

MEMORANDUM

April 29, 1982

TO: Paul

FROM: Rocky

RE: Some Reactions to the Failure of the Budget Compromise Effort

In case you need some background material for commenting on the failed budget negotiation effort, below are some reactions I would recommend. Attached are copies of the New York Times accounts which were the best I saw.

The President can be criticized for practicing "deny-side" economics. He continues to deny that his economic program is not working; and he is denying the economy of the assistance it needs to achieve recovery. Focus as much attention as possible on the Kemp-Roth tax cuts and highlight the President's unwillingness to reconsider that approach.

This approach is supported by the President's failure to consider any change beyond a three-month delay in the tax cut scheduled for July, 1983. By then, Kemp-Roth will have added over \$40 billion to a deficit estimated to exceed \$180 billion in FY 1983.

The need to reconsider Kemp-Roth stems from our experience with it to date. Last year, the President got the program he wanted. The result is an economy on the brink of massive failure as a result of high interest rates. Statistics include:

Real GNP growth down 4.5%
Capacity utilization down 8% over 1981 to 72%
Unemployment up to 9%
Business failures up 67%

The President continues to sacrifice fairness to the goals of Kemp-Roth. In return for an insignificant concession on Kemp-Roth, the White House sought a three-month delay in cost of living adjustments for all entitlement programs this year.

Finally, though the President may try to blame Congressional Democrats for the failure of the compromise effort, the need for such a compromise was created by the unrealistic budget he introduced. The President is hoping that someone else will take the political heat necessary to correct the dilemma created by Kemp-Roth.

The President said, "This Administration is committed to a balanced budget, and we will fight to the last blow to achieve it by 1984... We will not sit on our hands and watch helplessly as the deficit swells and swells." When the President sent his budget to Capitol Hill, he sat on his hands. When looking at the movement he has made on Kemp-Roth, it appears he still is.

SACRIFICES MADE IN THE NAME OF KEMP-ROTH

Let's look at the sacrifice being made by the public for the sake of the income tax reduction plan:

Business

Rather than stimulate production and investment, the current economic program of the President has resulted in an

- *alarming level of business failures
- *declines in the utilization of existing capacity
- * new capital spending plans by business have been cut rather than expanded

Business groups across the country have called upon the President to reconsider his tax plan.

The Middle Class

High interest rates mean:

- *no new housing
- *no new car
- *higher costs of education

Workers

A year ago, the President's Administration predicted that the economy would produce 2 million new jobs in 1982.

Instead, unemployment stands at 9%. There are almost 10,000,000 people out of work. That's about one person out of every twenty-five. That doesn't even count the numbers who have stopped trying to work.

The Poor

The President promised a safety net for the poor. Well, everybody knows a net leaks, and we are losing a growing number of people to the misery of poverty. In response to this situation, the President offers to cut even bigger holes in the net.

Who wins? There's only three people in the whole country still happy with the President's program: one Congressman from New York
one UnderSecretary of the Treasury
and the President himself.

Supply-side economics has even reduced the number of supply-siders.