

Radio Address to the Nation on the Economy and Soviet-United States Relations

October 24, 1987

My fellow Americans:

The bears and the bulls were out on Wall Street this week with some of the sharpest drops and gains in stock market history. So, what did it all mean? Now, there's a question that the experts and analysts will be pondering for a time. But on one point I've been certain all week, and it's a point that's been buttressed by some good economic news released on Friday. This news shows that the growth of our gross national product during this last quarter was a remarkable 3.8 percent. So, too, the inflation index showed only a two-tenths of 1-percent rise, which if worked out to an annual rate would be only a 2.4-percent inflation rate. What this shows is that our predictions about the direction of the economy this year have been right on: strong growth with a slight rise followed by an encouraging drop in inflation.

Now, coupled with the declining interest rates we saw earlier this week, all this speaks to the point I made after Monday's drop in stock prices: that the American economy is sound and strong. Our historic, even astonishing, growth is continuing -- the creation of nearly 14 million jobs, hundreds of thousands of new businesses, rapid rises in family income -- all adding up to 59 months of economic expansion, the longest peacetime expansion in our history. Though the market has been volatile, let's remember, if corrections or fluctuations do occur, that as long as consumers do not overreact by losing confidence our expansion will continue.

Let's also remember a critical reason for this expansion was our decision to reduce taxes in 1981. I'm sure many of you know it was very difficult getting this through the Congress, although with your help we achieved it. And despite all the predictions of high inflation from our opponents, our tax cuts not only fueled our expansion, they had a benefit that surprised some people: Far from reducing the amount of money the Federal Government collected in tax revenues, over the long run, those collections actually increased due to the economic activity sparked by the tax cuts. In fact, tax revenues from 1981 to 1987 actually went up \$255 billion. Of course, this meant we had enough to pay for our defense buildup and some left over to help get our deficit spending problems under control. But instead of using new revenues to cut the deficit, the Congress decided to spend even more.

In 1982, for example, TEFRA, as it was called, the Tax Equity and Fiscal Responsibility Act, raised taxes by \$131 billion over 4 years, with Congress pledging to slash spending by \$3 for every dollar of increased revenue. Instead, 4 years later, taxes had gone up the expected \$131 billion, but spending over this same period had risen by \$244 billion. In fact, every dollar in increased revenue since 1980 had been matched by \$1.25 of increased spending.

Now, 3 days ago, I called on the congressional leaders to meet with me early next week to outline our deficit reduction plans. And as we move toward a budget settlement, it's good to

remember that there's a fundamental difference here in Washington on one critical issue. I'm proud that since 1913 my party has reduced taxes 10 times and increased them only once. And that's why I hope members of the Democratic Party will follow President Kennedy's lead of some years ago and remember that lower taxes mean higher growth.

But the simple fact is that all sides must contribute to this process if it is to succeed and if a package is to be developed that keeps taxes and spending as low as possible. This effort must also address the flipside of our twin deficit problem. I mean, here, our trade deficit, a problem that would only be worsened by protectionist legislation. So, let's keep the stock market healthy and sound, and let's do it by avoiding protectionist legislation and by keeping taxes and spending down so we can keep interest rates and inflation rates low.

As prominent as the news on Wall Street was this week, I'm sure you are also aware that Secretary Shultz and my national security adviser, Frank Carlucci, were in Moscow this week to talk to the Soviet leaders on the full range of our relations. We're closer now to completing a treaty on eliminating an entire class of U.S. and Soviet intermediate-range nuclear missiles, and progress was made in other areas as well. No date was set for a summit meeting, but we're in no hurry. And we certainly will not be pushed into sacrificing essential interests just to have a meeting. I'll keep you informed as events move forward.

Until next week, thanks for listening, and God bless you.

Note: The President spoke at 12:06 p.m. from Camp David, MD.

<http://www.reagan.utexas.edu/archives/speeches/1987/102487a.htm>