Collection: Ursomarso, Frank: Files
Folder Title: Economic Program Communication Plans (1)
Box: 3

WHAT IS RECONCILIATION AND HOW DOES IT WORK?

"Reconciliation" is a process provided for in Title III of the 1974 Budget Act. In short, it gives the Congress the power to "instruct" the committees of the Senate and House that have spending jurisdiction to change already-enacted laws in order to save federal money that, otherwise, would spend.

Here's how the process would work, under the Domenici measure that now awaits action by the Senate Budget Committee.

1) The Senate Budget Committee would mark up a revision to the Second Concurrent Budget Resolution for FY 81 (which Congress approved back in December of 1980); this revision would be the actual "reconciliation instruction" and would direct many committees in Congress to cut spending in order to save billions of dollars in 1981, 1982, and 1983.

2) The Senate would act upon the instruction and, when it passed the final version of the reconciliation instruction, the committees affected could begin work to actually change already-enacted programs in order to save the sums ordered by the instruction.

3) The House, if it chose, would go through the same procedure; House committees, too, would then have to convene and find savings in programs that amounted to the sum total ordered by the full House when it approved the reconciliation instruction (this would happen after conference with the Senate on the instruction itself).

4) When the Committees had decided what programs to change in order to save the money the Congress instructed them to save, they would report back their savings recommendations to the Budget Committees. The Budget Committees would "package" all of these savings into the actual Reconciliation Bill and report to the House and Senate floors.

5) The House and Senate would accept the Reconciliation Bill, or amend

6) Finally, after conference concluded and a conference report on the Reconciliation Bill came before the House and Senate, the two chambers would act (and presumbably pass) and the Reconciliation Bill would be sent to the President for his signature.

When the President signed the bill, many dozens of laws now on the books would be changed and the savings the President desired would result.

THINGS TO REMEMBER

Because reconciliation is part of a budget resolution, it has important protections on the Senate floor--it is a privileged motion and moving to consider it is not subject to debate. Second, the Budget Resolution that will contain reconciliation can be debated on the Senate floor for only 50 hours. This includes all amendments, quorum calls and similar parliamentary measures. Thus, it is impossible to filibuster a reconciliation instruction. Finally, the reconciliation bill itself, if it is the result of a reconciliation instruction, can be debated on the Senate floor for only 20 hours and also is a privileged motion.

Also: the full Senate and House instruct the committees to save money. The Budget Committees merely package the instruction and make recommendations on where savings might be found. The actual work of changing the laws necessary to save money is left to the authorizing committees and to the Appropriations Committees.

Finally: After the reconciliation bill is passed, the Budget Process will still go forward with the regular consideration of the First Concurrent Budget Resolution for FY 82--and during this process even further savings through regular committees' actions during 1982 can be assumed. Reconciliation is not the whole answer, but it is a critical first step toward changing already-enacted laws, especially entitlement laws.

①

CALL TOM

BELL →

SMITH

VIOLENT CRIME - P - NOT INVOLVED

PRESIDENT SHOULD HAVE DONE

UDAG. - SEND - LETTER THAT WE ARE GOING TO RETAIN.

CARTER SUCCESSFULLY LOBBIED FOR THIS AND SAVED IT.

NATURAL GAS → STOCKMAN SAID - WE ARE MOVING QUICKLY

DEPARTMENTS - NO NEWS WITHOUT PRE

STATE - LAW OF SEA

FISHERIES.

DEFENSE BUDGET. - JUDICIAL MEMO.

T - ANN

J - DECAIR - CIA

ATTORNEY → D - CATTO -

S - DYESS

~~E~~ - LINDA GADDY

ENERGY - GREENER III

OMB ED DALE

HHS PAM BAILEY -

CABINET - MEETING →

ADVANCE AGENDA LIST - FROM DARMAN.

AUTO TASK FORCE

KARNA - NOT HER CALL TO DECIDE WHO GOES INTO BRIEFING

NO FACTS AFTER HAVING FREEZE STATEMENT

WHEN HAVE MEETING AND HAVE POSITIVE IMPACT.

HOW DO WE GET THEM TO THE [illegible]

RR- NOT KNOWING WHAT GOING ON -
SIGS- STAFF CHARTS

EXPLAIN- Manner in which decisions are being handled with Cabinet task force structure.

EXEC SEC OF CABINET
COUNCILS WHO ARE THEY?

ANALOGY WITH EISENHOWER
NOT IN DETAIL - STRATEGIC THOUGHT

CONGRESS ~~BACK~~ WHEN DO WE PASS SPOTLIGHT TO HILL
TRANSFER - FOCUSE

EMPHASIZE PARTNERSHIP ASPECT
ALL AMERICANS - ASK - WHAT DO I DO?
SUGGEST THINGS

SAVE.
ONLY FIRST STEP - CONGRESS MUST DO ITS PART.

ANNOUNCEMENT OF TASK FORCES IN W.H.
HOW DO I FIND OUT ABOUT THEM

MEET WITH GROUPS - WHO GO UP TO THE HILL
TO FIGHT FOR PRESIDENT PROGRAM

PEOPLE - FRESHMAN - LEADERSHIP.

- FRAUD + WASTE 500 FBI AGENTS
OMB - I.G.s TASK FORCE TO RECRUIT.

TWO TRACKS MEDICARE - MEDI FRAUD UNIT

ADDRESS STATE LEGISLATION

10:00 AM WED

ADVANCE TEAM

FOREIGN POLICY -

CHILE -

ANGOLA -

MILITARY → EL SALVADOR - INCREASE

AFGANISTAN

F15 SAUDI ARABIA APRIL 20

NOTIFICATION - HAIG TRIP.

20 DAY RESPONSE

WM SMITH - [illegible] GO TO WORK

O'NEILL - FAST TRACK — MID SUMMER
JULY 4th

DEM PASS SPENDING CUTS

FIGHT TAX CUTS.

NO DOCUMENTARY EVIDENCE FOR TAX PROGRAM

TAX CUT WAY OF KEEPING DOWN FURTHER SPENDING IN FUTURE.

NEED DATE DEFINITE → SET BY CONGRESSIONAL LEADERS - NOT US.

NEED MAJOR SPEECH ON TAX CUT.

SHOW SUPPORT IN LANDS

IMPOUNDING -

INVITATION TO DRURY ~~HYNES~~

RADIO SPEECHES ~ FROM HILL, CAMP DAVID

DATA SOFT SELL OF HARD AGENDA

[illegible]

ONCE RARELY 2 or 3 weeks

ACTIVITY.

[illegible]

PAUL GANN 3000
SCHNEIDER
395 3300

CALL STOCKMAN
LEGISLATIVE CALENDER — FOR OVERLAY,

FDR ANNIVERSARY OF ROOSEVELTS DEATH
FDR [illegible] PA [illegible] Tonight.

APRIL 13, Jefferson Day. — MEMORIAL

URBAN ENTERPRISE ZONES

Demonstrate Mrs
Mrs Berry
W Fountain
J Jarden

$5000

Communication Mtg 1/31/81

1. President's style of responding to press ques.
   - Lyn - feels we're right not to have him "have answers" for everything right now.
   - "Style" of operating (9-5?) is now cropping up.

2. Focus right now on economy

- We need to get "his style" set quickly
  - Show him as President - not figurehead

Baker + Meese - "profiles too high" (Lyn)
Both Much too visible
He's got to be put in the position of giving the directions

- "Cabinet out of control" perception needs to be rectified

- RR should be the one to discipline the cabinet - not Baker or Meese

- The expectations (of RR) are much too high right now (we need to lower expectations of press + people b/w now + Thurs. speech which will be general - not specific)

- RR must address cabinet (Wed) as to what their role is

Cabinet Members - are you advocates or advisors

: Plan some "heroic" decisions to humanize Presidency -

Shields - leading Dem. - 2nd reporter to see RK

Cabinet Mtg. Wed - Agenda

Role of Cab
Brady
Grain Embargo
Inspectors General

IDEAS TO BE DEVELOPED

Supportive Economic Initiatives

1. Urban Enterprise Zones ED GRAY
2. Fraud and waste campaign — TONY POLLARD
3. Fighting other sources of inflation
   - -- medical care
   - -- rising energy prices
   - -- food
4. Increasing Private Savings
5. Auto industry policy
6. Agricultural policy
7. Voluntaryism
8. Postal reform

IG ADVISORY BOARD.. 600 MILLION OFFICIAL $23,000 AUDIO-VISUAL

Additional Ways to Mobilize Public Support for Economic Program

1. Presidential travel
2. Surrogate travel
3. In-town events

Strengthening Congressional Support

THE WHITE HOUSE

WASHINGTON

February 10, 1981

COMMUNICATIONS PLAN FOR FEBRUARY 18
ECONOMIC POLICY SPEECH

Tuesday, February 17, 1981

Early television, wire service stories

-- Jim Brady provides AP, UPI, Reuters, Dow Jones reporters and ABC, CBS, NBC correspondents with selected highlights of speech for Wednesday evening and Thursday morning television news and Thursday AM and PM newspapers.

(Action: White House Press Office - Brady)

Wednesday, February 18, 1981

Breakfast meetings with economic reporters - 8:00 am

-- Secretary Regan meets with economic/business reporters to discuss details of President's economic program ON BACKGROUND, EMBARGOED FOR 9:00 PM

(Action: Treasury - McLaughlin and Kelly

-- OMB Director Stockman meets with economic/business reporters to discuss details of President's economic program ON BACKGROUND, EMBARGOED FOR 9:00 pm

(Action: OMB - Gerson)

Morning Network Television Shows

-- ABC "Good Morning America" - 7:00 am

Alan Greenspan discusses seriousness of economic situation and need for President's program

(Action: White House Press Office - Prosperi)

-- NBC "Today" Show - 7:00 am

Elizabeth Dole discusses support among special interest groups.

(Action: White House Press Office - Prosperi)

General Background Briefing - 10:30 am

-- Secretary Regan, Director Stockman, Chairman Weidenbaum brief reporters in Room 450 EOB, to outline details of speech and program. Fact sheet (and speech, if available) provided ON BACKGROUND, EMBARGOED FOR USE AT 9:00 PM

(Action: White House Press Office - Speakes
Treasury - McLaughlin, Kelly
OMB - Gerson
CEA - Filippello)

Foreign Press Briefing - 10:30 am

-- Deputy Secretary McNamar briefs foreign press at Foreign Press Center. BACKGROUND, EMBARGOED FOR 9:00 PM

(Action: White House Press Office - Mort Allin)

Release of Text - afternoon

-- If text is not available at briefing, it should be released at 4:00 pm at latest with EMBARGO FOR 9:00 PM. OMB, Treasury press offices should be prepared to respond to questions raised in text.

(Action: White House Press Office - Larry Speakes)

Speech - 9:00 pm

-- The President delivers speech before a Joint Session of Congress.

Immediate Reaction

-- Supportive Members of Congress and/or Secretary Regan, Director Stockman, Chairman Weidenbaum, are prepared to respond to ABC, CBS, NBC live cameras on Capitol Hill

(Action: White House Press Office - Prosperi)

-- Secretary Regan, Director Stockman, Chairman Weidenbaum are prepared to appear as panelists on immediate post-speech analysis panels on ABC, CBS, NBC.

(Action: White House Press Office - Prosperi)

ABC "Nightline"

-- White House Chief of Staff Jim Baker discusses legislative outlook for President's program.

(Action: White House Press Office - Prosperi)

Thursday, February 19, 1981

ABC "Good Morning America"

-- Chairman Weidenbaum appears to give reaction to speech.

(Action: CEA - Filippello)

CBS "Thursday Morning News"

-- Secretary Regan appears to give reaction to speech.

(Action: Treasury - McLaughlin, Kelly)

NBC "Today" Show

-- Director Stockman appears to give reaction.

(Action: White House Press Office - Prosperi)

Sperling Breakfast

-- Counsellor Ed Meese discusses program to steer those writing Sunday pieces toward favorable economic twist on President's speech.

(Action: White House Press Office - Speakes)

McNeil Lehrer Report

-- Chairman Weidenbaum appears

(Action: White House Press Office - Prosperi)

ABC "Nightline"

--

(Action:

Friday, February 20, 1981

Morning network television shows

NBC "Today" Show

-- Martin Anderson discusses program

(Action: White House Press Office - Prosperi)

ABC "Good Morning America"

--

(Action: White House Press Office - Prosperi)

CBS "Friday Morning News"

--

(Action: White House Press Office - Prosperi)

Luncheon

-- Secretary Regan meets with editors of TIME

(Action: Treasury - McLaughlin, Kelly)

Sunday, February 22, 1981

CBS - "Face the Nation"

-- Director Stockman

(Action: White House Press Office - Prosperi)

NBC - "Meet the Press"

-- Secretary Regan

(Action: White House Press Office - Prosperi)

ABC - "Issues and Answers"

-- Senator Howard Baker

(Action:

Follow-up Activities

Direct Mail to Editors

-- Speech text, fact sheet, and summary are mailed to financial writers, editorial writers of the nation's top 200 newspapers, and radio commentators.

(Action: Media Liaison - Speakes, Wimmer)

Direct Mail to Newsletters

-- Speech text, fact sheet and summary are mailed to 30 Washington-based newsletters which deal with finance, and economic special interest groups.

(Action: Media Liaison - Speakes, Wimmer)

Direct Mail to Press Secretaries of Members of Congress

-- Speech packet is mailed with suggestions that it could be included in constituent newsletters

(Action: Media Liaison - Speakes, Wimmer)

ICH DARMAY

COMMUNICATION PLAN

GOAL

- To explain the President's economic program: maintain momentum.
- To gain broad based support.
- To transfer the burden of action to the Hill.

ACTION

- A surge of Presidential energy on the Hill.
  - office hours
  - meetings
  - press conferences
- The President addresses three state legislatures.
- A series of radio speeches from the Hill, Camp David, Oval Office (soft sell of hard agenda).
- Support groups meet briefly with the President: endorsement to press.
- Surrogate speakers, targeted Administration spokesmen on TV.
- Push positive newsmaking events to keep energy level high.
  - Urban Enterprise Zone
  - Fraud and Waste
  - Regulatory Relief
  - Task force announcements

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  - Regulatory Relief
  - Task force announcements

calls 2-27 for meeting 4-5:30

DG -

These are the people that have attended the 2 communications meeting:

Dick Allen 2255 Irene
Marty Anderson 6515 Candy
Mort Allin (not listed on memo)
Richard Beal 6690 Jolene
Joanna Bistany (not listed on memo)
Jim Brady
Joe Canzieri
Dick Darman 2702 Shirley
Mark Goode (not listed on memo) Jim 2020
Ed Grey (not listed on memo)
Ed Harper 4742 Cindy + Judy
Frank Hodsoll (not listed)
Ken Khachigian (not listed) 6266
Lyn Nofziger 7620 out of town
Karna Small
Larry Speakes (not listed)
Rich Williamson 7007 Gail
Tony Dolan (not listed) (Bob Garrick) 1660 Celeste

Are we going to establish permanent list and then establish routine written notice of meetings?

Debby -
The ones checked are members -- so far. Pls invite for Sat. Did they all receive copies of memos I wrote on last 2 meetings? (i.e. not listed on Baker memo) DG

Craig Fuller 2823 Cecilia - Karen

dr 2/12/81

dr 2/12/81

Mark Goode - no answer

Robin

Red

Public Liaison

Frank + Wanda

6266

SAMPLE SPEECH - THE PRESIDENT'S ECONOMIC PROGRAM

It is a pleasure for me to be here today to speak to you about President Reagan's program for economic renewal in America. The President believes the answers to our economic woes lie in the vitality and courage of our people. His Administration is dedicated to unleashing the natural power of the individual to produce more and make a better life for all. His program will return our country to the economic strength we once knew.

We can recreate the incentives that take advantage of the genius of our economic system -- a system, as Walter Lippman observed more than 40 years ago, that for the first time in history gave men "a way of producing wealth in which the good fortune of others multiplied their own."

Now in the hands of the Congress, the program is not designed to change the foundation of our economy, but to return it to its greatness. President Reagan believes, and I wholeheartedly agree, that we have played fast and loose with the principles of free enterprise upon which this Nation was founded. We have gotten away from the idea that the Government's main function is to protect the people.

There are now nearly eight million people in this country who don't have jobs -- robbing millions of Americans of basic human dignity. In fact, this statistic doesn't tell the whole story: unemployment has been particularly hard on minority groups. For Blacks, for example, unemployment by the end of 1980 was at the highest level since the end of World War II. Inflation today is at 11.1 percent. Unless we act, this statistic, which makes a mockery of hard work and savings, will get worse. In 1979 and 1980, we suffered back to back double-digit inflation for the first time since World War I. The value of a 1960 dollar has now shrunk to 36 cents. A pound of hamburger that cost 48 cents in 1960 cost $1.58 today. Our Government deficit stands at more than $950 billion -- and is fast approaching the trillion dollar level. Since 1970, the burden of this national debt on the average family has more than doubled to $12,180. It is this deficit spending that is driving up interest rates, fueling inflation and undermining the stability of our economy. Unless we act, this debt will continue to get bigger.

Excessive regulation by the Government is costing the country an estimated $100 billion. There are now 100,000 pages of Federal regulations and Americans spend an estimated 800 million hours filling out forms for Washington. One Government estimate also indicated that fraud alone may account for anywhere from 1 to 10 percent -- as much as $25 billion of Federal expenditures -- for social programs.

The rate of increase in American productivity, once leading the world, has dropped to among the lowest of all major industrial nations. Twenty years ago we produced half of all the cars in the world, today we produce a little more than a fifth. After World War II, the United States produced roughly half of the world's steel, today we produce about a sixth of that steel. Taxes now consume 17.6 percent of the earnings of an average family of four, robbing dollars from our pocketbooks and incentive from the workplace. In the past 15 years, Federal personal taxes on the average family have nearly quadrupled -- growing from $1,500 in 1965 to $5,500 in 1980. Our savings rate is now at the lowest level over a three-year period in the last 30 years. In fact, our savings rate is not even half that of our major trading partners.

No one has been hurt worse by all of this than the poor and minorities. From 1959 to 1969, the number of families living in poverty dropped nearly 50 percent; from 1969 to 1979, when the economy grew more slowly, the poverty level dropped only 6 percent. For Blacks, the 1959-69 period saw a gain of 5 percent a year in real dollars. From 1969 to 1979, Black median income actually fell in real dollars.

Unless we act now these statistics will continue to accumulate, to fester, and to frustrate.

We are on the brink of an economic calamity because we have strayed from first principles. Together, we must alter our course. We can no longer procrastinate, hoping that things will somehow get better. They will not. Unless we act forcefully and now, the economy will get worse.

For too long we have attacked inflation with unemployment, and unemployment with inflation, trading misery for misery and ending up with both. The two go hand in hand.

Our economic problems are complex and must be attacked together. President Reagan has proposed a four-point, comprehensive package to deal with them. If only a part of the package is passed by the Congress, we will get only a part of the solution. We can no longer afford to tinker with our economy, because our economy cannot be finetuned.

President Reagan has called for a substantial reduction in the growth of Federal spending. He has given to the Congress a detailed plan to cut $48.6 billion from the Federal budget in fiscal year 1982. This is not a reduction in current spending levels, but a reduction in planned increases.

Second, he has proposed a 10 percent across-the-board tax rate cut every year for the next three years for everyone who pays income tax. That is a total of a 30 percent tax rate cut during a three-year period. The reduction will also apply to the tax on unearned income, eventually eliminating the differential between the taxes on earned and unearned income.

Again, while these tax rate cuts will leave an extra $500 billion in our pockets during the next five years, they only reduce the tax increases already built into the system.

Third, the President has asked for a prudent elimination of excessive regulation.

And fourth, the Reagan Administration has pledged to work with the Federal Reserve Board to develop a monetary policy consistent with the economic program, geared to stabilize the money supply and revitalize the economy.

This four-point plan is designed to get our economy moving again. We will continue to fulfill obligations to those, who, through no fault of their own, must depend on the rest of us. Those who are deserving can rest assured that the social safety net programs they depend on will not be cut. The rest of us will feel the impact of the budget cuts, which have been distributed through the economy as evenly as possible. But through this plan and by these cuts, we will break the back of the inflationary psychology gripping us today.

The proposed cuts, about $49 billion, were chosen by applying basic principles to every Federal expenditure.

The Reagan budget proposes reducing billions of dollars from some entitlement programs, such as food stamps, extended unemployment benefits and a number of others. In 1970, such programs cost Americans about $5 billion a year. In 1981, they are costing us about $58 billion.

The reductions are aimed at restricting eligibility, reducing the overlap and eliminating the waste. By doing so, we can save $9 billion next year, $19 billion during the next two or three years, and still meet the needs of those who deserve our help.

Budget savings will also be found by consolidating narrow, categorical grants to State and local governments into block grants. The President has long believed that programs administered at those levels are often more efficient and responsive, and by funding them through block grants the local government gets an added flexibility that can result in real savings.

The budget inherited by the Reagan Administration also includes subsidies for everything from export companies to school lunches for upper class children to zero interest loans for those who could afford to send their own children to school. Federal taxpayers, for example, are paying $160 per year per cow to subsidize the dairy industry. Changes are proposed in these areas, and more.

As President Reagan told us in his Inaugural address, "All of us together, in and out of government, must bear the burden." The budget cuts are equitable, with no one group singled out to pay a higher price. But the clearest threat to our recovery comes now from those who oppose only a small part of the program, while supporting the overall effort. The cuts they oppose are the cuts that affect them.

"The accumulative effect of this shortsightedness can be damaging," the President warns us. "We're all in the same boat, and we have to get the engines started before the boat goes over the falls."

At the same time we are cutting spending, we also must go forward with a tax relief package. Both are essential if we are to have economic recovery. President Reagan's tax package will create new jobs, build and rebuild industry, and give the American people room to do what they do best.

What President Reagan is proposing is not the usual tax reform intended to shift income between different sets of taxpayers. His plan reduces everyone's taxes equally, providing needed incentive for both workers and industry.

Along with the personal income tax rate cuts, the President is proposing a program to allow business and industry to keep enough capital to modernize and engage in more research and development. This will involve an increase in depreciation allowances. In much shorter write-off periods, businesses would be allowed a five-year write-off for machinery, three years for vehicles and trucks, and ten years for plant. In fiscal year 1982, business would have about $10 billion more for investment than it otherwise would have.

The third part of the program for economic renewal addresses the explosion in Government regulation during the past decade. Between 1970 and 1979, spending for the major regulatory agencies quadrupled. The number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations has nearly doubled.

The result has been higher prices, higher unemployment, and lower productivity growth. Particularly hard hit by this overregulation are America's small business men and women, and small business is the bedrock of our economy. Vice President Bush now heads a Cabinet-level Task Force on Regulatory Relief.

A consistent monetary policy that does not allow money growth to increase faster than goods and services is the fourth part of the plan. In order to curb inflation, we need to slow the growth in our money supply. Interest rates, which shot over 20 percent last year, are a clear indication of past monetary inconsistency.

Now let me talk for just a few moments about the practical benefits of the President's plan:

-- If the plan is enacted it will cut inflation in half -- from 11 percent in 1981 to 8.3 percent in 1982, down steadily to 5.5 percent in 1984.

-- It will create 3 million new jobs by 1986 over and above 10 million other jobs that can be expected in this period.

-- It will increase family take-home pay by $2,500 by 1984 for a family of four earning $25,000 today.

-- It will reduce the tax burden -- instead of rising to 23 percent of the GNP by 1984, Federal taxes would fall to 19 percent.

-- It will increase savings and investment.

-- It will restore America's competitive position in the world. Just to cite one example, the Reagan package of tax cuts, spending cuts, and regulatory relief should mean a consumer savings of $150 a car and the return of thousands of autoworkers to their jobs.

-- It will reduce crippling interest rates -- that will mean that the average family of four will be able to buy a median-priced home, a home that family simply cannot afford today.

There is a bottom line to the Reagan plan. A bottom line that says simply: More income, more savings, more security for the future.

President Reagan has said that he does not want this plan to be just the plan of his Administration. He has asked the Members of Congress to make it their plan. And its success requires that all of us adopt it as ours. There can be no special interest other than the interest of all of our people. And we must act now, without delay and without being timid.

Let us act to restore the freedom of all men and women to excel and to create. Let us rely on our heritage of genius and courage. Let us reject the certain failure of present policies for the hope of economic renewal. There is no alternative. Together, we must answer our President's call to forge a new beginning for America.

THE WHITE HOUSE

WASHINGTON

February 17, 1981

MEMORANDUM FOR ALL CABINET MEMBERS AND SENIOR WHITE HOUSE STAFF

FROM: ED MEESE EM
JIM BAKER JB

SUBJECT: IMPLEMENTING THE PRESIDENT'S PROGRAM FOR ECONOMIC RECOVERY

The launching of the President's Program for Economic Recovery sets in motion a large number of necessary actions designed to implement one of the largest domestic policy changes in history.

The two of us will have responsibility for coordinating the various working groups associated with the presentation and eventual implementation of the President's Program. The working groups that have an important role in the program have been identified on the attached sheet. The individuals with the lead responsibility for the activities of each group have been identified. It is possible that additional working groups may be added in the future. Your suggestions in that regard should be forwarded to us for consideration.

To coordinate the efforts of all departments, agencies and offices involved, we need to pull together the various plans and activities related to the Economic Recovery Program. Please advise us of any scheduled events or meetings, as well as suggested events that may be useful in the presentation of the program. The contact person for all material from the White House Staff will be Dick Darman. The contact for members of the Cabinet will be Craig Fuller. Please have this initial material to them by the close of business Thursday, February 19. A plan to provide updated information will be discussed next week.

Area of Responsibility	Lead
I. OVERALL COORDINATION OF THE PRESIDENT'S ECONOMIC PROGRAM	Baker/Meese
II. MAJOR POLICY ELEMENTS	
1) Regulatory actions	President's Task Force on Regulatory Relief
2) Budget Reductions	
a) Executive actions	OMB/Cabinet Dept's
b) Reconciliation Bill	Stockman/Friedersdorf
c) Recission actions	Stockman/Friedersdorf
d) Authorizing legislative changes	Friedersdorf/Cabinet Councils
3) Tax Program	Regan/Friedersdorf
4) Monetary Program	[Volcker]/CEA
5) Special Related Issues/Actions	
(for example:	
- Chrysler	Regan
- Auto Industry	Lewis (Task Force)
- etc. to be catalogued and monitored)	others, as appropriate
III. SUPPORT PROGRAMS	
1) Communications Coordinating Group	Gergen
2) Legislative Coordinating Group	Friedersdorf
3) External Relations Coordinating Groups	
- Political/Special Interest	Nofziger/Dole
- Govs/Mayors/County Officials/ Legislators	Williamson
4) Program Monitoring and Coordinating Group	Darman-Fuller

ACTION COPY

ORIGINAL DOCUMENT RETAINED
IN RECORDS MANAGEMENT

ITE HOUSE

HINGTON

February 18, 1981

MEMORANDUM FOR THE CABINET

FROM: CRAIG L. FULLER
DEPUTY ASSISTANT TO THE PRESIDENT
AND DIRECTOR, OFFICE OF CABINET ADMINISTRATION

SUBJECT: Communication Effort for Economic Recovery Program

This memorandum outlines what was presented today at the Cabinet meeting and at the 10:30 a.m. communications briefing for department representatives. It also provides you with additional background material.

First, the communications program for the next several days includes:

1. The department press corps should be briefed this week on Thursday or Friday (some departments indicated they would brief this afternoon).

2. Interest groups which focus specifically on particular departments should also be briefed Thursday and Friday.

3. Individual briefings for Cabinet members will be provided upon request (contact my office).

4. Briefings for White House press corps are being scheduled next week at 9:00 a.m., Monday through Friday. Each Cabinet member will be asked to participate in one session. The full schedule will be sent as soon as it is available.

The following items are attached for background information:

1. Meese/Baker Memorandum regarding program coordination.

2. Outline of information to be submitted for program coordination.

3. Copy of the President's speech.

4. OMB "Budget Savings" Q&A.

Attachments

cc: Attendees Communications Briefing (with attachments)

DOPLE
A.

Advocate Speaker for PER

Moses Jordan
60 Laser Street
Rochester, NY 14621

(716) 467-0376

Black man very active in social aid programs
divorced father raising six children

FIND OUT STORY

FRAUD & WASTE

ISSUES Regionalism - Frost Belt
= expansion of programs in north
- no deaths Northeast
- Farm Belt.-
- Dairy Price Supports
- Grain Embargo
- Auto summit
-

LONG HOT SUMMER
LABOR
ETHNIC GROUPS

THE WHITE HOUSE

WASHINGTON

February 18, 1981

OUTLINE OF INFORMATION TO BE SUBMITTED FOR PROGRAM COORDINATION

1. Press and Special Interest Briefings

It would be helpful if you will provide us with a report on the outcome of your Departmental breifings for the press and the public interest groups.

We would like to know your impressions as to how the briefings were received, e.g.:

- Were they positively or negatively received?
- Which often-raised questions were difficult to answer?
- Were there certain recurring questions?
- Have you additional comments on general attitude toward both briefings?

It would also be helpful if you can tell us the number of people invited and give us the names of those who attended each of your briefings.

This information should be transmitted in a brief memorandum following the event.

2. Events and opportunities

We would like you to list speaking engagements, both accepted and under consideration, that you plan to use or could be used for presenting the economic plan. Additionally, we would like to know of meetings with outside groups that involve your department in which the economic program could be discussed.

3. Legislative Contact

Advise us of hearings and legislative contact planned by the Cabinet officer or sub-cabinet officers. More detailed legislative tracking will be developed.

4. Planning and Strategy

Our aim is to develop an overall strategy. Your thoughts and suggestions in that regard are encouraged. Please submit such plans for your department action or for broader action as they are developed.

THE WHITE HOUSE

WASHINGTON

February 18, 1981

Q&A CONCERNING "BUDGET SAVINGS"

A common question is being asked concerning the budget savings numbers. OMB has provided the attached Q&A on the subject. OMB has also provided a Q&A on the base in relation to which savings are calculated. These two Q&As are attached.

At OMB's request, I am circulating them for your personal use. Since there is an effort under way to develop a more comprehensive set of Q&As, I suggest you not distribute these further -- and await the more comprehensive package.

Attachment

OMB / 2/[illegible]

EXPLANATION OF BUDGET SAVINGS NUMBERS

Q. In your economic package, you speak of budget savings in 1982 of $41.4 billion in some places, total savings of $49.1 billion in other places and the table in the back of the budget book and fact sheet (Table I) adds up to $34.8 billion. What are the real numbers?

A. The numbers are complex because budget conventions (e.g., on-budget and off-budget) are complex and because both outlay reductions and receipt increases (e.g., user charges) are involved. Here are the numbers, showing FY 1982 and FY 1984.

	1982	1984
I. ON-BUDGET SAVINGS		
A. Outlay decreases:		
1. Major savings reviewed and approved:		
a. Outlay programs (Table I - Pages 10-15 of Fact Sheet)	34.8	61.4
b. Black Lung Trust Fund (Table II - page 16 of Fact Sheet)	.4	.4
Subtotal	35.2	61.8
2. Target for further reductions to be made in March revisions; agencies have been notified of most of this amount (Table II)	6.3	12.0
a. Now recommended or to be included in March revisions	41.4	73.7
3. Outlay reductions to be presented subsequently	--	30.7
a. Budget savings target (outlays)	41.4	104.4
B. Receipts increases:		
1. User charges (Table III - page 17 of Fact Sheet)	2.0	3.0
Total budget savings	43.4	107.4
II. OFF-BUDGET SAVINGS		
A. Amounts specifically identified (page 15 of Fact Sheet	3.0	6.6
B. Effect of actions specifically identified (page 16 of Fact Sheet)	2.2	2.2
C. Other	.4	.4
Total Off-Budget savings (page 18 of Fact Sheet)	5.7	9.2
III. GRAND TOTAL, ALL SAVINGS	49.1	116.6

OMB/

BASE FOR BUDGET CUTS

Q. The numbers used in the Budget package from which you are cutting do not agree with those shown in the Carter Budget. Why are they different?

A. We are showing budgets cuts from a "Current Base." That base represents what budget authority and outlays would be under current law and existing policies. The "base" does include adjustments for inflation using economic assumptions developed by this Administration. Use of this base permits a valid measure of the effects of policy changes proposed by this Administration.

With few exceptions, this base is identical to a "current services" base adjusted to reflect the latest economic assumptions. The primary exceptions are for defense and foreign aid, which are included in the current base in the amounts shown in the Carter Budget.

The Heritage Foundation Backgrounder

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February 27, 1981

FRANK - FYI
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AN ANALYSIS OF THE REAGAN ECONOMIC PROGRAM

INTRODUCTION

President Reagan's economic program, unveiled February 18, is remarkably consistent in both its practical and philosophical reliance on the free market. The tax package, based on the belief that individuals and corporations will respond to altered incentives, does not attempt to channel resources into favored activities, but instead relies on the market to direct the funds to the highest uses. Many of the spending cuts were advanced to eliminate or reduce federal programs which are properly in the province of the private sector: for example, the Export-Import Bank, Amtrak, the synthetic fuels program. Following a dictum of Adam Smith, the Administration also advocates reducing federal spending $2 billion by assessing users fees for inland waterways, airports and Coast Guard services.

A more subtle, but equally important affimation of the market is the Reagan Administration's decision to take a longer term perspective. The taxing and spending powers of the federal government will not be used in attempts to counter short-term economic fluctuations. Rather, the intent is to create a climate in which the government minimizes the distortionary effect of tax and spending, regulatory, and monetary policies on economic decision-making.

There are essentially two avenues of criticism of the Reagan proposals. The first is that the shift in perspective is ill-advised. Opponents would argue that traditional demand management policies are both adequate and necessary. Due in part to the dismal economic performance of the 1970s, this view is held by a rapidly dwindling minority. The position taken in this paper is that the private sector is inherently stable and that the longer term perspective is the correct one.

The second major area of inquiry concerns the composition, mix, and timing of spending and tax cuts. At issue are: 1) specific elements of budget and, more particularly, tax cuts and 2) the relative strength of the two forces, their effect on the deficit, and its effect on the economy. This paper addresses these questions.

THE REAGAN PROGRAM

President Reagan calls for FY 1982 outlays of $695.5 billion, receipts of $650.5 billion and a $45 billion deficit. Included within these aggregates are $41.4 billion in spending reductions, $53.9 billion in individual and corporate tax cuts, and $2 billion in proposed users fees. Another $5.7 billion in off-budget cuts are outlined.

The program also contains $4.4 billion in current fiscal year budget cuts and $8.9 billion in tax cuts. Fiscal year 1981 spending would total $654.7 billion with a $54.5 billion deficit.

Table 1
CURRENTLY ESTIMATED BUDGET OUTLOOK
WITH PRESIDENT'S BUDGET SAVINGS AND TAX REDUCTION PROGRAM
(dollar amounts in billions)

	1981	1982	1983	1984	1985	1986
Target outlay ceilings	654.7	695.5	733.1	771.6	844.0	912.1
Estimated receipts after tax reduction plan	600.2	650.5	710.2	772.1	850.9	942.0
Target deficit (-) or surplus	-54.5	-45.0	-22.9	+0.5	+6.9	+29.9
Share of GNP						
Outlays	23.0	21.8	20.4	19.3	19.2	19.0
Receipts	21.1	20.4	19.7	19.3	19.3	19.6

It is not correct to compare the Carter Administration's FY 1982 budget numbers, submitted in January, with the Reagan proposal because the latter was based on decidedly more optimistic economic assumptions. The variance in forecasts affects the base from which the changes are calculated.

Because the Reagan program depends so much on supply-side tax cuts and changes in expectations, concepts which are overlooked or more difficult to measure in most econometric models, there was some disagreement within the Administration about the impact of the economic package. In a compromise, the forecast anticipates real growth rates of 4.2 percent, 5.0 percent, 4.5 percent, 4.2 percent, and 4.2 percent from 1982 through 1986. The consumer price index will fall from 11.1 percent this year to 8.3 percent in 1982 and 6.2 percent in 1983.

Table 2
ECONOMIC ASSUMPTIONS
(Calendar Years)

	1981	1982	1983	1984	1985	1986
Nominal Gross National Product (billions)	$2,920.0	$3,293.0	$3,700.0	$4,098.0	$4,500.0	$4,918.0
(Percent Change)	11.1	12.8	12.4	10.8	9.8	9.3
Real Gross National Product (billions, 1972 dollars)	1,497.0	1,560.0	1,638.0	1,711.0	1,783.0	1,858.0
(Percent Change)	1.1	4.2	5.0	4.5	4.2	4.2
Implicit Price Deflator	195.0	211.0	226.0	240.0	252.0	265.0
(Percent Change)	9.9	8.3	7.0	6.0	5.4	4.9
Consumer Price Index* 1967 = 100	274.0	297.0	315.0	333.0	348.0	363.0
(Percent Change)	11.1	8.3	6.2	5.5	4.7	4.2
Unemployment Rate (Percent)	7.8	7.2	6.6	6.4	6.0	5.6

*CPI for urban wage earners and clerical workers (CPI-W).

ANALYSIS

The following analysis will be divided in two parts. The first will be an examination of the program elements designed to alter the economic incentives to work, save, and invest. These consist primarily of tax cuts and changes in programs, such as unemployment insurance and trade adjustment assistance. The second portion of the analysis will focus on the proposed spending cuts, their efficacy, and completeness.

ECONOMIC INCENTIVES

The Tax Proposal

President Reagan's tax proposal is a sweeping plan to return much economic decision-making to the purview of the free market. The proposal differs from tax cuts of recent years in that it is not aimed at stimulating aggregate demand through changes in the average tax rates. Rather, it is designed to increase work, savings, and investment through changes in the marginal tax rates. The general philosophy behind this type of tax cut is that the many artificial relative price distortions make it better to lower marginal rates and decrease all biases rather than attempt to chip away structurally at each one individually.

If the plan is adopted, marginal tax rates for personal income will be cut by 5 percent, starting on July 1, 1981. In 1982 and 1983, these will be cut by an additional 10 percent per year, and in 1984 the plan calls for a final 5 percent cut.

There was debate as to whether the maximum tax on unearned income should be dropped immediately from 70 percent to 50 percent. Due to political circumstances, the decision was made not to effect that change immediately. However, when the plan is fully implemented, marginal tax rates will range from 10 percent to 50 percent.

Table 3
THE ADMINISTRATION'S PROPOSED TAX RATE SCHEDULES
FOR 1981, 1982, 1983, AND 1984

JOINT RETURNS

Taxable income bracket	Present Law	Administration Proposal 1981	1982	1983	1984
	Tax Rate on income in bracket	Tax Rate on income in bracket	Tax Rate on income in bracket	Tax Rate on income in bracket	Tax Rate on income in bracket
(dollars)	(percent)	(percent)	(percent)	(percent)	(percent)
$ 0 - 3,400	0%	0%	0%	0%	0%
3,400 - 5,500	14	13	12	11	10
5,500 - 7,600	16	15	14	12	11
7,600 - 11,900	18	17	15	14	13
11,900 - 16,000	21	20	18	16	15
16,000 - 20,200	24	23	21	19	18
20,200 - 24,600	28	27	24	22	21
24,600 - 29,900	32	30	27	24	23
29,900 - 35,200	37	35	31	28	27
35,200 - 45,800	43	41	37	33	32
45,800 - 60,000	49	47	42	38	36
60,000 - 85,600	54	51	47	42	40
85,600 - 109,400	59	56	50	45	43
109,400 - 162,400	64	61	55	49	47
162,400 - 215,400	68	65	58	52	49
215,400 and over	70	66	60	53	50

The depreciation proposal is a slightly revised version of the Capital Cost Recovery Act of 1979, introduced by Congressmen Barber Conable (R-New York) and James Jones (D-Oklahoma). Under the President's plan the useful life concept is scrapped and the following categories and write-off periods would be established.

	Category	Write-off Periods
o	Automobiles and light trucks	3 years
o	R & D capital	3 years
o	All other machinery	5 years
o	Public utility capital with a previous guideline life of under 18 years	5 years
o	Owner-occupied non-residential structures	10 years
o	Public utility capital with previous guideline life of over 18 years	10 years
o	Other non-residential structures	15 years
o	Low income rental housing	15 years
o	Residential rental buildings	18 years

The 3-, 5-, and 10-year categories qualify for a super-accelerated write-off method involving an optimal combination of the "double declining balance" and "sum of the years digits" methods of depreciation. The 15- and 18-year categories must use "straight line" methods.

The 3-year category qualifies for a 6 percent Investment Tax Credit (ITC) and the 5-year category qualifies for a 10 percent ITC as does public utility capital in the 10-year category.

Structures in the 10-year category are considered to be section 1245 property for purposes of recapture, but the 15- and 18-year categories are considered to be section 1250 property. This permits the latter two categories to be subject to some capital gains taxation, as opposed to ordinary income taxation at the point of sale.

The Individual Cuts

The distinction between personal and business cuts is an artificial one. Individuals own all businesses and all business income accrues to individuals in one form or another. Thus, any tax change that affects personal saving affects businesses and any business tax cut will have an effect on personal well being.

The current tax code contains serious distortionary factors which lead to efficiency losses to society. Because of its multiple taxation of income from personal saving, the tax system creates a bias in favor of consumption and against saving. Less saving means less investment, which hampers economic growth.

High marginal tax rates on labor income artificially penalize the work effort. Once again, this causes an efficiency loss to society because the cost of working relative to leisure or non-market activity is distorted.

All economic decisions are made at the margin. That is, a worker makes his decision to work or not to work based on the tax treatment of additional dollars of labor income, not on the treatment of dollars earned in the past. If relative prices are distorted, it is only through changes in marginal tax rates that the distortions will be minimized.

What will the 30 percent across-the-board cut in marginal rates accomplish? Since the price of labor relative to leisure is exactly the after tax real wage rate, a cut in marginal tax rates on labor income will increase the marginal wage rate, thereby making work more profitable and leisure more costly.

The proposed individual cuts also indirectly attack the anti-saving bias in the tax code. In a manner similar to the effect on the work-leisure choice, the cuts in marginal rates will advantageously affect the save-consume decision. For example, the present tax rate on income from savings for a joint return of $10,000 is 54 percent. By 1984, that will be reduced to 40 percent. Thus, for each one hundred dollars of savings incurred, the individual will retain an additional 14 percent.

Distortions, however, will still exist. There is still a multifold taxation of income from capital, including the taxation of interest income, dividends, and capital gains. Since the top marginal tax rate will be 50 percent, some of these distortions may be sizable.

A private investor in this bracket is taxed at the rate of 50 percent on new income. If he decides to invest some of his after-tax dollars, the return on his investment will also be taxed at the rate of 50 percent. Thus, the inherent bias against saving and investment continues, albeit at a diminished rate.

The individual cuts proposed by President Reagan are a good step in the right direction. Much more, however, remains to be done. Had the maximum tax on unearned income in the proposal been dropped immediately to 50 percent and had the reductions proceeded from there, the effects would be more positive.

<u>The Depreciation Program</u>

The President's proposed depreciation system is very close to being an ideal system. It accomplishes two things: 1) it lowers the overall marginal tax rate on income from capital, and 2) it removes a very serious bias against investment in long-lived assets. Further, it diminishes much of the complexity and administrative burden associated with the present depreciation system.

By allowing firms to recover their capital more quickly, tax payments are deferred. Thus, the discounted value of these tax payments is lessened. For the same reason that double taxation of personal saving is distortionary, high marginal tax rates on the income from physical capital is distortionary. The current tax treatment poses a relative disincentive to investment in physical capital. Only the immediate expensing of capital assets will provide a climate in which investment decisions will be made irrespective of the tax system -- the desired, "neutral" result. Given political realities, the President's depriciation proposal approximates this desired neutrality.

It is firmly established in the economic literature that businesses are quite responsive to changes in marginal tax rates on income from capital. As a result of the new depreciation system we can expect new investment in productive, physical capital. A second major efficiency gain will come from the removal of a present-law bias against certain types of capital.

A major distortion that exists in the current tax code is the bias towards investment in short-lived assets at the expense of long-lived assets. By clinging to the "useful life" concept, present law insures that the relevant price of a long-lived asset relative to a short-lived asset is higher than would be the case in a non-tax world. This factor has contributed to a tax-induced shift of resources in our economy. It cannot be claimed that all the woes of the steel industry, for example, are to be blamed on this distortion, but certainly it has been a contributing factor.

This obsession with the useful life concept stems from the belief that depreciation for tax purposes must be matched with actual economic depreciation or the loss of value an asset suffers per accounting period. The traditional wisdom holds that such a system would be neutral with respect to assets of differing durabilities. Recent, more sophisticated analysis has shown that in the context of developments over time, the traditional wisdom is false and in fact discriminates against long-lived assets.

The proposed depreciation system will return the relative positions of short- and long-lived assets to their proper place. No longer will there a tax-induced incentive to favor investment in short-lived assets.

Critics argue that the Reagan tax proposal, by returning so much money to the private sector, will create a demand pull inflation. However, inflation occurs only if the rate of growth in the money supply exceeds the rate of growth of goods and services. Therefore, we need only worry about inflation if whatever deficit exists is funded through monetary expansion by the Fed. As long as the Fed holds the line and follows a rational, steady, monetary policy, there will be no inflationary effects. The Reagan program specifies a desire for a gradual reduction in the money supply and credit growth rate to one-half the current levels by 1986.

The Administration also has indicated its support for the Federal Reserve policy of targeting money aggregates rather than interest rates. With deficits of $54.5 billion in FY 1981 and $45 billion in FY.1982, critics charge interest rates will skyrocket, thereby negating the beneficial effects of the tax cut.

The unprecented change in the tax treatment of all forms of savings will, however, clearly increase the supply of loanable funds. Treasury Secretary Regan has estimated that as much as two-thirds of the tax reduction will be saved. The demand for loanable funds will also increase. It is possible that there might be some initial pressure on the capital markets. It should be noted that as interest rates rise, saving will become more attractive.

As new productive capacity comes on stream, output will expand and real interest rates will stabilize. Of course, if government spending is successfully cut, there would not be any initial pressure in capital markets. The best way to guard against any short-run increases in interest rates is to be vigilant on the spending side.

UNEMPLOYMENT COMPENSATION

Unemployment compensation has been designed to replace approximately 50 percent of a worker's former average weekly wage. The Federal-State Extended Unemployment Act of 1970, enacted to give additional assistance to unemployed workers during periods of high state or national unemployment, authorizes the extension of benefits at the regular weekly amount for an additional 13 weeks whenever the unemployment rate among insured workers (IUR) rises above some state or national "triggering" level. The state trigger takes effect when the state's IUR equals or exceeds, for a 13-week period, 120 percent of the average rate for the corresponding period in each of the previous two years and when such a rate is also at least 4 percent. A state also has the option to extend benefits if the state's overall unemployment rate is at least 5 percent for 13 weeks. When the national IUR reaches 4.5 percent, the national trigger is "on," and all states, even those with relatively low unemployment rates, become eligible for the extended benefits.

Unemployment compensation often has the adverse effect of making layoffs desirable for both employees and employers. Generous benefits and added leisure time often create significant work disincentives. An employer may be induced into laying off more workers during an economic downturn than he otherwise would because the tax used to finance unemployment compensation is not always directly related to the unemployment experience of the firm. The extended benefits program adds to these distortions and generates even greater inefficiency.

The Reagan Administration has proposed restructuring the extended benefits program so that it would provide relief only to those areas plagued by high unemployment. The changes suggested are meant to achieve results analogous to tax cuts -- to restore work incentives by making employment relatively more attractive than unemployment. Specifically, the Administration's proposal would: 1) eliminate the national trigger; 2) change the way the state triggers are calculated; 3) raise the state trigger level from 4 to 5 percent of the IUR and, at state option, to 6 percent of the overall unemployment rate; and 4) strictly enforce the new rule requiring claimants to accept any reasonable job offer. Employment will be considered acceptable if it pays at least the minimum wage and can replace the individual's current unemployment insurance benefits. The first two changes will become effective July 1, 1981, while the third change would take effect only on October 1, 1982, thereby allowing necessary changes in state law. The 1980 Reconciliation Act already requires that the work test be applied to all extended benefits recipients after April 1, 1981. These modifications would save $523 million in FY 1981 and $1.2 billion in FY 1982.

Abolishing the national trigger would reduce costly unemployment insurance benefits in states that would otherwise not qualify for extended benefits. In addition, efficiency in the labor market would be enhanced by eliminating one of the sources creating work disincentives. When the national trigger is "on," benefits are extended in all states, even those with relatively low unemployment rates. Despite the considerably better job opportunities in such states, unemployment may rise as a result of increased work disincentives associated with the availability of more benefits.

The proposal would also exclude extended benefits recipients from the calculation of the IUR. The problem with using the IUR as a measure of unemployment for triggering purposes is that it creates an extended benefits program which becomes self-perpetuating. When the trigger is "on," all persons filing claims for benefits are included in the IUR. This results in exhaustees that normally would no longer be considered part of the labor force to be included in the IUR for an additional 13 weeks. On the other hand, when the trigger is "off," those same workers are excluded. Making this fundamental change would save substantial benefit payments in states that have already reached their triggering level. An even better approach, however, would be to use the overall unemployment rate in calculating the trigger because it would more accurately reflect job availability in the economy.

Raising the state trigger level is desirable because it would ensure that only those in genuine need receive assistance.

This, in part, is necessary to compensate for the changing composition of the labor force, which over the years has raised the natural rate of unemployment. Finally, strengthening the work test can eliminate much of the waste and fraud in the program.

Although the changes proposed are all desirable from an efficiency and equity standpoint, they do not go far enough. The extended benefits program should be eliminated entirely. The original purpose of unemployment compensation was to provide temporary relief. The program is not suited to correct long-term structural problems.

TRADE ADJUSTMENT ASSISTANCE

Trade Adjustment Assistance (TAA) was introduced in 1962 to assist workers suffering from increased imports, which were a direct result of government policies aimed at the liberalization of international trade. Today, however, the Secretary of Labor can declare workers eligible if imports have contributed significantly to unemployment and to a decline in the sales and/or production of the firm(s) in question. In other words, workers no longer have to prove that they are hurt by freer trade or that imports are the major cause of their injury. The primary purpose of the TAA program is to help workers adjust to changed economic conditions by easing the transition period between jobs. Assistance available to workers consists of: 1) trade readjustment allowances; 2) employment services; and/or 3) job search and relocation allowances. TAA benefits supplement unemployment insurance benefits by providing 70 percent of a worker's former average weekly wage, up to a maximum of the national average weekly manufacturing wage. Because unemployment insurance replaces only about 50 percent of gross earnings, TAA can be significant to the unemployed worker. In addition, these benefits are available for up to a year. In FY 1980, outlays on the program had grown to 1.7 billion dollars, which was more than six times as much as in the preceding year.

The major problem with TAA is that it compounds all the problems associated with unemployment compensation. The more generous benefits and the lengthier entitlement period exacerbate work disincentives. Greater benefits also discourage workers from seeking employment in more stable industries. Since employers pay no supplemental tax for laying off workers who would receive TAA benefits, an employer may find it profitable to lay off workers during a period of slack demand, assuming that relatively generous TAA benefits will induce a worker to wait to be rehired rather than actively search for a new job. Finally, TAA creates inequities by discriminating in favor of a select group of unemployed workers, those affected by imports.

The Administration proposes to extend TAA benefits only to those workers who have exhausted their regular unemployment compensation and to limit the size of these benefits to levels no higher than those under unemployment insurance. An unemployed worker will be allowed to receive benefits from TAA and unemployment insurance for up to a year. These changes will become effective October 1, 1981, and could reduce spending by $1.15 billion in FY 1982 alone.

The limitations proposed on the availability of TAA benefits would improve efficiency within the program markedly. The results of several studies seem to indicate that reducing the availability of benefits would dramatically mitigate pernicious practices of employees and employers alike. One such study found that TAA recipients were much more likely to have experienced temporary unemployment than their counterparts receiving only unemployment insurance. Moreover, they were much less likely to have changed their industry or occupation. It can be said that "one of the surest ways to bring about adjustment is to provide no assistance, and assistance that compensated for every burden would leave no incentive to adjust."[1] The generous assistance payments seem to act as a deterrent to workers from seeking employment in new areas, thereby artificially generating too strong an attachment to a vulnerable industry. The proposed changes are needed to restore work incentives and to discourage misuse of the program.

Although the proposed changes in TAA would result in great savings and lead to a more efficient allocation of resources, the program would still have some shortcomings. Even greater savings could be realized if the eligibility requirements were made more stringent by requiring workers not only to show that they were displaced as a direct result of U.S. international trade liberalization but that it had been the single most important cause of their injury. To further this goal, the role of determining eligibility should be returned to the International Trade Commission. The Department of Labor has all too often demonstrated a bias in favor of organized labor, many of whose members are TAA recipients. This is important because there often is only a very tenuous link between layoffs and increased unemployment from imports. Is greater compensation then justifiable for workers who are laid off because their firms failed to modernize or because workers have demanded excessive compensation and, consequently, have effectively priced themselves out of the market? Automobile workers, for example, currently receive a large amount of supplemental benefits despite the ruling by the ITC that imports were not a substantial cause or threat of serious injury to the U.S. auto industry. Instead, the Commission found that the recession, rising costs of credit, high gasoline prices, and the resulting shift in demand for small cars harmed the industry more than imports. Moreover, since workers produce goods and services for local, regional, national, and international markets,

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1 J. D. Richardson, "Trade Adjustment Assistance Under the U.S. Trade Act of 1974: An Analytical Examination and Worker Survey," National Bureau of Economic Research, Working Paper 556, September 1980.

and all of these workers may be affected by unfavorable conditions, why should import-affected workers receive preferential treatment solely because they happen to produce for an international market? This would be especially true if increased imports were a result of greater competition rather than trade concessions granted by the government. Import-affected workers, however, are sometimes considered more deserving because their layoff is the result of promoting a socially desirable policy, i.e., one meant to achieve the greater benefits associated with free trade. Although this may be true, workers in other industries often are displaced for equally deserving causes. For example, stricter environmental controls, more stringent safety standards, and deregulation are just a few. Yet workers who become unemployed as a result of these policies receive no supplements beyond unemployment compensation.

Finally, the availability of TAA after 26 weeks of unemployment compensation renders it more like an extended benefits program. These payments should be reduced drastically, while expanding the availability of the adjustment services.

SPENDING CUTS

The tax proposal, unemployment insurance, and trade adjustment assistance programs are designed to increase incentives to work and invest. To free the resources for the private sector expansion, the Administration proposes $41.4 billion in on-budget spending reductions, another $5.7 billion in off-budget cuts, and $2.0 billion in users charges. While these cuts are significant, staggering to some, there is considerable potential for even greater reductions. Following the Administration's breakdown, the remainder of this paper will examine the President's proposal and suggest some additional reductions.

Revise Entitlements to Eliminate Unintended Benefits

The major cuts within this section are reform of the food stamp program (expected to save $1.8 billion in FY 1982), elimination of both the social security minimum payment ($1.0 billion) and the adult student payment ($700 million), and the establishment of a cap on federal Medicaid payments to the states ($1 billion). The Administration also proposes to limit cost of living adjustments for the civil service retirement system to once a year ($510 million).

Some additional changes not recommended by Reagan which could provide substantial savings include limiting veterans' compensation payments to veterans and survivors whose disabilities are traceable either to combat or job-performance, eliminating all pensions for veterans and survivors which are not "service-connected" and dismantling the VA health care system.[2] Many of

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[2] See Cotton M. Lindsay, "Veterans' Benefits and Services," in Eugene J. McAllister, ed., Agenda for Progress: Examining Federal Spending (Washington, D.C.: The Heritage Foundation, 1981), p. 286.

those currently receiving such assistance would fall back on the less remunerative Medicaid system but, despite that shift, the changes outlined above could save $8 billion in FY 1982.

Reduce Middle-Upper Income Benefits

The February 18 budget also outlines cuts of $1.6 billion through the child nutrition program and $800 million restructuring the Guaranteed Student Loan and the Pell grant programs. In addition, the Student Loan Marketing Association (Sallie Mae) would no longer have access to the Federal Financing Bank. The latter would reduce federal credit demands and promote approximately $15 billion of off-budget savings over the next five years. These three changes are directed at benefits received by the middle and upper income levels.

Some additional policy changes which would reduce the benefits received by the non-needy include introducing cost sharing in the Medicare program and lowering the payment limitation for agricultural deficiency payments from $50,000 to $10,000.

Recover Clearly Allocable Costs from Users

To achieve $2.0 billion in FY 1982 receipts the Administration proposes to charge inland waterway, airport and Coast Guard users fees through increases in barge fuel taxes, aviation fuel taxes, and boat and yacht owner fees respectively. Another fee which would not only relieve the federal government of fiscal responsibility but, also promotes greater economic efficiency would be to incorporate effluent taxes in the 97th Congress' reauthorization of the Clean Air and Water Acts.

Apply Sound Criteria to Economic Subsidy Programs

The Administration also anticipates FY 1982 savings of $10.3 billion from changes in subsidy programs. These include reductions in dairy price supports and Farmers Home Administration lending, elimination of the Economic Development Administration, restructuring the synthetic fuels program and cutting back alternative energy supply programs. Further reductions are proposed in the Amtrak, Postal Service, and mass transit operating subsidies and Export-Import Bank direct lending. The largest savings will result from the phase-out of Titles II-D and VI of CETA ($3.6 billion in FY 1982).

There are two criticisms of the cuts in subsidies. First, in most instances the entire subsidy should be eliminated. Secondly, there were several programs which could have been included. In the cut list the Overseas Private Investment Corporation, agricultural deficiency payments, and U.S. flagship subsidies are all excellent candidates for elimination.

Another possibility would be to terminate the Strategic Petroleum Reserve. The immediate decontrol of oil prices has created the necessary incentive for the private sector to stockpile reserves. Because there are a number of oil companies, or even entrepreneurs, it is very likely that their summed expectations regarding a future embargo and its severity, will be more accurate than the government's. Thus, the stockpile will be more efficiently maintained by the private sector.

Stretch Out and Retarget Public Sector Capital Improvement Programs

The critical elements of this section are an 11 percent reduction in planned water resources projects, deferring municipal water treatment grants, cutting urban mass transit grants, and slowing down highway construction grants.

The criticism is not with what is cut but rather with what remains. Sewage treatment plants, mass transit grants, and even water resource projects are local and regional responsibilities. Rather than defer or stretch out these programs, an orderly termination should be enacted.

Improve Fiscal Restraint on Other Programs of National Interest

The $3.2 billion in FY 1982 savings contained in this section is derived from a large number of relatively small cuts. Some of the more prominent include impact aid, vocational education, NASA, and foreign aid programs, such as PL 480 and multilateral development banks.

The programs contained within this heading offer a unique opportunity for experiments designed to increase both private sector contributions and more desirable outcomes. For instance, in scientific research the federal government could promote private involvement by changing the rules of appropriability, encouraging research associations, engaging in international cost sharing, and even offering a retroactive prize program.[3] A greater reliance on market mechanisms could considerably enhance the efficiency of such programs while permitting reductions in federal spending.

Consolidate Categorical Grant Programs into Block Grants

To reduce administrative expenses and promote greater state discretion, the Reagan Administration proposes to consolidate 45 education programs into two block grants, one to the state, the other to the local education agencies. It is also proposed that 40 federal health and social services programs be consolidated into one or more block grants to the states.

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3 See Richard Speier, "General Science, Space, and Technology," in McAllister, op. cit., p. 63.

Reduced Overhead and Personnel Cuts

To attain greater personnel and management efficiency, the Administration has proposed a number of cost savings measures. In defense, these include the increased use of contracting services, multi-year procurement, and annual cost of living adjustments for federal retirees. Also expected to offer substantial savings are the ceiling on federal civilian employment, and overhaul of the federal pay comparability standard.

Another defense efficiency measure would be to increase the term of first enlistment and curtail re-enlistments.[4] By reducing accessions, the training costs could be reduced. In addition, less retention of first-term enlistees would reduce the retirement liability.

CONCLUSION

The Reagan program embodies the changes in economic perspective, tax policy, and federal spending necessary to bring about a more efficient and productive economy. There are two caveats, however. The first is that regardless of how Congress alters the plan or how it fares in the short run, the Administration should continue to pursue the current course. The reason is not only that the program is sound, but that consistency is essential to altering expectations.

The second warning is that should Congress fear the tax cut to be too large, it should cut spending even more deeply than the Reagan proposals, rather than drastically alter the tax proposal. It is critical that the marginal tax rate cuts and the accelerated depreciation schedule remain intact.

Peter G. Germanis
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[4] See William Schneider, Jr., "Defense," in McAllister, op. cit., p. 1.

THE WHITE HOUSE

WASHINGTON

March 4, 1981

AL ABRAMS
Realtors

MEMORANDUM TO JIM BRADY

FROM: Larry Speakes

SUBJECT: Budget Briefings

Ed Dale at OMB has arranged the following briefings in connection with the March 10 release of the budget.

<u>Saturday, March 7</u>

Morning	Stockman will meet with 15 economic writers to discuss the "credit budget", embargoed until Monday AMs.

<u>Tuesday, March 10</u>

10:00 am	Release of the budget document to the press, embargoed until 1:00 pm, New EOB
1:00 pm	David Stockman press conference on the record for cameras, New EOB
2:30 pm	Departments and agencies are encouraged to have briefings for their press - [Realtors]

<u>Wednesday, March 11</u>

7:00 am	Stockman has an invitation for ABC "Good Morning America" which has not been accepted

<u>Saturday, March 14</u>

Afternoon	Stockman has accepted an interview request from Cable News Network

<u>Sunday, March 15</u>

12 noon	Stockman has an invitation for ABC's "Issues and Answers" which he has not accepted

Some questions:

1. Presidential involvment -- with an 8:00 am departure for Canada, when will he sign? Statement for cameras? Embargoed for 1:00 pm?

2. What about other television shows? What about other Administration spokesmen?

3. What about detailed briefings for columnists, others?

4. It's too late...but the budget release at 10:00 am allows only a short time for the press to read and write before the 1:00 pm release. And...the 1:00 pm Stockman briefing means the budget document moves early without the Stockman spin on it, which will have to be added later.

cc: Dave Gergen
Karna Small
Frank Ursomarso
David Prosperi
Lou Gerig

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

March 4, 1981

81 MAR 5 A8: 33

MEMORANDUM FOR THE PRESIDENT

FROM: MAX L. FRIEDERSDORF M.F.

SUBJECT: Senate Budget Committee action on reconciliation

Senator Pete Domenici (R-NM), Chairman of the Senate Budget Committee, today advised that he has set the following schedule for Senate consideration of the reconciliation bill:

March 11, 12, 13	Full Committee hearings
March 16-~~20~~ M 18 report out 18	Mark Up
March 25 or 26	Bring the bill to the Senate Floor for start of full Senate consideratio
March 28 (Saturday)	Last day for Floor consideration of the reconciliation bill

This will be the first major debate on the President's Economic Recovery Program.

Part of the strategy will be to limit the three days of hearings (March 11, 12 and 13) to technical budgetary witnesses only (Stockman the 12th), with no programmatic witnesses being heard.

Senator Domenici expects to get agreement to his schedule this afternoon from the Ranking Minority Member of the Committee, Senator Fritz Hollings (D-SC).

Domenici also conferred this morning with his counterpart on the House side, Congressman Jim Jones (D-OK), Chairman of the House Budget Committee.

The House schedule appears to be about six weeks behind the Senate schedule, according to Domenici, but Jones agreed to work with Domenici and hold regular consultations on progress of the legislation in both Houses.

I believe Domenici's time table reflects concrete Congressional action that the President can point to as indicating good response and movement by the Congress, particularly the Senate.

Members of the Senate Budget Committee who will be considering the reconciliation bill include:

REPUBLICANS	DEMOCRATS
Pete Domenici, NM	Ernest F. "Fritz" Hollings, SC
William L. Armstrong, CO	Lawton Chiles, FL
Nancy Kassebaum, KS	Joe Biden, DE
Rudy Boschwitz, MN	Bennett Johnston, LA
Orrin G. Hatch, UT	Jim Sasser, TN
John Tower, TX	Gary Hart, CO
Mark Andrews, ND	Howard Metzenbaum, OH
Steve Symms, ID	Don Riegle, MI
Charles Grassley, IA	Pat Moynihan, NY
Bob Kasten, WI	Jim Exon, NE
Dan Quayle, IN	
Slade Gorton, WA	

bcc: Jim Baker
Ed Meese
Mike Deaver
Dave Stockman
Dick Darman

March 6, 1981

THE WHITE HOUSE

WASHINGTON

Subject: Schedule and Communication Thought Starters

A. Economic Program

1. Ronald Reagan, the child of the Depression, is concerned.

   - must establish RR does understand the needs of the poor
   - must kill reverse "Robin Hood"
   - public wants to be told to be disciplined

2. Possible counter - "substance is the best P.R. there is"

   - talk work not jobs, not business
   - how tax cut affect people
   - key to successful economic impact in '82 is to pass program now
   - RR will not touch "safety net"

3. Carry attack to the Hill

   - press conference at capitol
   - greater use of capitol office
   - treat capitol events just like out of town advance. spend whole day there with complete schedule of activities

4. Carry attack to the Departments

   - attend Cabinet staff meetings to energize staff
   - invite second tier staff to White House

     1. briefings
     2. brief reception with spouse joining
     3. build team concept

   - meetings with Senior Executive Service. All in government must join together to solve problem

5. Fraud and Waste

   - find it, dramatize it, map it out
   - audio visual departments as example
   - do we need a nine digit zip code

B. Other

- April 15 tax day - dramatize need for tax cut
- April 12 anniversary of Roosevelt's death
- brunch at W.H. morning after Gridiron dinner
- greater use of Rose Garden in Spring
- evenings at W.H. - entertainment without dinner
- social hour with all Congressional AA's
- Marine Twilight Band on South Lawn
- Space Shuttle -

WHAT IS RECONCILIATION AND HOW DOES IT WORK?

"Reconciliation" is a process provided for in Title III of the 1974 Budget Act. In short, it gives the Congress the power to "instruct" the committees of the Senate and House that have spending jurisdiction to change already-enacted laws in order to save federal money that, otherwise, would spend.

Here's how the process would work, under the Domenici measure that now awaits action by the Senate Budget Committee.

1) The Senate Budget Committee would mark up a revision to the Second Concurrent Budget Resolution for FY 81 (which Congress approved back in December of 1980); this revision would be the actual "reconciliation instruction" and would direct many committees in Congress to cut spending in order to save billions of dollars in 1981, 1982, and 1983.

2) The Senate would act upon the instruction and, when it passed the final version of the reconciliation instruction, the committees affected could begin work to actually change already-enacted programs in order to save the sums ordered by the instruction.

3) The House, if it chose, would go through the same procedure; House committees, too, would then have to convene and find savings in programs that amounted to the sum total ordered by the full House when it approved the reconciliation instruction (this would happen after conference with the Senate on the instruction itself).

4) When the Committees had decided what programs to change in order to save the money the Congress instructed them to save, they would report back their savings recommendations to the Budget Committees. The Budget Committees would "package" all of these savings into the actual Reconciliation Bill and report to the House and Senate floors.

5) The House and Senate would accept the Reconciliation Bill, or amend

6) Finally, after conference concluded and a conference report on the Reconciliation Bill came before the House and Senate, the two chambers would act (and presumbably pass) and the Reconciliation Bill would be sent to the President for his signature.

When the President signed the bill, many dozens of laws now on the books would be changed and the savings the President desired would result.

THINGS TO REMEMBER

Because reconciliation is part of a budget resolution, it has important protections on the Senate floor--it is a privileged motion and moving to consider it is not subject to debate. Second, the Budget Resolution that will contain reconciliation can be debated on the Senate floor for only 50 hours. This includes all amendments, quorum calls and similar parliamentary measures. Thus, it is impossible to filibuster a reconciliation instruction. Finally, the reconciliation bill itself, if it is the result of a reconciliation instruction, can be debated on the Senate floor for only 20 hours and also is a privileged motion.

Also: the full Senate and House instruct the committees to save money. The Budget Committees merely package the instruction and make recommendations on where savings might be found. The actual work of changing the laws necessary to save money is left to the authorizing committees and to the Appropriations Committees.

Finally: After the reconciliation bill is passed, the Budget Process will still go forward with the regular consideration of the First Concurrent Budget Resolution for FY 82--and during this process even further savings through regular committees' actions during 1982 can be assumed. Reconciliation is not the whole answer, but it is a critical first step toward changing already-enacted laws, especially entitlement laws.