagan was ``willing to go into negotiations,'' but would not do anything ``at the expense of the recovery or national security.''

Asked if Feldstein spoke for the administration, Speakes said, ``You'll have to make your own judgment.''

On Capitol Hill, the Republican chairman of the Senate Budget Committee said he thought the defense spending request ``inappropriate.''

In his meeting with reporters, Feldstein, chairman of the president Council of Economic Advisers, said:

``We're going to have to have additional tax revenues; we're going to have to trim back on the size of the defense authorization; and we're going to have to have domestic spending cuts.''

He said he expected the increased revenues to come through closing a series of what the administration describes as ``loopholes'' in the tax code and not from an across-the-board tax hike.

Reagan his budget blueprint to Congress on Wednesday. The spending plan, for the fiscal year that starts next Oct. 1, projects a deficit of $180.4 billion, under the record $195.4 billion set in 1983.

Feldstein, who late last year drew a White House rebuke for his warnings on the economic impact of high budget deficits, repeated his concern about the effect of the red ink.

``I don't think we can wait a year to deal seriously with the deficits. I think what is very important is to reassure financial markets, business investors that we are going to deal with the deficits,'' he said today.

He added that without confidence from the business community, ``I think there is something to worry about. I think interest rates and the dollar will stay abnormally high.''

Feldstein expressed optimism that the bipartisan negotiations on the deficit, expected to start next week, would come up with at least the $100 billion savings that Reagan has called a ``down payment'' in washing away some of the red ink.

He said the $100 billion was a minimum goal and reiterated that all areas of government spending are negotiable in the deficit discussions, including the Pentagon budget.

``There's no question we are going into these negotiations with the president and the secretary of defense both fully aware that the only way we are going to get a compromise is to have one that includes reductions in defense as well as higher tax revenues and reductions in domestic spending,'' Feldstein said.

He said the administration understands that the $305 billion budget authorization for defense in the new budget - up 18 percent from last year - ``will have to be trimmed as part of these negotiations.

``How far? More than the president would like, less than some of the people we're negotiating would like.''

Meanwhile, Sen. Pete V. Domenici of New Mexico, chairman of the Budget Committee, said he felt the defense spending request was too much.

``He called Reagan's request ``inappropriate ... we can't afford it.'' Noting the president had gotten 95.4 percent of his defense spending requests since taking office, Domenici said, ``That's a pretty good record.''

Reagan's spending plan for 1985 was barely off the government presses before Democrats in Congress scored it for failing to do more to reduce the gigantic budget deficits.

Democratic House leader Jim Wright of Texas said his party could do better than Reagan's $100 billion ``down payment'' in cuts.

``We'll call you (Reagan) and raise you and we'll be prepared to make some really big reductions in the deficits,'' Wright asserted.

Democrats, he said, are aiming to target savings of $200 billion. Much of that, though, likely would be accomplished through proposals for tax increases and cuts in the military budget that Reagan opposes.

Reagan, asked if he would agree with the Democrats' contention that up to $200 billion can be cut, said, ``It all depends on what items they have. If there are items that are acceptable to us, certainly.''

The budget plan projects spending of $925.5 billion in the fiscal year that starts Oct. 1., which would be $180.4 billion more than the government takes in. The red ink would stay at about that level in 1986 and 1987 before dropping to $152 billion in 1988 and $123.4 billion in 1989.

The deficit jumped to a record $195.4 billion in 1983.

Despite administration expressions of unhappiness with big deficits, budget director David Stockman said it was clear that ``big, sweeping changes aren't feasible or likely to happen'' in Congress in an election year.

``There's going to be some tough bullets to bite'' to bring government spending under control in the future, he said.

``There's no point to lining up all these changes and proposals in a row so that every candidate running for office in the House and Senate'' can come out against them, Stockman said.

He said the administration assumes action will be taken in 1985 and 1986 to cut sharply into government spending.

``It is not our intent that deficits of this magnitude of $180 billion in 198 should actually unfold,'' he said.

Without deficit-paring actions, he said, the red ink could swell to more than $200 billion in 1985 and 1986. ``That's what we're trying to avoid.''

The budget document shows that to get to the deficits projected over the next three years, the administration pared $106 billion from the spending levels that would that would occur if no changes were made.

With the election year in full swing, Democrats are hoping to make the deficits an issue and remind voters that Reagan campaigned on a promise to balance the budget by 1983.

Indeed, reaction to the fiscal plan was quick and sharp.

By Wednesday afternoon, there were two moves - considered largely symbolic - in the Democratic-controlled House to introduce non-binding resolutions calling on Reagan to come up with another budget plan containing measures to significantly cut the deficits.

The Reagan blueprint would leave the military with a 14.5 percent increase - to $264.4 billion - over the estimated amount for this year. After discounting for inflation, the increase would be 9.3 percent.

It calls for spending cuts of about $9 billion in a variety of non-defense domestic programs, about half of which would be offset by gains in other areas.

A laundry list of proposals for changes in the tax code would garner an additional $ .8 billion for the federal coffers in 1985, according to the Treasury.

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WASHINGTON (UPI) _ President Reagan's budget blueprint for this dec de, just sent to Capitol Hill, will not reduce deficits, but negotiations with Capitol Hill just might, top White House economist Martin Feldstein said Thursday.<
In remarks to reporters in two separate briefings, Feldstein pinned all his hopes that annual deficits can be brought under control in new negotiations with Capitol Hill expected to start next week as well on the budget the administration will submit next year.<
Both negotiations and the 1986 budget ``we think can bring those deficits down to well under 2 percent of (gross national product) by 1988,'' Feldstein said.<
The candid remarks by Feldstein on the shortcomings of the administration's broadest policy document went far beyond what other administration spokesmen have conceded.<
``It is a budget that explains most of the things that have to be done in the coming year,'' Feldstein told reporters at the White House. ``But it doesn't explain how we're going to make the additional cuts and t x increases that are required.''<
The administration gave up on the idea of proposing a realistic budget to Congress this year, knowing election-year distractions would prevent any action, he said. But those distractions will not interfere with negoti tions with Capitol Hill, an initiative just two weeks old, he suggested.<
The top White House priority now is to forge a compromise with Congress, not to get its budget passed. ``My sense is that these negotiations (with Capitol Hill) supercede completely the budget that has been sent up.''<
Feldstein did not stop there, but suggested Reagan would be willing to give up some increases in the defense budget and accept some tax incre ses _ although not an across-the-board tax increase _ not included in the budget document.<
``There is no question that we are going into these negotiations with the president and with the secretary of defense both fully aware th t the only way we are going to get a compromise is to have one that includes reductions in defense as well as higher tax revenues and reductions in domestic spending,'' he said.<
The negotiations with Congress, which he said could produce results in as little as six weeks, ``will involve cutting into the defense proposals of the administration, raising more tax revenue as well as cutting domestic spending.''<
If the negotiations fall through this year, ``then I think there is something to worry about,'' he said. ``Because I think that then interest rates and the dollar will stay abnormally high.''<

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^By SALLY JACOBSEN=
^Associated Press Writer=

WASHINGTON (AP) - President Reagan's top economic adviser said today that the nation can't wait another year to deal with troublesome budget deficits and that the administration is prepared to see its new budget - including military spending - trimmed.

``The budget is not what we want to see happen in 1985,'' Martin Feldstein said in a series of briefings with reporters.

``We're going to have to have additional tax revenues; we're going to have to trim back on the size of the defense authorization; and we're going to have to have domestic spending cuts,'' said Feldstein, chairman of the president's Council of Economic Advisers.

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``I don't think we can wait a year to deal seriously with the deficits. I think what is very important is to reassure financial markets, business investors that we are going to deal with the deficits,'' he said today.

He added that without confidence from the business community, ``I think there is something to worry about. I think interest rates and the dollar will stay abnormally high.''

Feldstein expressed optimism that the bipartisan negotiations on the deficit, expected to start next week, would come up with at least the $100 billion savings that Reagan has called a ``down payment'' in washing away some of the red ink.

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The budget document shows that to get to the deficits projected over the next three years, the administration pared $106 billion from the spending levels that would that would occur if no changes were made.

With the election year in full swing, Democrats are hoping to make the deficits an issue and remind voters that Reagan campaigned on a promise to balance the budget by 1983.

Indeed, reaction to the fiscal plan was quick and sharp.

By Wednesday afternoon, there were two moves - considered largely symbolic - in the Democratic-controlled House to introduce non-binding resolutions calling on Reagan to come up with another budget plan containing measures to significantly cut the deficits.

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A laundry list of proposals for changes in the tax code would garner an additional $ .8 billion for the federal coffers in 1985, according to the Treasury.

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^By ROBERT FURLOW+

^Associated Press Writer=

WASHINGTON (AP) - President Reagan, decrying the huge deficits in his own new budget, promised today to submit a plan to eventually dry up every drop of red ink. But he said he won't do it till next year - after November's elections.

Submitting such a plan in this election year wouldn't do any good, he said.

Reagan noted that he has already asked Congress to work with his administration toward $100 billion in still-unspecified deficit reductions over the next three years.

But even assuming the effort bears fruit, ``the deficits projected for fiscal 1986 and beyond are totally unacceptable to me,'' he said.

Indeed, Martin Feldstein, the president's chief economist, told reporters today that tackling the deficits must be the No. 1 economic priority.

He said the nation could not wait another year ``to deal seriously with the deficits'' and that it was ``very important'' to reassure the financial markets that efforts would be made to pare the red ink.

Without doing so, he said, ``then I think there is something to worry about. I think interest rates and the dollar will stay abnormally high.''

One day earlier, Reagan had sent Congress his budget message for fiscal 1985, including projections the government would outspend its income by about $180 billion a year through 1987. The deficit would still be over $120 billion by the time he left office in 1989 if he won a second term - a painful forecast for a president who had vowed as a candidate to balance the budget by 1983.

``I am committed to finding ways to reduce further the growth of spending and to put the budget on a path that will lead to a balance between outlays and receipts,'' he said today. ``In 1985 I will submit a budget that can achieve this goal.''

Treasury Secretary Donald Regan, appearing on NBC's ``Today'' show, said it would be ``entirely possible'' to cut the deficit without raising taxes because revenues are increasing. Revenues are up $5.5 billion in the current budget, he noted. At the same time, he acknowedged there would have to be reductions in spending.

Asked whether the budget balancing would depend on heavy spending cuts, Reagan responded: ``Well, it would have to involve something of that nature. We're going to have to come to grips with some of these major defects in the budget system.''

Reagan said the budget he proposed last year — including a standby tax increase he backed away from this year — would have reduced the deficit to less than 2 percent of the nation's economic output by 1988 and would have put the government ``on its way to a balance of revenues and outlays.''

But he added, ``The unwillingness of the Congress to accept the proposals that I offered has made it clear to me that we must wait until after this year's election to enact spending reductions coupled with tax simplification that will eventually eliminate our budget deficit.''

He gave no details other than to say, as he has before, that he has asked the Treasury Department to recommend ways ``to make our tax system fairer, simpler and less of a burden on our nation's economy.''

Most observers agree with Reagan that there will be little deficit cutting this year, with Congress unwilling to accept new trims in social programs and the president unwilling to increase revenue by raising taxes or to greatly scale down his plans for more military spending.

Reagan made his remarks in his annual Economic Report to Congress, a document with a generally upbeat view of the current state of the U.S. economy despite the prospect of deficits sticking near last year's record $195.4 billion.

``The economy's performance in 1983 was very gratifying to me,'' he said, citing a healthy increase in business activity accompanied by declines in inflation and unemployment.

However, he said, if deficits should actually linger as high as his budget estimated, ``they would be a serious threat to our nation's economic health and a heavy burden to future generations.''

He said, ``We would be much closer to a balanced budget today if the Congress had enacted all of the spending cuts that I have requested since assuming office, and if the long recession and the sharp decline in inflation had not substantially reduced real tax revenue.''

He gave no indication he accepted any blame for the recession that arrived midway through his first year in office. Nor did he raise the possibility that tax revenue might have been cramped by the unprecedented tax-rate reductions he pushed through Congress in 1981 — a prime topic for critics who blame those reductions for part of the current deficits.

Renewing earlier requests, he said that while waiting for his 1985 plan constitutional amendments should be approved giving him authority to veto parts of spending bills and requiring a balanced budget.

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 6, 1984

MEMORANDUM FOR JIM BAKER

FROM: MARTIN FELDSTEIN

I thought you'd be interested in this letter.

Apparently copies of it are also being sent by the CED to all the usual folks on the hill.

Committee for Economic Development

1700 K Street, N.W.
Washington, D.C. 20006
(202) 296-5860

Robert C. Holland
President

January 6, 1984

The Honorable Martin S. Feldstein
Chairman
Council of Economic Advisers
Old Executive Office Building
17th & Pennsylvania Avenue, N.W.
Washington, D.C. 20506

Dear Marty:

Knowing of your own concern with the federal fiscal situation, I want to inform you of the developing thoughts in CED on the budget deficit outlook and what should be done about it.

Our trustees have become increasingly troubled by the budget situation, and have established a Subcommittee of knowledgeable CED trustees, chaired by Don Platten, newly retired Chairman of the Chemical Bank of New York, that is studying the problem intensively. At the latest meeting of that Subcommittee, the trustees unanimously concluded that the potential damage being done to the future health of the economy by the current and projected budget deficits is so great--both through its upward pressure on real interest rates and on eventual renewed inflation, and also through its influence in elevating our exchange rate, rendering U.S. manufacturers less competitive, and deepening our trade imbalance--that deficit reduction is a first priority.

These trustees believe that reduction of federal deficits in the coming years will require major cuts in federal expenditures below the levels now projected for the rest of the 1980s. They have also been driven to the conclusion that the sum total of responsible spending cuts will not reduce the deficits enough, and that therefore substantial tax increases, weighted toward consumption, will also be needed to accompany those spending cuts.

CED recognizes the responsibility to be as specific as it can in identifying the tax and expenditure areas where it would advocate change. Our Subcommittee is hard at work at that task, and is committed to producing a series of proposals in both the tax and spending areas no later than April of 1984. The Subcommittee expects to present these fiscal proposals and companion recommendations in other areas of economic stabilization and growth policy for approval by CED's governing Research and Policy Committee in May.

At the same time, as part of this effort CED has established a special Committee of CED trustees and advisors to take a hard look at the entire issue of tax reform, clarifying the responsible options and the important economic tradeoffs that will need to be considered in formulating new tax reform legislation. That Committee will be chaired by Dean Phypers of IBM, and the resulting study will be authored by one of the country's leading academic experts on taxation, Professor David Bradford of Princeton University. That study, while not slated for completion until the beginning of 1985, will hopefully be useful to policymakers and interested citizens in the shaping of tax policy over the balance of this decade.

If at any time it would be helpful for you to be brought up to date on CED's efforts in these areas, we would be pleased to keep you informed. If at some stage you would like to pose questions or convey comments to us, we would be happy to receive them. Should a suitable occasion arise where you would wish to meet with Don Platten or any of our trustees to discuss our work and recommendations, please let me know.

Sincerely,

Robert C. Holland

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 3, 1984

MEMORANDUM FOR THE PRESIDENT

FROM: MARTIN FELDSTEIN MF

SUBJECT: Tax Cuts Since 1981

The attached table shows how the taxes of a median income family have been cut since 1981.

In 1984, the median adjusted gross income (AGI) of a family of four is estimated to be $31,527. If the Carter tax law had remained on the books, the tax on this family would now be $4,814. Your 25 percent cut in tax rates reduced the 1984 tax for that family to $3,707. The other features of your 1981 tax law -- the universal IRAs and the improved treatment of two-earner families -- reduced it further to $3,061.

Your tax cuts have thus reduced the average family's tax by 36 percent -- from $4,814 to $3,061. This is, of course, more than your original proposal of three 10 percent reductions. Those three 10 percent reductions would have cut the tax from $4,814 to $3,514. So IRAs and the special tax treatment of two-earner families reduced the taxes of a typical family by an additional 13 percent.

For 1986 the tax cut is even greater. Under Carter law, the median income family would have paid taxes of $6,122 in 1986. Your originally proposed series of three 10 percent cuts would have reduced this to $4,469. But the actual tax law (with the 25 percent tax cut, indexing, IRAs and the improved treatment of two-earner families) cuts the tax by an additional 18 percent to $3,668.

Attachment

bcc: Jim Baker ✓

Median Income Families in 1984 and 1986

1984

	Carter Tax Law	10-10-10 Proposal	5-10-10	Current Tax Law
AGI	$31,527	$31,527	$31,527	$31,527
Tax	$ 4,814	$ 3,514	$ 3,707	$ 3,061
Tax Rates				
Average	15 percent	11 percent	12 percent	10 percent
Marginal	32 percent	23 percent	25 percent	22 percent

1986

	Carter Tax Law	10-10-10 Proposal	5-10-10 and Indexing	Current Tax Law
AGI	$36,449	$36,449	$36,449	$36,449
Tax	$ 6,122	$ 4,469	$ 4,465	$ 3,668
Tax Rates				
Average	17 percent	12 percent	12 percent	10 percent
Marginal	32 percent	23 percent	25 percent	22 percent

January 3, 1984