

Appendix III

Reducing Tax Rates

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The economy is heavily impacted by tax rates, particularly marginal tax rates on the last dollar earned. Tax rates determine how much income producers are allowed to keep as a result of their efforts, and thus the incentive they have to take risks and to produce.

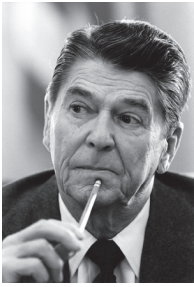
For example, at a 25% tax rate, a producer keeps three-fourths of his production. If that rate is increased to 50%, the producer keeps only half of what he produces, reducing his reward for production and output by one-third. Thus, the incentives for productive activity are undermined which then reduces savings, investment, work, business expansion, business creation, job creation, entrepreneurship, and other economically productive activities. The result for Americans is fewer jobs, lower wages, and slower economic growth.

In contrast, if the marginal tax rate is reduced from 50% to 25%, what the producer is allowed to keep increases from one-half to three-quarters, increasing the reward for production and output by one-half. That sharply increases incentives for productive activities leading to more of them, and to more jobs, higher wages, and faster economic growth.

The effect of these incentives — in contracting or expanding the economy — actually exceeds the size of the specific tax cut or increase at issue. For example, the effect of a tax cut of \$100 billion from a reduced tax rate affects the economy by much more than \$100 billion — because every dollar and every economic decision is based on the new lower tax rate. Indeed, a lower tax rate in the U.S. affects every dollar, unit of currency, and every economic decision throughout the world as to whether or not to invest in America, start or expand a business here, create jobs here, or even work here. The new lower tax rate will influence all those decisions.

Tax rate increases have the direct opposite effect on every dollar and economic decision made throughout our economy and that of the world.

The dynamism that results from reducing taxes is what led Reagan to adopt tax rate cuts in 1981, and ultimately the historic 1986 tax reform, which reduced tax rates even further in return for closing tax code loopholes. As a result, we believe Reagan would support tax policy today to achieve the lowest rates possible for both personal and corporate income taxes.



RONALD REAGAN

40th President of the United States: 1981-1989

Message to the Congress Transmitting the Proposed Package on the Program for Economic Recovery

February 18, 1981

To the Congress of the United States:

It is with pleasure that I take the opportunity this evening to make my first major address to the Congress. The address briefly describes the comprehensive package that I am proposing in order to achieve a full and vigorous recovery for our economy. The key elements of that package are four in number:

- A budget reform plan to cut the rate of growth in Federal spending;
- **A series of proposals to reduce personal income tax rates by 10 percent a year over three years and to create jobs by accelerating depreciation for business investment in plant and equipment;**
- A far-reaching program of regulatory relief;
- And, in cooperation with the Federal Reserve Board, a new commitment to a monetary policy that will restore a stable currency and healthy financial markets.

Taken together, I believe these proposals will put the Nation on a fundamentally different course — a course leading to less inflation, more growth, and a brighter future for all of our citizens.

To aid the Congress in acting promptly on these proposals, I am today forwarding the attached documents which describe the program in greater detail than I can in my address to you. Specifically, you will find the following documents in this package:

- (1) An economic report — issued as a White House paper — that outlines all four of the elements in my program and sets forth the background to those elements.
- (2) A lengthy report on my initial budget cut proposals that has been prepared by the Office of Management and Budget. It should be noted that this report will be followed by a complete budget submission to the Congress, addressing fiscal years 81 and 82. That report will be sent to you on March 10th.
- (3) A report on my proposals for tax reduction issued by the Department of the Treasury. It is my hope that this combination of transmittals will allow the Congress to proceed in accordance with timetables established in the Congressional Budget Act and will permit rapid consideration of this entire program.

My Cabinet and other members of my Administration have worked intensively and cooperatively with me in developing this program for economic recovery. All of us are now eager to work with the Congress as partners in an undertaking that is vital to the future of the Nation.

RONALD REAGAN

The White House,

February 18, 1981.

Note: The message is printed in the document entitled “America’s New Beginning: A Program for Economic Recovery—February 18, 1981.”

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