

Reagan, Hailing Record, Sees U.S. as 'On Mend'

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cent cut made in his tax reduction plan would have no major effect on his economic recovery plan.

Back then, Mr. Reagan himself had hailed the enacted program as proof that "more cooks were better than one." He told Congressional supporters, "We've got to prove that what we said about it is true — it'll work."

The two-year summary issued today, subtitled "A Review Accomplishments," said President Reagan had succeeded with "the driving force of his vision for America."

"Acting forcefully and fairly," the President's review declared, "President Reagan has set a new, high standard in the-making which greeted him when he took office. By significantly reducing record inflation, taxation, interest rates, excessive spending and budget deficits, Ronald Reagan kept important promises to the American people."

In his self-assessment at the White House, the President contended that the persistent recession marking much of his tenure was inherited, in effect, because the nation's problems had not been "even worse" than those he described in seeking the office.

"My biggest regret is that because the accumulated damages piled up so high for so long, putting America's house in order has been a tough and painful task," Mr. Reagan said. "I regret televised news conference designed to focus on his claim of success."

not begin in July of '81," Mr. Reagan conceded. "This recession had been coming on for several years, and gradually growing worse, as we were able to talk about in the campaign."

As a candidate, Mr. Reagan had promised that the Federal budget would be in balance by 1984. But earlier this week, as he reviewed the budget and dealt with record high deficit in the \$300 billion range, Mr. Reagan spoke of a balanced budget as a "personal promise." In contrast to the earlier promise, he now is focusing on trying to contain further deficit increases projected into the future.

The President's two-year summary acknowledged that "grave problems of unemployment remained and a deep recession had driven up Federal budget deficits to levels that demanded fresh attack." Part of the President's re-examined budget plan reportedly will be "contingency" tax increases to reduce future deficits.

'When You're Having Fun'

In his own verbal reassessment, Mr. Reagan laced his comments with good-humored budget reviews and observation, "How time flies when you're having fun."

At the rally of party loyalists who took over from their Government jobs, Interior Secretary James Watt warned the crowd up with an exhortation that instantly brought them to their feet, cheering, applauding and offering rebuffs.

"Let Reagan be Reagan!" Mr. Watt's cry rang through the hall, in obvious reference to conservative complaints that Mr. Reagan was being guided dangerously by moderate advisers.

The President, who seemed visibly excited when a giant American flag unfurled from the ceiling, called for progress from his workers. He quoted a line from Robert Service's poem: "So don't be a piker old pard! Just draw on your grit; it's so easy to quit."

It's the keeping-your-chin-up that's hard.

Attack on Legal Services Cited

Special to The New York Times

WASHINGTON, Jan. 20 — A former director of the Legal Services Corporation whose nomination to the agency was later withdrawn by President Reagan, attacked the Administration's efforts to abolish the agency.

The former director, Howard H. Dana Jr., who described himself in a speech delivered to members of Greater Boston Legal Services as "a conservative, Ronald Reagan Republican," assailed the president's counsel, Edwin Meese III, for his "one-sided attack" on the corporation, which distributes Federal money to provide legal aid for poor people in civil cases.

Mr. Dana, a lawyer from Portland, Maine, expressed dismay with the Administration's attempts to dismantle

President Reagan and members of the Cabinet applauding the Marine Corps band at a rally celebrating the middle of his term in office yesterday in Constitution Hall. With the President were, from left, Samuel A. Pierce Jr.,

Housing and Urban Development; Raymond J. Donovan, Labor; John R. Block, Agriculture; William French Smith, Attorney General; Donald T. Regan, Treasury; Vice President Bush, and George P. Schultz, State Dept.

Reagan Said to Seek Contingent Tax Rise if Needed to Trim Deficits

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the President to send to Congress on Jan. 31.

Separately, President Reagan said today that he was considering a major restructuring of the income tax system with the aim of broadening and simplifying it. Aides said his proposals might

include a flat income tax, replacing the present graduated income tax.

A flat tax would lower the tax rate for individuals possibly to less than 20 percent from the current rates, which range up to 50 percent. But a flat tax also would eliminate most of the deductions that taxpayers now use. Another possible approach being considered by the President, his aides said, is an income tax based on what people spend rather than on what they earn.

Complaining that the current tax system is too complicated, the President said at an impromptu news conference that it was a top priority "to have a tax system that the people can understand."

The President's remarks, made in the White House briefing room, were his first acknowledgement that such tax reform is under consideration. Both White House and Treasury officials have said that proposing such a restructuring would be a key theme in the President's State of the Union Message next week.

Officials said that the contingency tax plan intended to raise about \$13 billion in 1983 through 1985. The plan includes increases in energy taxes, probably through a fee charged on imported oil, and a surcharge on income taxes. But the final decision on details, one key official said, has not been made.

One official said the President plans

to contend that strong economic growth between now and the fiscal year 1986 could mean there would be no need for the tax increases. But the official said the budget projections do not assume that the deficit will get down to about \$100 billion in the fiscal year 1986, so the taxes would be triggered into effect. The \$13 billion in added revenues which the Administration will ask Congress to approve this year with the trigger mechanism is the key to demonstrating that future deficits will decline, the official said.

The President's top economic advisers have argued that it is necessary to show deficits declining sharply to assure the financial markets that a continued decline in interest rates will not be prevented by ballooning deficits. Low interest rates are considered essential to economic recovery.

Officials said the President had already put together a package of spending reductions for the fiscal year 1984 of about \$45 billion to \$50 billion, that would bring that year's budget deficit to about \$18 billion, according to the Administration projection.

Among the key items in the package were \$25 billion to \$30 billion of domestic cuts in programs such as housing, Medicaid and food stamps, \$8 billion of reductions in projected outlays for military spend-

ing and \$10 billion to \$12 billion of savings on Social Security including a six-month delay in the cost-of-living increases now scheduled for next July. There are also proposals for a freeze on civilian and military pay increases, now scheduled for Oct. 1, 1984, and consideration of a six-month delay in automatic cost-of-living increases for various Federal retirement programs.

At his impromptu news conference, the President declined to comment on his decisions on the budget for the fiscal year 1984. But he said, "I can tell you that our budget will be fair and realistic, and will pave the way for a strong, sustained recovery."

The proposal for tax restructuring is one of the three separate tax decisions under consideration in the 1984 budget process.

The tax restructuring would be something for the future and would not figure in any of the budget projections this year, officials said. Assumption of approval of tax restructuring, with a flat-rate tax, a consumption or spending tax or a combination of both would allow the Administration to broaden the tax base and raise more revenues "without lowering tax rates."

Satisfaction With Course

In fielding reporters' questions, President Reagan was asked whether, in retrospect, he would have done anything differently in the past two years, considering the economy's resistance to the recovery that he has long been proclaiming.

"We tried very hard," he replied. "I think in a compromise, all in all, we did get a goodly share of what we asked, but I can not think of any place where we would have changed courses."

In a separate answer, however, he complained that "we never did get intact what we thought was a well-thought-out economic plan." He said the Administration "had to give way" to Congress in its hopes for reducing the rise in social spending and cutting taxes.

While Mr. Reagan's original budget successes in 1981 in reducing spending and enacting tax cuts were widely hailed by politicians and the news media as akin to a "revolution," the President made no such claim in looking back.

Critical View on Economy

"I did not get the tax incentive program intact," he said, "and that's expected impact on the economy had accordingly suffered. In analyzing the recession, from the point of view of the Administration, had no control" over maintaining high interest rates that were responsible for the steep off the cliff."

"I can not say that this recession did

Transcript of President's News Conference on Foreign and Domestic Matters

Following is a transcript of President Reagan's news conference in Washington yesterday, as recorded by The New York Times through the facilities of Cable News Network.

OPENING STATEMENT

Well, as some of you may know, today marks the second anniversary of this Administration. How time flies when you're having fun.

A lot can happen in two years. Just looking around this room, I can see the signs of change everywhere. Judging from this group, I think we have given more gray hairs than I got during the last two years. I guess you can chalk that up to the lack of sleep.

At any rate, here we are at midpoint in the first term so I thought a little, personal perspective might be appropriate.

Looking back, I guess my greatest satisfaction is the conviction that a country that was skidding dangerously in the wrong direction, losing the respect of friends and foe alike in the world and, even worse, losing faith in its own future has been set on the right course.

We've begun to undo the damage that the overtaxing, overregulating, and overinflating of the '60's and '70's inflicted on the American way of life.

And we've made America respected in the world again.

My biggest regret is that because the accumulated damages had piled up so high for so long, putting America's house in order has been a tough and painful task.

I remember John Kennedy saying that when he came into office the thing that surprised him most was to find that things were as bad as he'd been saying they were.

In my case, the biggest surprise was finding out that they were even worse.

And it's a real human tragedy that so many of our people today are still suffering for the political mistakes of the past, that we've finally started to correct.

that installment and get it down the line in October and so forth.

The things of this kind, I think, something over which we have no control, you're talking about the high interest rates for so long when they pulled down from the great money surges of the '60's, which perpetuated the interest rates to the point that I think they were responsible for the steep off the cliff.

I can't say this recession did not begin in July of '81. This recession has been coming on for several years and gradually growing worse, as we were able to talk about in the campaign.

Hindsight on Performance

Q. Mr. President, knowing what you do now, is this really a (unaudible) question. Is there anything that you yourself as President, would have done differently in those two years, with the knowledge of the economy that you're now expecting?

A. Well, I could've demanded a recount. But, no, we tried very hard and I think that, I think in a compromise, all in all, we did get a goodly share of what we asked, but I can't think of anyplace where we would've changed courses drastically.

Approach to Russians

Q. Mr. President, do you wish now, in hindsight, that you hadn't started out with such a rhetorical flourish about the Russians. In the last two years, I think, many observers think that you've been in a push-pull situation. One day in London talking about a crusade for freedom, the next day in Bonn, talking about accommodation with the Soviet Union. And just this morning, the Soviets are saying that they will break off the arms negotiations if we go ahead with our missile deployment in Europe. Where do we stand there with the Soviets?

A. Well, Sam, let me jog your memory a bit. In that first press conference that was asked of me with regard to my personal trust in the Soviet Union, I did not believe that the Soviet Union. And I did not render an opinion of mine the things that I said about them.

My reply, if you want to go back and look it up, was that this is what they said themselves. That they reserved these rights to break a promise, to change their ways, to be dishonest, and so forth, if it furthered the cause of socialism. Now, that's the other day, one among you somewhere has written and commented on that in the Soviet Union. The comment of Nikolai Lenin, that he'd printed as

the 10 principles — guiding principles of Communism. And they're all there. That promises are like pie crusts, made to be broken. And he went right on down the line, that you, that the Soviet Union considered the, and I used this, I quoted this two years ago.

And you said that the Soviets believed that the only morality that which furthered the cause of World Socialism. That they recognized no other morality.

Now, then, I said I'd recognize Leslie.

Q. Could I have a followup on that?

A. Yeah. Q. Because I asked that question, and the question, roughly, was, Mr. President, do you think the Soviets really want a true détente or are they after world domination? What do you think their goal is?

A. I thought there was something in there about trust.

Q. Two years later, sir, what is your assessment now? What would you say today to that question?

A. We're going to continue because we believe that the Soviet Union has some problems of their own that have to be resolved. And in these negotiations that are going on, we think that it would be in their interest as well as ours. That's why we are so hopeful and optimistic that something can be gained here that we can build on and down the road they're going in a perpetual arms race. And so, we have, in one of the things that are in contention with their arms race, it gives us a leverage that has brought them to the table in the first place.

Now, we know that the Soviets, if they don't want, above all, is the placement of a deterrent to their SS-20 missiles in Europe. And we claim that, to continue to stand there with their having enough warheads to break a promise, every population center in Western Europe with no deterrent on our side, and the NATO allies recognize this, and we have said, at their request, that we will provide a deterrent. But we have said I'd make a lot more sense if we simply, rather than two sides facing each other here with these missiles poised at each other, we simply went to a zero option. Now they've agreed halfway with that.

They were to remain at zero and they're willing to trim a few of their warheads if we will. Leslie.

Arms Negotiations

Q. I have two questions. One is — you seem to be saying that you do not trust the Russians at the negotiating table. I mean, are you saying that you A. No, no. At a negotiating table, they've got to make proposals which

Zero-Zero Proposal

Q. My second, so you, there is some talk that the Soviets are asking if there any flexibility in your zero-zero proposal?

A. The trouble is if I answer that, then I'm getting into what I said I wouldn't talk about the other day. You can't talk openly about strategy or tactics. We've said, and we've said, we have said that we believe the best solution for both of us is zero-zero, both sides. But we have said we will listen to and negotiate any fair proposals that are made.

Q. This is beyond negotiating at the table. It's become a public relations propaganda campaign that the Russians are waging in Europe. Do you not want to jump in and get in the propaganda thing and answer the Soviets to the public?

A. Yes, the answer to that is not propaganda. It's public relations. There is no question. Their goal is that whatever they do, they do not want us to be in a propaganda war with them. And we are just as determined that we are going to stay on schedule with that. And when I say it's public relations on our part, it requires us to remind those people that are hearing this propaganda both here and in Europe that what the Soviet Union is demanding is the right to maintain, exceed intermediate-range nuclear warheads to literally, as I say, hit every population center in Europe. But they don't want a single weapon of propaganda to be there on the other side. And when the people realize that I think the people living in those population centers are going to have something to say.

Making Taxes Equitable

Q. Mr. President, I know you have been trying to make taxes more equitable. Are you going to push for the flat tax more than anything else? Will you be more equitable, that those in the high brackets don't have to pay for everybody else continuously as it now the

case, while some in the lower brackets are not paying their share?

A. Thank you for framing the question that way. Most of the people out there are commenting on that a different way, as if we are making it possible for those in the upper brackets to do better. We are, that is, a thing that, we've decided to look at, to study, in connection with what we think is the top priority in taxes in this country, is to have a tax system that the people can understand. Our income tax has become so complicated that virtually no one can handle their own tax affairs.

Q. We're going to look at that. We're looking at all kinds of as yet. Heien?

Report on Missile Talks

Q. Mr. President, were you confirming the reports that the Soviets have threatened to pull out of Start if we deploy the missiles and I'd like to know, if they do, what are you going to do about it?

A. We have only heard that that is an official demand of their negotiating. I've got to get back into this room a little.

Indexing Income Taxes

Q. Mr. President, question on taxes. If the Congress tries to repeal the indexing of income taxes, one of your favorite plans. Will you veto such a repeal?

A. I am determined that the two remaining tax cuts of our program will be put in place. That is the 10 percent cut in profit and then the further indexing to stop Government from making a profit on inflation because when Government does that it becomes too easy to bring something right to do the things that create inflation.

Q. Thank you, Mr. President, unless you want to go on.

Becoming a Moderate

Q. Have you really gotten to be too much of a moderate? A. We're going to do this more often. There'll be another chance. I'll tell you, the next time I promise you I'll start at the back of the room and answer the questions coming down this way instead of the other way around. But his question was am I concerned about being identified as looking too much like a moderate. I have to say you, the next time I promise you I'll start at the back of the room and answer the questions coming down this way instead of the other way around. But his question was am I concerned about being identified as looking too much like a moderate. I have to say you, the next time I promise you I'll start at the back of the room and answer the questions coming down this way instead of the other way around. Q. Thank you.