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THE WHITE HOUSE

WASHINGTON

March 28, 1975

PERSONAL TO THE PRESIDENT

From: Robert T. Hartmann 

Subject: Tax Cut Bill

1. For the past 11 weeks, starting at the Fireside, you have been calling for a quick tax cut to stimulate the economy. You have gone up and down the country, scarcely missing a day without chiding Congress for not acting faster against the recession and unemployment, saying every day counts, and demanding a tax cut bill on your desk before April 1.
2. Such a bill is now on your desk. In dollar cost it exceeds -- but not spectacularly -- your \$16 billion stimulant prescribed in January. The other crazy spending bills are on down the road, dimly perceived by the public, like the energy crunch of 1980. But this bill is here, awaiting only your signature. I disagree with the description of it as "a tough call." I would hope that reasonable time to review its hastily-drawn language will not turn into agonizing indecisiveness. Whatever you do should be done quickly, without conjuring up the image of a pack of "advisers" pulling and tugging you off-again and on-again. The decision must be yours, and consistent with your past utterances.
3. In every home, Americans are pouring over their newspaper charts to figure out how much tax refund they are going to get. Businessmen and farmers (and investors) see certainty at last replacing uncertainty as to Spring planning. The increased investment tax credit is the heart of the bill, and approximates your proposals. The stimulative economic effect of tiny individual refunds is probably peripheral, contrasted to your \$1,000 maximum for middle-incomes, but the psychological effect is enormous. So is that of a veto at this time.
4. For most of the American people, this is not the end of a wearisome legislative tug-of-war with Congress. It is Easter, the start of Spring, the end of awful winter, the rebirth of hope. I think there is a subtle link between Nature's cycle and this economic crossroads. To dash public expectation of a tax cut as the best way to get the business cycle started back upward -- of which you have been the principal salesman -- would risk

a further plunge into depression-type despair. The general public is not interested in -- or much aware of -- all the objectionable add-ons in the bill. They are the concern or delight of smaller constituencies. One by one or all together I am unable to find words that would persuade most people the tax cuts should be scrapped. Americans are not interested in future perils. They are desperately worried about present difficulties.

5. I am of course concerned about your election in 1976. But I am even more concerned about your ability to lead the country between now and November 1976. In practical terms this means a constant, uphill contest with the outsize majorities in Congress and the emerging power of the Democratic Caucus, in which you can only prevail by employing the full powers of the Presidency and using your own understanding of the psychology of Congress to appeal over their heads to the American people. But this is a slow process. Since January, people have begun to see you as a leader who knows what he wants and is willing to fight for it against heavy odds. Your first battle has been for a tax cut before April 1. You have won -- but only if you sign the bill and proclaim your victory.

6. I won't waste much space on whether a veto can or cannot be sustained. It is only the difference between a serious setback and a total disaster, in my judgment. You lose all credit and credibility in the area of economic recovery either way, so effective has been your campaign for tax cuts without delay. If you veto and are overridden, I sincerely feel you will lose the ability to manage domestic economic policy for the next 22 months. Congress will seize the initiative, and will dictate our economic (as well as foreign) course -- however ineptly -- for the balance of your term. Therefore, if there is even an outside chance of being overridden in the House (forget the Senate) I consider a veto on this issue an unacceptable risk to your success as President. Even if sustained, I consider a veto on this issue will be almost as damaging, and requiring even longer to repair, than the pardon was.

7. I am no longer close enough to count noses on the House votes, but I am not impressed by the large vote to recommit. I have serious doubt that we could hold half of the 43 Democrats who voted against the bill on final passage after King Caucus works them over and the new unemployment figures are released. I think the latter could even switch some Republicans against us. But the clinching argument to me is that even if the House sustained by a narrow margin, you would forfeit all credit for a tax cut and would not get a very much better bill anyhow. You also undercut Ullman for the future on energy and other tax legislation.

8. While I don't think public opinion polls should affect your thinking on the merits of this legislation, they are relevant to the public's perception of your actions and of your overall leadership. A veto of this bill, which differs from your tax cut in the public's eye primarily in the area of tilting toward the poor and lower-income taxpayers and by depriving the big oil companies of the depletion allowance, would tend to reinforce the impression that Republicans when in power are indifferent to the "little man" and the jobless, and favor the special privileges of big business. This is exactly the idea the Democrats are striving to promote, and in my opinion their political purpose in fashioning this conference bill was to encourage you to veto it without depriving themselves of the strength to override a veto. Although you proposed the tax cuts, at best you can only share credit with the Congress for enacting them. Your big gain is the skill you have shown in getting Congress to act by your deadline. Polls continue to show the public more critical of Congress than of the President. They also show almost an even division of opinion between the tax cut stimulant and Federal public service jobs as a recession remedy, with tax cuts slightly favored. Unemployment and fear of recession are gaining on inflation as a prime personal concern, but both are major problems. Inflation runs ahead in California.

9. In sum, I respectfully recommend, indeed implore, that you sign the bill soon, not on Good Friday, but Saturday morning before leaving for California. Americans will read it on Easter morning. I caution against making a public relations spectacle of it, however. Take the credit, express grave but generalized reservations about add-ons and the growing deficit, but save most of your ammunition on the Congress' new inflationary threat for California, where your attack can dramatically shift to drawing the hard line on any more deficit. Thus you retain the momentum of pressure on Congress and regain your reputation as a fiscal conservative, underscored by a series of anti-spending vetoes. Each one will become more difficult for Congress to override. You will still be in charge.

10. As previously, however you decide, I will do my best to make it fly.