The original documents are located in Box C11, folder "Presidential Handwriting, 1/24/75" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

1-24-75

Don Rumsfeld

note chairman -

done

Dick -
what does
this say -
see me
?

THE PRESIDENT HAS SEEN

Let's Listen To Reagan

By Ronald Reagan
Copley News Service

It is clear from the President's State of the Union message and his tax proposals that preceded it that he has decided not to tackle head-on the powerful groups that have a vested interest in Big Government and deficit spending.

While his tax cut proposals will—at first—be welcome news to many Americans, and may provide a genuine psychological lift to public opinion regarding the economy, I fear there will be heavy price to pay some months later when the resulting federal deficits steal those tax cuts back through renewed inflation.

Though he did call on Congress to put a moratorium on all new spending programs (except for domestic energy production), he did not insist upon cuts in the existing and proposed federal budgets. This amounts to a sharp retreat from his pledge of last August for a balanced budget by 1976. In fact, the result of the newly proposed program will be a deficit of some $30 billion this fiscal year and $45 billion in 1975-76. Given the past track record of federal forecasting, the final figures could end up much higher.

It has taken the experience of the average American family in the few recent months to prove that the Keynesian theory that inflation-begets-prosperity is bankrupt. Today it begets recession.

Unaccompanied by federal spending cuts, the President's tax proposals rest on the assumption that you and your neighbors will use the money to go out and buy refrigerators, automobiles and other products. If everyone does, production and employment go up, at least temporarily. Certainly, putting money back into the pockets of those who earned it cannot be faulted. But, there is no certainty that, after the frightening inflation of the last few months, people will want to do anything other than hide it under a mattress or in a safe deposit box.

In 1972, the economy was sluggish. The administration's response was to persuade the Federal Reserve Board to loosen the money supply, and thus credit. That produced what looked like instant prosperity, but its real result more than a year later was greatly aggravated inflation. Memories are short.

It was this inflation that brought on today's recession. "Pump priming," in the form of

Continued Page - 32

Reagan

From — Page 3

tax cuts without spending cuts, will only bring on steeper inflation a few months from now.

A major cause of inflation is the government spending more money than it takes in. Already, we, the taxpayers, are paying more than $30 billion a year in interest on the national debt. To the extent that it pays interest, the government has less to spend on defense and domestic programs.

Bankrupt though it is (and a private business in similar condition would be so declared) the federal government will keep on running by going into competition with businesses and individuals for the limited amount of capital available in order to pay its bills.

Ultimately, you, the consumer, will pay for it in the increased prices you'll pay. That's inflation.

Two basic remedies to this problem were missing from the President's message. First, he should ask Congress to curb the spending appetite of the programs of vested interests, such as those of the educationists, hospital builders (we have a surplus of beds), city and state grants, foundation grants and subsidies to various businesses and industries. It is time to gore some sacred oxen.

Second, he should insist that we "index" individual income tax rates by tying them to the cost of living index so when you receive a pay raise (to cope with inflation) you aren't robbed of it automatically by being thrown into a higher tax bracket as a result.

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