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LEGISLATIVE REPORT
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REAGAN BUDGET CUTS THREATEN FEDERAL ROLE IN LOCAL ECONOMIC DEVELOPMENT

Direct federal assistance for local economic development may disappear if Congress accepts the deep cuts in urban programs proposed by the Administration. On February 18, President Reagan recommended abolishing the Economic Development Administration (EDA) by FY82 and curtailing other related development programs in the Department of Housing and Urban Development (HUD), the Department of Labor (DOL), the Department of Transportation (DOT) and other federal agencies.

The President's economic recovery plan proposes reducing inflation and increasing national productivity through a combination of budget reforms, personal and business tax cuts, regulatory relief and monetary policy. The plan calls for $4.8 billion in federal spending cuts for FY81, and $41.4 billion for FY82; the Administration expects these reductions to slow the growth of federal spending to 7 percent annually, from the current 16 percent growth rate. The cuts in FY81 spending essentially put EDA and other agencies "on hold" until Congress fights the budget battle this spring.

In deciding how and where to pare the budget, the Administration expressed a willingness to balance the cuts among many interests, but vowed to maintain a strong national defense and a "safety net" of various social programs. It cited economic ineffectiveness and the inappropriate federal role in local development as reasons for the inordinate slice taken out of federal urban programs. EDA was particularly criticized as an unnecessary subsidy to private firms and a distorting factor in the market economy.

The Administration will announce a second round of cuts totaling almost $20 billion on March 10; it will formally submit the revised FY81 and FY82 budgets, tax proposals, and regulatory changes to Congress on that same day. This second proposal could include cuts in programs spared in the first round--the Small Business Administration, Community Services Administration, HUD's

Section 108 program, and several federal loan and loan guarantee programs.

Congressional Outlook

Congress has already promised quick action on the President's economic package. The Senate, led by a new Republican majority, will probably approve the package more quickly than the House where the Democrats remain in control. Democrats in both Houses are particularly concerned about the inflationary impact of the proposed Kemp-Roth 10 percent cut in personal and business taxes. House and Senate Republicans, although many are unsure about the tax cuts, will probably approve them.

Congressional support for EDA is extensive and bipartisan, but the struggle over the agency's reauthorization last year and the overwhelming number of new Congressmen could hurt the agency's chances for survival. Furthermore, both urban and rural supporters of EDA may have divided loyalties. HUD's Urban Development Action Grant Program (UDAG) was apparently eliminated in the President's February 18 proposal, but the program may reappear in another form or be integrated into the block grant program--a possible tradeoff to EDA. Rural supporters may be forced to choose between EDA and the Farmers Home Administration or the regional commissions.

THE CONGRESSIONAL BUDGET PROCESS

This year, the Congressional budget process is considerably more complicated than in the past. Congress must take the President's proposal--the Federal Budget--and (1) devise a new FY81 budget; (2) make cuts in FY81 spending for specific programs according to the revised budget (rescission); and (3) develop an FY82 budget.

The House and Senate Budget Committees are responsible for reviewing the President's proposed budget and setting spending targets for the coming year. Normally, they break down the spending targets by function only; for example, function 450 is "Community and Regional Development," which includes the development programs of EDA, HUD, and the Farmers Home Administration (FmHA). The authorization and appropriations committees then come up with program-by-program spending levels.

Last year, however--and most likely this year, too, for the FY81 budget--the budget committees tacitly made program funding decisions when they detailed cuts for specific agencies. This growing power of budget committees in areas formerly reserved for the authorization and appropriations committees remains controversial.

The FY81 Budget

In order to revise the FY81 budget, Congress will make retroactive cuts in both budgetary authority and spending for programs which began on October 1, 1980. To ensure discipline in setting the new budget authority levels, the budget committees will instruct the standing committees on the necessary targets. This process is known as reconciliation. Reconciliation instructions must be approved by both Houses of Congress.

Congress will then draw on the revised FY81 budget for specific reductions in appropriations. This is essentially a repeal--or a rescission--of spending decisions made by Congress last summer.

Rescissions in FY81 Funding

For the second time in two years, the President has recommended cuts or rescissions in current fiscal year funding. President Reagan in his economic recovery plan seeks almost $5 billion in funding cuts. This repeal of existing budget legislation takes three steps.

First, the President transmits to both Houses of Congress a special message (expected on March 10) specifying by department and function the amount of funding to cut out. The message must also explain the reasons why the funding should be reduced, the fiscal and economic impact of the proposed cut, and its effects on the programs for which the funding is provided.

Second, Congress must approve the rescission within 45 days or, theoretically, it cannot take effect. No funding earmarked in the rescission message can be obligated until after the 45-day period. In the past, the Congress has exceeded the time limit. As long as Congress is considering a rescission bill, federal agencies would probably not obligate any disputed budget authority.

Third, rescission bills are handled like appropriations bills; they are reported out of the appropriations committees and are considered first by the House, and then by the Senate. The House Appropriations Committee may decide to break up the rescission bill or report it as a single bill.

The House Appropriations Committee is not expected to report such a bill until early June. It will wait instead for the Budget Committees' reconciliation instructions to the standing committees. After the House and Senate approve the reconciliation instructions, then it will introduce a rescission bill.

The FY82 Budget

While it revises the FY81 budget, Congress will also be working on the FY82 budget. To do this, it will follow the budget process prescribed by the 1974 Budget Act. This includes: (1) development of a first concurrent budget resolution fixing spending targets for the standing committees. These targets are usually not binding, although last year was an exception; (2) determination of program-by-program spending levels for FY82 by the authorization and appropriations committees; and (3) agreement by the House and Senate on a second concurrent budget resolution which, when reconciled with program spending recommendations, forms the new FY82 budget.

Congressional Budget Process (With Target Dates)

March 10, 1981	President Reagan submits revised FY81, FY82 budgets
March 15*	Standing committees submit estimates to Budget Committees
early March (Senate) April 10 (House)	Budget Committees prepare reconciliation instructions for FY81 budget
end of March (Senate) mid-April (House)	Adopt reconciliation instructions to bring committee spending in line with revised FY81 budget
April 15*	Budget committees report first budget resolution with revised FY81 and FY82 spending and reconciliation instructions
May 15*	Committees report bills authorizing new FY82 budget authority
April 15-May 15*	House, Senate review first budget resolution; adopt first concurrent budget resolution
May-June	House, Senate Appropriatoins Committees consider reconciliation instructions; report FY81 rescission bill; send to Congress
late June	Congress approves rescission bill
June, July, August	House, then Senate, consider and approve FY82 spending bills
September 15*	Congress adopts second concurrent resolution
September 25*	Congress adopts reconciliation bill, if necessary, to bring committee spending in line with FY82 budget resolution
October 1, 1981	New FY82 budget year begins

* Deadlines required by the 1974 Budget Act.

Analysis

Congress is expected to reduce the budget to the level recommended by the President, but the mix of cuts--which agencies will suffer most--could change dramatically.

The House and Senate Budget Committees will begin preparing in early March their revised FY81 and FY82 budgets along with reconciliation instructions to the committees. The different party majorities in each House will undoubtedly affect the speed with which they consider Reagan's economic plan. On one hand, the Senate Budget Committee, sensing that time is a key ingredient, will quickly review the budget. They intend to prepare the reconciliation instructions the week of March 10 asking the committees to make necessary program cuts and report back to the Senate by April 1.

On the other hand, in the Democrat-controlled House, the Budget Committee will work on a single bill containing the revised FY81 budget, the FY82 budget, and the reconciliation. The target date for approval is the congressional recess on July 4.

Thus, the battle over funding for economic development will initially be waged in the two budget committees; depending on the outcome there, the battle could move on to the particular authorizing and appropriations committees.

AGENCY BUDGET CUTS

Economic Development Administration

The Administration recommends reducing EDA's FY81 budget by $361 million to $307 million, and completely abolishing the agency in FY82. Although efforts by the Nixon Administration to eliminate EDA were unsuccessful in 1972, the new conservative Congress, the agency's difficulties in getting reauthorized last year, and the Administration's momentum could be enough to doom it.

The EDA budget would be as follows:

	FY81		FY82	
	Carter Budget	Reagan Proposal	Carter Budget	Reagan Proposal
Planning Grants	40	35	40	0
Technical Assistance	46	20	46	0
Public Works & LTED	350	116	350	0
Economic Adjustment	36	30	36	0
Direct Loans	116	52	116	0
Guarantee Payments	32	32	32	32
Research	4	2	4	0
Salaries	43	40	49	16
Loan Guarantees	(425)	(100)	(425)	(0)
Total	668	307	673	48
Regional Commissions	44	23	0	0
ARC	343	223	344	219

Of great concern to local development practitioners is the status of pending EDA grant proposals. The proposed FY81 funding level of $307 million should permit EDA to fund those projects for which it has sent grant approval letters. Applicants that have received only letters of intent may not receive funding, although this is still unclear. The uncertainty of EDA funds could also endanger several UDAG projects.

As of January 23, all public works grants and business development loans that have not been approved will not be approved until Congress acts on a rescission bill. Currently in the pipeline are $150 million in Title I assistance, $15 million for Title IX (LTED), and $13.6 million for Title IX (SSED). Sixteen loan applications ($10 million) and 25 guarantees ($43 million) are also frozen in the pipeline.

Approximately 150 planning grants, most of which were up for renewal in the third and fourth quarters of FY81, remain in limbo. EDA has sent letters to the grantees informing them of the agency's inability to ensure funding.

No one knows how the interruption or possible termination of funding will affect the cost and future of numerous development projects. There is little doubt that the loss of EDA will seriously hamper public development initiatives by eliminating aid for planning, financing, and infrastructure.

Department of Housing and Urban Development

The Reagan proposal makes HUD, and specifically the Community Development Block Grant program (CDBG), the lead federal agency in local economic development. This gives concrete form to the Administration's belief that all federal assistance to states and localities should be in the form of block grants. However, the Administration did not call for increased funding for CDBG. The static funding for CDBG, coupled with the proposed elimination of a series of HUD programs and EDA, will certainly hurt local development.

The UDAG program, eliminated in OMB's earlier "black book" (see Legislative Report, February 12, 1981) appears to have been resurrected, but its form and nature remain undetermined. The President proposes integrating the CDBG and UDAG programs, building on the block grant's entitlement nature but retaining UDAG's focus on projects leveraging private investment. Whether these changes can be made or the program reorganized within HUD without Congressional review depends on the Administration's proposal. In any case, it appears that nothing will be done about UDAGs until FY82. The Administration is also reviewing the possibility of lifting the restrictions on the use of CDBG funds for economic development.

Although HUD's FY81 development funding cuts are relatively small, its FY82 funding will be slashed by almost $1 billion. The Administration believes the reductions are justified because all of the development functions contained in these programs--physical development, neighborhood self-help, planning, and leveraging of private investment--are eligible under the block grant program. HUD's budget looks like this:

	Current FY81	Proposed FY81	Carter FY82	Reagan FY82
CDBG	3,690	4,370*	3,960	4,170*
UDAG	675	----	675	----
312	130	0	130	0
Self-Help	9	1	10	0
Section 108	250	?	250	?
701 Planning	33.7	0	35	0

* The Reagan proposal includes only one combined figure for CDBG and UDAG. Although the FY81 level is approximately the same as the total of CDBG and UDAG, the FY82 figure is almost $600 million less.

HUD is still approving 312 rehabilitation loans, but can only use funds already assigned to the field offices; it will continue approving loans until the President sends his formal rescission package to Congress. HUD will not accept any new grant applications for the Neighborhood Self-Help program pending the outcome of Congressional budget process.

Department of Labor

The Administration has recommended phasing out the Public Sector Employment program (Titles IID and VI) under the Comprehensive Employment and Training Act (CETA) by the end of FY81. President Carter also wanted to phase out these programs, but over a longer period of time. A freeze has been imposed on any new hiring for at least the next several weeks. The 300,000 workers currently in CETA PSE jobs will be phased out by September 30.

Greater emphasis will be placed in the future on job training activities or programs such as the Title VII Private Sector Initiatives.

Small Business Administration

The second round of spending cuts expected on March 10 will contain recommendations for a 25 percent across-the-board cut in Small Business Administration programs for FY81 and FY82. The FY81 cuts will come in those funds not yet spent this year.

Community Services Administration

All Community Services Administration (CSA) programs, except the Title VII Community Development Corporations (CDCs), may be combined into a Health and Human Services block grant. It is unclear at this time what will happen to CSA's economic development programs; they could be eliminated in the second round of budget cuts or merged into CDBG.

Other Programs

The President's economic recovery plan also contains recommendations to:

- Phase out mass transit operating subsidies by 1985.

- Reduce Farmers Home Administration direct loans by five percent in FY81 and 25 percent in FY82.

- Reduce funding for mass transit capital grants.

- Eliminate the Co-Op Bank in FY82.

* * *

This Legislative Report *was prepared by Carol Patrylick, Director of Legislative Analysis and Ellis Kriesberg and Judy Bryson, Legislative Associates. Edited by Stephanie Sampson. Production: Evelyn Billy-Holliday.*

The Wall Street Journal
Tuesday, July 14, 1981
Page 1

File
Economic Package

Rating Reagan

For First Six Months, President Gets A-Plus For Economic Efforts

But a Global Strategy Fails To Emerge, and Cabinet Posts a Spotty Record

Focus: One Ball at a Time

WASHINGTON—When the talk at White House meetings turns to his economic package, President Reagan listens closely, often interrupting to offer observations or suggestions. "He's in the thick of things," declares a presidential assistant.

But when the talk turns to foreign policy, "Well . . . ah . . . he often yawns," discloses another lieutenant.

The striking contrast tells a lot about Ronald Reagan's first half-year in office. As

This article was prepared by Wall Street Journal staff reporters Timothy D. Schellhardt, Albert R. Hunt and Gerald F. Seib.

the administration approaches its six-month birthday next Monday, the President is on the verge of receiving handsome gifts: Final congressional approval of his far-reaching budget cutbacks is almost certain, and acceptance of most of his tax-cut proposals is likely.

Thus, in evaluating the administration's record, friend and foe alike credit the White House with extraordinary success on the economic front. "We're ahead of schedule," gloats presidential counselor Edwin Meese. "I have to admit it," acknowledges liberal Rep. Don Edwards, a California Democrat. "He's certainly been very skillful so far."

Even top Reagan aides, however, turn defensive when it comes to foreign policy—explaining why they haven't spelled out their objectives. "We purposely haven't hyped our foreign policy," contends Mr. Meese. "We didn't want to take a lot of public attention away from our economic package."

Lacking a Global Strategy

In contrast to Mr. Reagan's clear-cut goals in domestic economic policy, a comprehensive global strategy still appears to be lacking. The Reagan foreign-policy team continues to suffer from incessant infighting with Secretary of State Alexander Haig defined policy pronouncements. Other than demonstrating a desire to check Soviet expansion, this administration mainly has reacted, often in a confusing fashion, to world events.

"You don't sense any Reagan objectives in foreign policy other than to contain the Communist horde," maintains Edwin Hargrove, a University of North Carolina specialist on the presidency. And a pro-Reagan Republican Senator muses, "We all can be thankful there hasn't been any real foreign-policy crisis yet."

Still, the Reaganites believe this problem isn't clearly perceived yet by the public or the politicians. So, with all the success on the economic front, they are delighted with the President's first half-year. "We'll certainly take another six months like the first six," exclaims James Baker, the White House chief of staff.

The Achievements

The achievements, they say, go beyond the tax and spending areas. Administration officials feel they have started a sweeping cutback of federal regulations and have at least laid the groundwork for turning back a lot of responsibilities to state and local governments.

And despite a slow start in filling high posts, the President's people generally are pleased with his appointments. They feel they got a clear plus with last week's nomination of Arizona Judge Sandra O'Connor to be the first woman on the Supreme Court. Although this selection has been criticized by some right-wingers and anti-abortionists, it has won wide praise, and Mrs. O'Connor is expected to be confirmed easily. "This is a politically brilliant choice," declares the Senate Democratic whip, Alan Cranston of California.

Moreover, the administration's political skill and the President's strong personal appeal still win many favorable comparisons with the record of Jimmy Carter. The likeable 70-year-old Chief Executive, polls show, is far more popular than many of his programs; a major source of this strength, many politicians believe, was his remarkable behavior and speedy recovery from the March 30 assassination attempt. "He came across as so courageous and warm," notes one liberal Senate Democrat. "If it weren't for that, the President would be in a lot more trouble now."

The Troika at Work

Another important plus is that, by all accounts, the troika of top White House aides—Messrs. Baker and Meese and the deputy chief of staff, Michael Deaver—are working remarkably well together. "I'm still not sure how long it can last," says another White House aide, "but so far there has been very little friction at the top."

All the accomplishments have camouflaged what some administration stalwarts and many outsiders believe are serious weaknesses in the Reagan operation. Although no one doubts that the top team performs smoothly when focusing on one basic issue like the economy, the White House often stumbles when other matters arise.

For instance, even top Reagan aides acknowledge that the administration's proposed cutbacks on Social Security benefits were ill-conceived and hastily presented; pollsters say this misstep has cost the President the clumsy manner in which the administration has handled its plan to sell sophisticated AWACS radar planes to Saudi Arabia.

"The problem with Jimmy Carter was that he always had about 27 balls in the air at once and couldn't pick priorities," says one veteran Washington politician. "This group has learned that lesson. But they only seem to be able to focus on one ball at a time. Unfortunately, you usually don't have that sort of luxury, and as time goes on, this is going to be an increasing problem for them."

Already, Mr. Reagan's much-touted system of Cabinet government appears to be falling short. A few Cabinet members get high grades, but the total performance is spotty, White House aides concede. Thus, more and more major decisions end up in the White House.

But, except for David Stockman's solid budget office, the White House team hasn't yet got its act together to deal effectively with the agenda ahead. Or so fear observers both inside and outside. The domestic-policy staff, headed by longtime Reagan adviser Martin Anderson, is considered weak and disorganized. Mr. Anderson isn't interested "in process, just access," one colleague says. Similarly, the national-security staff gets low ratings; critics charge that Richard Allen, its chief, is a poor administrator and may be in over his head.

The President's "failure to understand the machinery of government and to staff up to master it (may) bring down his administration," argues political scientist Walter Williams, a public-policy and management expert at the University of Washington. Mr. Williams praises budget chief Stockman's office but contends that the national-security staff is "extremely weak" and the domestic-policy outfit "almost as grim."

These two groups will be severely tested in the months ahead. On the national-security side, the President soon must decide on how to base the MX missile, whether to build a B1 bomber and what to do about nuclear nonproliferation. But the diciest item of all may be how to win congressional clearance for selling the radar planes to the Saudis; already, a majority of both houses have expressed opposition to any such sale.

On the domestic side, the Reagan White House faces difficult choices on social issues—abortion, private-school aid, public-school prayer—pressed by the Moral Majority. In addition, hard decisions must be made on topics as diverse as extension of the Voting Rights Act, revision of the Clean Air Act, and policies on telecommunications and immigration.

Exaggerated Effectiveness?

President Reagan's dealings with Congress win praise from lawmakers, but some think the effectiveness may be exaggerated. Much of the President's success is attributable to his personal charm, a commodity that may be stretched thin as more issues pile up. And although top Reagan lobbyist Max Friedersdorf looks good compared with President Carter's man, Frank Moore, the Reagan lobbying team has been slow to react to trouble spots, such as congressional protests against Social Security cuts and the nomination of Ernest Lefever as human-rights chief. (Mr. Lefever withdrew after being overwhelmingly rejected by the Senate Foreign Relations Committee.)

Furthermore, the President's influence on Capitol Hill may diminish when the remarkable string of budget cutbacks he is pushing through takes effect. Some critics already see the stirrings of a backlash among affected interest groups. "He's beginning to lose one segment after another—the elderly with his Medicare and Social Security cuts, Hispanics and blacks, educators and even scientists," asserts Democratic Rep. Edwards.

Even a number of congressional Republicans fear the cutbacks may produce a sharp anti-Reagan turn. The key may be whether the economy shows gradual improvement—further easing of inflation, a drop in interest rates and a renewed increase in employment. "As long as things generally are going well economically, the country will tolerate small imperfections," argues John Sears, Mr. Reagan's former campaign manager and one of the capital's shrewdest political analysts. "But change the perception that things aren't going well in the economy, and it's a different ball game entirely."

Foreign Policy

Even if the economy holds up, though, the administration has to straighten out its foreign-policy act, some Reagan loyalists concede. Contradictions abound: The President doesn't like the Soviets, but he lifted the grain embargo; he emphasizes his friendship for Taiwan but took the historic step of offering to sell arms to Communist China; the administration once played up the Communist-inspired threat to El Salvador, but then played it down amid complaints that all the talk was interfering with its economic goals and that many of the claims were exaggerated.

Most of all, critics say, Mr. Reagan hasn't shown a coherent view of the world. On some issues he has avoided clarifying his views by postponing decisions. The administration put off a resumption of the Middle East peace-seeking process until after the Israeli elections last month. New strategic arms-limitation talks with Russia won't begin before next year.

In other instances, the administration merely has responded to events. It sent Philip Habib to the Middle East to mediate a threatened war over the Syrian missiles in Lebanon and agreed to open talks on European nuclear arms in response to intense pressure from U.S. allies.

Personal conflicts haven't helped matters. Secretary of State Haig has alienated White House aides with his abrasive style and has disagreed frequently on tactics with Mr. Reagan's longtime friend, Defense Secretary Caspar Weinberger. As a result, the administration that promised to speak with one voice on foreign affairs often speaks in confusing and even contradictory voices. Rumors persist that Mr. Haig will be out by the end of the year (the hottest rumored replacement is United Nations Ambassador Jeane Kirkpatrick), but White House aides repeatedly deny any such plan.

Sensitive to charges that the President lacks a comprehensive view of the world, aides insist he has broader ideas that will become clearer, perhaps in an oft-postponed foreign-policy speech in the next few months.

In any event, Mr. Reagan is going to have to start devoting more of his attention to foreign policy. Immediately ahead are the seven-nation economic summit in Canada next week, meetings here with Anwar Sadat of Egypt next month and with Israel's Menachem Begin in September, and a North-South meeting in Mexico in October.

Even if he can improve his showing in the international sphere, the President may find himself with less than heroic standing in the public's eyes. Although polls show that hard-core support for Mr. Reagan and his programs is more solid than that enjoyed by his predecessor, it is also true that four years ago today President Carter's ratings in the polls and the public's general optimism about the nation's future were slightly higher than comparable showings for the Reagan administration now.

"President Reagan has become a 'mortal' versus an 'immortal' President," says Democratic polltaker Peter Hart. "And that's a big difference" from several months ago.

File Economic Package

THE CHRISTIAN SCIENCE MONITOR

Tax the rich the Reagan way

By Jim Courter

A fundamental tenet of supply-side economics is that taxation should be designed for no other purpose than to collect the maximum amount of revenues which the electorate as a whole wants to pay for the government services it feels it needs. A corollary to this is that a greater share of the taxes should be paid by those most able to afford them. So long as tax policy is designed so that these ends become reality and not merely lofty intentions, our economy and the public welfare will have a better chance of recovery.

In recent years, tax policy took the form of "tax reform" schemes to tax the rich and redistribute their incomes to the poor. Today it is clear that, for all these "reforms," the poor are no better off. Most of the poverty money went to the government administrators of the poverty programs. And the high tax rates failed to collect as much revenue from the rich as they should have. Instead of paying Uncle Sam, the rich found it cheaper to pay their tax lawyers, to put their assets in nonproductive tax shelters, to risk tax evasion, or to spirit their money abroad. As a result, this money went neither into the federal Treasury nor into the productive investment that could have offered new jobs and more hope for the poor.

The same was true in the early 1920s and early 1960s, when the top marginal rates were 73 percent and 91 percent respectively. After these were cut to 25 percent and 65 percent, revenues to the Treasury increased immediately and dramatically, with the upper-income groups providing the lion's share of the increase. As the public record makes clear: in 1921, these groups paid 28 percent of the tax burden, whereas in 1928 this share increased to 61 percent! There were similar results in the 1960s. In both cases, not only did lower-income groups enjoy a massive tax relief but the economy boomed, creating new jobs and opportunities for the poor. Current projections by the Treasury Department reveal that the tax burden will shift in a similar direction, so long as the Reagan tax cuts in their totality are enacted.

Our country, therefore, has a choice: do we want to enjoy the psychological benefits of "soaking the rich" with high tax rates – and suffer the inevitable failure to collect more revenues and stimulate growth? Or are we willing to cut high tax rates and let the rich increase their *taxable* incomes, thereby collecting more revenues and enjoying the benefits of increased investment, growth, and an expanded tax base?

The message of the last election seems to be the latter. The electorate's passion for egalitarianism is a natural one under certain conditions: those of either no-growth or negative growth. If national income cannot expand, one man's gain must always be at the expense of all the others. Fair and equal distribution is the inevitable demand of the people. But if one man's gain serves to expand the country's wealth, thus contributing to the common gain, and if the opportunity to participate in such wealth creation is open to everyone, then the passion of egalitarian envy and the sense of injustice subside. People are willing to let others improve their own lives so long as everyone has the same chance to give it a try.

Former Congressman Abner Mikva learned this lesson during one of his campaigns. When he talked to some hardhats about George McGovern's plan to increase inheritance taxes on all estates over $150,000, he encountered fierce opposition. When he asked them why they were opposed, since it was unlikely that their estates would ever be so large, they angrily replied: "Well, someday they might!" Translation: people everywhere want the hope of a better life.

The irony of the counterproductive egalitarianism of recent years is that it doesn't hurt the rich. In fact, the rich are the last ones to be hurt by any confiscatory tax policy. The people who *are* hurt are: those who need the jobs that could be created by new investment; those who need the welfare benefits that a *rich* society can afford, as opposed to a poor society; and lastly, those who are trying to get rich – people on all rungs of the economic ladder whose incentives are stifled, and incomes consumed, by high marginal rates.

In a perverse sort of way, the people who are already rich are actually helped by such a system. They become an entrenched elite that can sit comfortably on top of the economic ladder, their assets safely sheltered. This is contrary to the whole American tradition of social mobility, which is one of the great protectors of our freedom and shields against a system of class stratification and institutional, as opposed to meritocratic, privilege.

The people are tired of the stagnation of the recent era and have signaled for a change. They want the chance to enjoy growth and upward mobility again. They know life *can* get better. And they know that there is a way of making people more equal by other means than lowering everyone's standard of living. That way is to *raise* everyone's standard of living.

The Reagan administration should not compromise its tax-cut plan. The tax treatment of earned and "unearned" income must be made uniform and the top marginal rates must be cut. Since the President's plan will be attacked as a "rich man's tax cut" no matter what the plan proposes, it should include the one element that has common sense and all historical experience on its side: a tax rate cut that will *increase* revenue collections from the rich.

Jim Courter is a Republican member of the House of Representatives from New Jersey.

file

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

May 20, 1981

TO:

FROM: MORTON BLACKWELL

RE: ENDORSEMENT OF TAX CUT

Please guess who said the following to whom:

> " The tax cut is our modern weapon today against unemployment, which breeds poverty and ignorance, the inconsiderate allies of apathy and neglect. I don't intend to sit idly by while this problem of unemployment swells and coarsens. This tax bill must pass."

This tax cut endorsement was from Lyndon Johnson before the AFL-CIO Executive Council, December 4, 1963.

Since the AFL-CIO is active in most coalitions against the President's economic package, perhaps we should conclude that they are for tax cuts only when proposed by liberal Democrats.

See attached memo from COPE with above quotation on page # 3.

Committee on Political Education, AFL-CIO
815-16th Street, N.W.
Washington, D.C., 20036

AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS
AFL-CIO

political memo from COPE

GEORGE MEANY, *Chairman* WM. F. SCHNITZLER, *Secretary-Treasurer* AL BARKAN, *National Director*

NO. 11—64 JUNE 1, 1964

LBJ's First Six Months . . .

His Brand Is On The Office

Lyndon Johnson, in his first six months as President, has imprinted his brand unmistakably upon the office, the government and the nation.

He has been an activist President, so active that Washington reporters are making a career of tabulating his speeches, press conferences, trips, White House Rose Garden statements, and handshakes. He has made more than 200 speeches, conducted scores of press conferences, and has shaken more hands than reporters can count. They are awestruck by his energy.

But more important than the quantity of activity is its quality. To weigh this, the Memo below prints Johnson quotes on specific issues, and the deeds that have backed up his words.

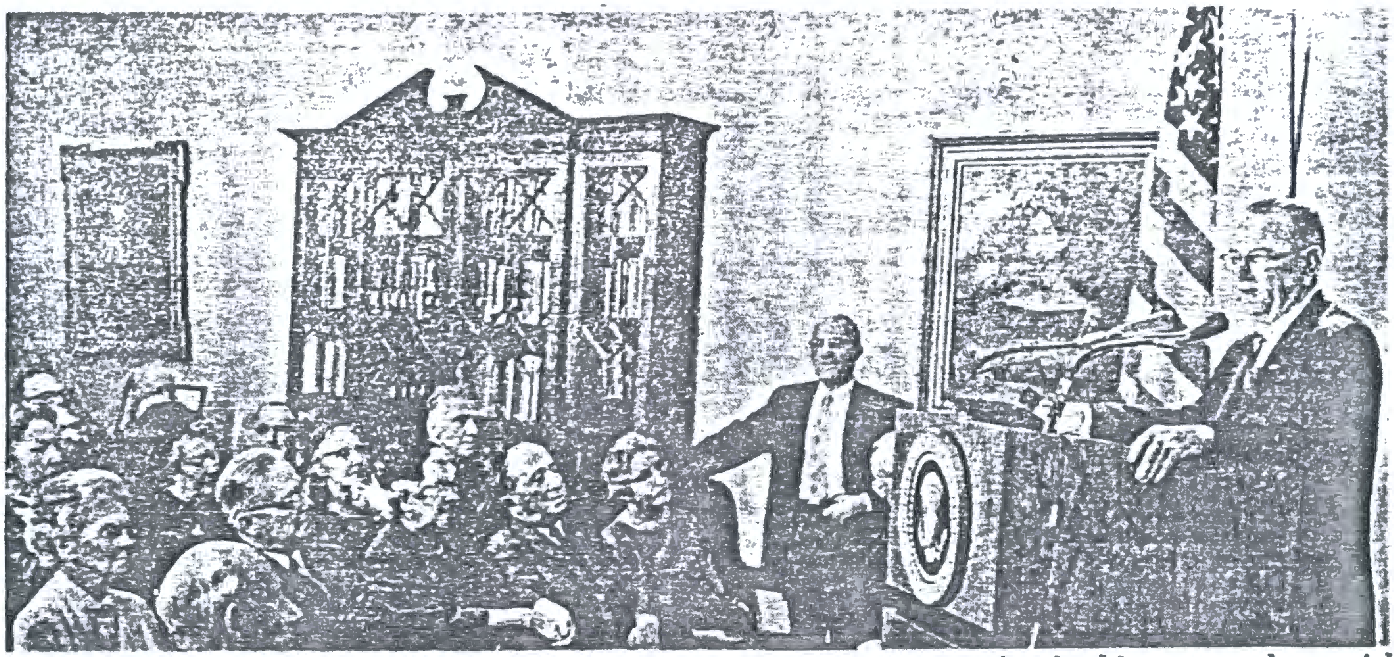
CIVIL RIGHTS

"Today, Americans of all races stand side by side in Berlin and in Viet Nam. They died side by side in Korea. Surely, they can work and eat and travel side by side in their own country."—State of the Union message, Jan. 8, 1964.

"We have talked long enough in this country about equal rights. We have talked for 100 years or more.

(Continued on page 2)

GREETING AFL-CIO EXECUTIVE COUNCIL MEMBERS—**A promise to spur the economy to new heights. "I don't intend to sit idly by while this problem of unemployment swells and coarsens."**



ADDRESSING SENIOR CITIZENS REPRESENTATIVES—A strong bid for health care under social security. "It is practical. It is sensible. It is fair. It is just."

(Continued from page 1)

It is time now to write the next chapter and to write it in the books of law."—First address to Congress as President, Nov. 27, 1963.

The President has made clear he considers full equality for all Americans a paramount goal of his administration. He has made a personal crusade for civil rights. He injects the issue into his speeches, statements, press conferences, off-the-cuff remarks in the White House Rose Garden. No President before him has addressed a southern audience with an impassioned appeal to bury the "dead issues" of the past and to get on with the business of the present unencumbered by prejudice. Johnson did just this in a recent speech in Atlanta before a group that included members of the Georgia State Legislature.

Prodded by the President, the House of Representatives acted quickly on the civil rights bill soon after Johnson took office. With bipartisan support and leadership, the bill was approved, 290-130.

Dixiecrats in the Senate, however, now have filibustered for more than two months in an attempt to block or seriously weaken the House bill. The President has brought to bear all the pressure and persuasion of his office in support of the bill. But in the end, only cloture—shutting off filibuster by vote of two-thirds of senators present and voting—or the threat of cloture, seems likely to achieve the results the President so persistently has fought for.

POVERTY

"This administration today, here and now, declares unconditional war on poverty in America."—State of the Union message, Jan. 8, 1964.

"Unfortunately, many Americans live on the outskirts of hope, some because of their poverty, some because of their color, and all too many because of both. Our task is to help replace their despair with opportunity."—State of the Union message.

"Our chief weapons (in the war on poverty) will be better schools, better health, better homes, better training and better job opportunities to help more Americans—especially young Americans—escape from squalor and misery."—State of the Union message.

One-fifth of our citizens—35 million persons in 9.3 million families—live at or below the $3,000 per year poverty level family income. Another fifth live perilously close, according to government statistics. Hardest hit are Negroes, the aged, the unskilled and unschooled, families living in areas of vanishing industry, and those in the mountainous 10-state Appalachia region running from western Pennsylvania south to Alabama and Georgia.

For many families, poverty has become a legacy, handed down from one generation to another. The child of a poverty-ridden family is unable to remain in school as long as his contemporaries. Missing an education, he is cheated of the opportunities the future holds for others.

President Johnson has exposed this skeleton in the American closet to full view, the first national leader in decades to do so, and millions of Americans have been shaken by the knowledge, long ignored, that in the midst of plenty, poverty remains widespread and entrenched.

(Continued on page 3)

(Continued from page 2)

The President has proposed a billion-dollar beginning in his war to eradicate poverty. Neither he, nor its other advocates, pretend this is enough—but it is a starting point, and the war needs a start.

To focus national attention on the plight of the poor, President Johnson twice has traveled through the Appalachia region, an area of unrelieved deprivation.

He has appointed Sargent Shriver, effective as director of the Peace Corps, to organize and wage the war on poverty.

The anti-poverty program has its detractors. Some Republicans and southern Democrats have peppered the proposal in hearings before a House committee. They assert war on poverty is useless—"there will always be poor among us."

Others feel it is inadequate, but concede a small start is better than no start at all.

The President is seeking general acceptance of the need for the program. If he wins, he will have achieved a significant gain. (The proposal last week cleared the House Education and Labor Committee. See accompanying story.)

MEDICAL CARE FOR THE ELDERLY

"We have so much to be proud of in this country, so much to be thankful for, so much to preserve and so much to protect, but nothing that we want to protect more than those who have reached their later years and want the privilege of, in dignity, providing for themselves."—Remarks to Senior Citizens, Jan. 15, 1964.

"The social security health insurance plan which President Kennedy worked so hard to enact is the American way. It is practical. It is sensible. It is fair. It is just."—Remarks to Senior Citizens, Jan. 15, 1964.

President Johnson has argued persistently and convincingly for a medical care program for the elderly under the social security system, as President Kennedy did before him.

He has repeatedly stated it is a priority goal of his administration, and despite sometimes pessimistic forecasts of the bill's chances this year, he has stuck to his guns.

TAXES

"The tax cut is our modern weapon today against unemployment, which breeds poverty and ignorance, the inconsiderate allies of apathy and neglect. I don't intend to sit idly by while this problem of unemployment swells and coarsens. This tax bill must pass."—Remarks to AFL-CIO Executive Council, Dec. 4, 1963.

The tax cut emerged as one of the first major legislative accomplishments of the Johnson administration. It had been a key proposal of President Kennedy, and President Johnson made it a matter for immediate action.

Passage of the bill meant the equivalent of a 7½ cent an hour take-home pay increase for the average American, and gave a needed shot in the arm to the economy. Though President Johnson does not attempt to pass off the tax cut as a cure-all for the nation's economic problems, he does view it as a key chemical in the fuel mixture he hopes will boost the economy into an orbit of long-term growth and expansion.

On other key issues, Johnson as President has made his mark. Shortly after he took office, Congress passed a series of important education bills. A farm bill that had been given little chance of passage was enacted to bolster farm income. The President has urged an investigation into supermarket food prices. He has backed key consumer protection bills.

He promised early in his tenure that women would play an important role in his administration and backed this up with dozens of significant appointments, among them the appointment of Mrs. Esther Peterson as the first Special Assistant to the President for Consumer Affairs. Mrs. Peterson once was legislative representative of the AFL-CIO Industrial Union Department.

Of overriding importance, Johnson has said, is the problem of jobs. He told the AFL-CIO Executive Council in December the goal of his administration is 75 million jobs. The tax cut, the war on poverty, other key proposals—all are aimed at helping to create more jobs and to reduce unemployment.

:: :: :: ::

Lyndon Johnson assumed office six months ago in the midst of tragedy, and he established a sense of continuity that reassured a stricken nation. He embraced the programs of his predecessor, John F. Kennedy, and he has proposed programs of his own.

In a major address at the University of Michigan on May 22, exactly six months after he took the oath of office, he unfolded his vision of the "Great Society," one in which the vast wealth of this nation would be used "to enrich and elevate our national life—and to advance the quality of American civilization." It would be a society, he said, of "abundance and liberty for all," a society of wholesome cities, uncluttered countryside, unpolluted air and water, excellence in education, equal opportunity for everyone.

The President did not pretend that creation of the "Great Society" would be an easy matter, or a quick one. But he called on Americans to begin the building of it.

Their response to his call will be known five months hence, on Election Day

Poverty Bill Clears First Hurdle, 19-12

President Johnson has won the first skirmish in the war on poverty. His anti-poverty program cleared the House Education and Labor Committee last week on a strict 19-12 party-line vote. Nineteen committee Democrats voted for the bill, 12 Republicans voted against. Next stop: the House Rules Committee which must give the go sign on the bill for floor action.

As reported by the Education and Labor Committee, the bill authorizes funds for only one year, $962.5 million. Added in committee were two programs not proposed in the original administration bill. One would provide federal money for adult basic education classes. The other is aimed at aiding migrant farm workers by providing housing, sanitation, educational and child care assistance.

Stress on education and training in skills for young people is the hallmark of the program.

Some $412.5 million would be channeled into three youth opportunities programs:

- A 40,000-member Job Corps for needy boys and girls age 16-21, who would be enrolled in conservation camps or rural and urban residential training centers. They would be provided basic education and job training.
- Work-training for another 200,000 young people which would permit them to earn while continuing or resuming their education.
- Work-study programs to provide part-time jobs for still another 140,000 college students who otherwise could not pursue their college training.

Another $430 million is earmarked for helping communities to improve educational, job training, health and housing opportunities for low-income families.

The Johnson program, if finally approved, will be a beginning in the attack on poverty which afflicts some 35 million Americans, one-fifth of our population. Living at the poverty level income of $3,000 a year and under are 9.3 million of the 47 million families in the country.

Of these, five million families live in cities; 4.3 million live in the south; six million have a family head with less than ninth grade education; two million are non-white; 2.3 million have a woman as head of the family; 3.2 million have a family head 65 years old or older.

The problem is national in scope, affecting all major urban areas, and countless rural areas. It even strikes in Westchester County, N. Y., one of the richest counties in the nation. Commuter-land, Westchester records an average family income of $11,695. Yet, one of 12 families in the county lives in abject poverty.

House Public Works Hears Special Appalachia Plans

The anti-poverty bill reported favorably by the House Education and Labor Committee should not be confused with the special legislation aimed at lifting the hard-hit Appalachia region up from poverty. The region stretches from Pittsburgh, Pa., in a 10-state area south to parts of Alabama and Georgia.

The Appalachia proposal now is subject of hearings before the House Public Works Committee.

While nationally one of five families lives at or below the $3,000 a year poverty-level income, in Appalachia the figure is one of three. Per capita income there is $1,400 against the national per capita income of $1,900. Employment dropped 1.5 percent in Appalachia in the 1950-60 decade while it was rising 15 percent nationally.

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THE WHITE HOUSE

Office of the Press Secretary

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September 24, 1981

FACT SHEET

Fall Budget Program

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SUMMARY

In his nationwide address tonight, President Reagan reported on progress in securing adoption of his program for economic recovery and announced specific new measures to ensure that we stay on track toward steadily declining deficits and a balanced budget by 1984. The new measures he outlined reflect his continuing commitment to reduce the size, cost and burden of government and reduce Federal and federally-assisted borrowing demands which are contributing to high interest rates. The measures outlined by the President include:

- Inviting the Congress to join in a cooperative effort to ensure the soundness of our Social Security system.
- Reducing FY 1982 appropriations requests by $26 billion for defense and non-defense programs.
- Reducing federal loan guarantee programs.
- Reforming entitlements programs.
- Renewing the request to the Congress for user charges proposed in March.
- Revising the tax code to curtail certain tax abuses and enhance tax revenues, while maintaining incentives for economic growth.
- Reducing federal non-defense civilian employment by 75,000 by 1984.
- Allocating to departments and agencies specific budget outlay ceilings to ensure that previously unspecified budget savings for FY 1983 and FY 1984 will be achieved.
- Abolishing the Departments of Energy and Education and relocating essential functions of these departments.
- Stepping up debt collection activities.

The new spending control measures announced tonight--reductions in the FY 1982 Appropriations request, reforming entitlement programs, and revising the tax code--would reduce outlays from the latest estimates by $16.0 billion in FY 1982, $28.3 billion in FY 1983 and $35.3 billion in FY 1984.

The additional savings to be achieved during the development of the 1983 and 1984 budgets will--together with the new measures announced today--result in estimated deficits of $43.1 billion in FY 1982, and $22.9 billion in FY 1983 and a balanced budget in FY 1984. (Summary Table attached.)

BACKGROUND

- On February 18, 1981, the President outlined his Program for Economic Recovery. It included spending cuts and other measures to reduce sharply the growth rate of federal spending and to reduce the deficit; reductions in personal tax rates and business taxes; reductions in the costs and intrusion of Federal government regulations; and a new commitment to a stable monetary policy.

- On March 10, 1981, President Reagan transmitted his proposals for a complete revision of the 1982 budget to the Congress, calling for savings of $6.4 billion in 1981, $48.6 billion in 1982 and a total of $197 billion in 1982-84. He indicated that additional savings of $29.8 billion in FY 1983 and $44.2 billion in FY 1984 would be identified later.

- On June 5, 1981, the President signed into law the Supplemental Appropriations and Rescission Act of 1981, which included many of the President's proposals to hold down FY 1981 spending. Presidential proposals not approved by Congress will have the effect of increasing FY 1982 and future year spending by $2.1 billion above the levels proposed by the President.

- On August 13, 1981, the President signed into law the Economic Recovery Tax Act of 1981 which will begin reducing Federal taxes on October 1, 1981. The tax reduction will total $280 billion over the three year period 1982-1984.

- Also on August 13, 1981, the President signed the Omnibus Reconciliation Act, which reduced entitlement program spending by $13.4 billion in FY 1982 and $43.8 billion in 1982-1984. This Act also called for spending reductions in other Federal programs of $21.8 billion in FY 1982 and $86.8 billion in 1982-1984. However, final decisions on funding for non-entitlement programs remain to be resolved in the appropriations process, which is now underway. Unfortunately, many of the President's proposals for budget savings were not incorporated in the Reconciliation Act.

SEPTEMBER ESTIMATES

Developments during the past few months, if unchecked or not offset by new budget savings, would have the effect of increasing projected budget deficits above the targets set by the President on July 15, 1981, when the Mid-Session Review of the Budget was submitted to the Congress. This threat of higher deficits has caused concern and contributed to higher than expected interest rates--including interest rates on the government's own borrowing.

At mid-session, the budget outlook was as follows:

A. Mid-Session Estimates - July 1981

	($ in Billions)		
	FY 1982	FY 1983	FY 1984
Receipts..................	$662.4	$705.8	$759.0
Outlays....................	704.8	728.7	758.5
Surplus or Deficit......	- 42.5	-22.9	+ .5
Unspecified savings needed to achieve above outlay targets	0.0	29.8	44.2

B. Recent Developments

The principal developments that threaten to increase Federal deficits in 1982 and future years include:

. Budget savings proposed by the President, but not passed by the Congress; i.e.,

- Proposals for rescissions and deferrals of 1981 spending authority not accepted by the Congress would add $2.1 billion to planned outlays, principally during 1982-1984.

- Proposals for users charges--i.e., recovering allocable costs of government services from those receiving the benefits--have not yet been adopted. These include charges to recover allocable costs of Coast Guard services to yacht owners and commercial vessels; building, dredging and maintaining river channels, ports, locks and dams; and licensing, inspection and navigation services for commercial airlines and private pilots. This lack of action could result in the loss of $4.5 billion in receipts over the 1982-84 period.

- The Reconciliation Act fell short of the President's proposals by $6.3 billion in FY 1982, (including $2.8 billion in entitlement programs) and $9.8 billion in FY 1983 and $12.0 billion in FY 1984, for a total of $28.0 billion over the three-year period.

- Social Security reforms proposed in May 1981 have not been adopted, delaying the achievement of $3.8 billion in savings in FY 1982, $6.2 billion in FY 1983 and $9.6 billion in FY 1984 for a total of $19.6 billion for the FY 1982-84 period.

. Fiscal year 1982 appropriations bills now pending in the Congress could increase FY 1982 and future years' outlays by several billion dollars above the President's budget proposals.

. Estimates of interest charges on the federal debt have increased due to the persistently high interest rates. These high interest rates reflect the demands for credit to finance the growing federal debt and the credit demands stimulated by federal loan guarantee programs.

. Updated estimates of spending for various federal programs--principally entitlements and other programs over which there is little control--are higher than July estimates. These include: food stamps, farm price supports and Medicare.

C. The Latest Estimates - September

As a result of these recent developments, we face large potential budget gaps unless strong new measures are taken. those gaps and the outlook if action is taken are as follows:

	($ in Billions)		
	FY 1982	FY 1983	FY 1984
Potential Budget Gap....	-59.1	-62.9	-58.8
New Savings Proposals...	16.0	28.3	35.8
Future Savings to be Identified...........	0.0	11.7	23.0
Target Deficits.........	43.1	22.9	0.0

ACTIONS AND PROPOSALS ANNOUNCED BY THE PRESIDENT

The President reiterated his commitment to restrain the size and cost of government and to achieve his objectives of steadily reducing federal deficits in fiscal years 1982 and 1983 and balancing the budget in FY 1984. His new proposals will reduce the burden of federal credit demands in order to relieve financial market pressures and lower interest rates.

A. Summary of Actions and Proposals.

Briefly, the new actions and proposals announced by the President include:

- Dealing directly with concerns about Social Security benefits. The President invited the Congress to join in a bipartisan effort to resolve the problems threatening the viability of our Social Security system.

- Reducing appropriations requests now pending before the Congress for FY 1982 for non-defense discretionary programs by $18.7 billion, which would reduce outlays by an estimated $8.4 billion in FY 1982; $5.3 billion in FY 1983 and $3.8 billion in FY 1984. These reductions include:

  - An across-the board reduction of 12% in pending appropriations requests for FY 1982 for non-defense programs in each department and agency. Only a few very critical programs would be excepted from the pro-rata reduction.

  - Reduction of $7.6 billion in FY 1982 budget authority for the Department of Defense. (Defense outlays would be reduced by $2 billion in FY 1982; $5 billion in FY 1983 and $6 billion in FY 1984.)

- Initiating actions to reduce Federal loan guarantee commitments in FY 1982 of $21 billion.

- Presenting entitlements reform package to the Congress in the near future that will produce savings of $2.6 billion in FY 1982, $10 billion in FY 1983, and $15 billion in FY 1984.

- Revising the tax code to eliminate abuses and obsolete incentives and enhance collections, raising additional revenues totaling $3 billion in 1982, $8 billion in 1983, and $11 billion in 1984.

- Reducing Federal non-defense civilian employment by the equivalent of 75,000 full-time positions by 1984.

- Allocating to departments and agencies the full $74 billion in previously unspecified budget savings for FY 1983 and FY 1984. These tight new-outlay ceilings will be used by agencies in preparing their proposals for the FY 1983 budget to be submitted to the Congress in January.

- Proposing government reorganization that includes abolishing the Departments of Energy and Education and restructuring their functions, and developing additional proposals to abolish, restructure or realign a number of bureaus, agencies, commissions and advisory boards.

B. Expected Effect of New Actions

The specific new budget savings measures--reducing 1982 Appropriations requests, reforming entitlements, and revising the tax code--would reduce expected deficits by $16.0 billion in FY 1982, $28.3 billion in FY 1983, and $35.3 billion in FY 1984. The remaining savings needed to achieve the President's overall targets--$11.7 billion in FY 1983 and $23.0 billion in FY 1984--will be specified in upcoming budgets. The FY 1983 budget is now being developed and will be presented to the Congress in January.

These actions will bring outlay growth down to roughly 5% per year for the indefinite future and bring government spending commitments to a level of about 19% of GNP in 1984--compared to 23% of GNP in 1981.

C. Details

Presented below are additional details on the actions announced today by the President:

1. Social Security

   - The President proposed that a bipartisan consensus be reached regarding solutions to the pending insolvency of the Old Age and Survivors Insurance Trust Fund of the Social Security System.

   - He proposed legislation to:

     - Restore the Social Security minimum benefit to current lower income beneficiaries.

     - Permit temporary interfund borrowing among the Social Security trust funds to ensure that checks can continue to be issued for the next several years.

. In addition, the President has proposed the establishment of a special bipartisan task force that by January 1983, would develop a permanent solution to the problems facing the Social Security system by January 1983. The Speaker of the House of Representatives and the Majority Leader of the Senate have each been asked to name five members to this task force.

2. Twelve Percent Across-the-Board Reduction in FY 1982 Appropriations Request for Non-Defense Discretionary Programs.

. The President is submitting to Congress revised FY 1982 appropriations requests reflecting 12% across-the-board reductions for non-defense discretionary programs in each department and agency. These reductions do not affect entitlement programs.

. Exemptions from the 12% pro-rata cut were permitted for only a very few programs, including, but not limited to, the following: peacekeeping forces, direct Veterans' Administration hospital care; and the Immigration and Naturalization Service. Several law enforcement and criminal justice functions were given partial exemptions.

. The effect of these non-defense reductions would be:

1982 Budget Authority	Outlays 1982	Outlays 1983	Outlays 1984
$18.7	$8.4	$5.3	$3.8

3. Reductions in Defense Spending

. The President is also submitting to Congress a revised appropriations request for defense programs, which will reduce the FY 1982 budget authority by $7.6 billion, from $220.9 billion to $213.3 billion.

. Outlays for Defense programs will be reduced from the July Mid-Session estimates by:

--$2 billion in FY 1982--from $183.8 billion to $181.8 billion.

--$5 billion in FY 1983--from $219.9 billion to $214.9 billion.

--$6 billion in FY 1984--from $248.6 billion to $242.6 billion.

- Our objectives for a strong national defense cannot, and will not, be compromised. The defense program continues to emphasize the following:

  - Readiness initiatives begun in 1981 will be protected, so that our existing forces are combat ready, properly trained and well equipped.

  - The achievement of military personnel goals for enlistments and retention will be met by the 14.3% average pay raise planned for this October.

  - Strategic force improvements needed to upgrade our deterrent capabilities will be carried out.

  - Enhancement of our rapid deployment force capabilities.

- The proposed reductions are targeted at the following:

  - An acceleration in the already planned retirement of older, costly to maintain, and least productive Air Force and Navy units; some temporary reductions in active Army units are also proposed to improve overall combat capability of the force.

  - Delays and stretch-outs in selected procurement programs which will defer the full achievement of some inventory objectives.

  - Cancellation of some acquisition and military construction programs which contribute to our peacetime readiness and combat capabilities.

4. Federal Credit Reductions.

The demands of the Federal government for credit have reached staggering proportions--the total volume of Federal and Federally-assisted credit is expected to absorb almost half of net new capital raised from domestic financial markets in 1981. These government demands crowd out private borrowers and drives up interest rates.

- The President has established a target of a $21 billion reduction in Federal loan guarantee commitments for FY 1982.

- The President has instructed OMB to develop additional credit reduction initiatives for FY 1983 and 1984.

A reduction in Federal loan guarantees and other forms of Federal credit has, in most cases, the same financial market impact as direct Treasury borrowing, because federally guaranteed securities have an impact equivalent to the issuance of general Treasury obligations. Thus, Federal credit reduction will provide direct relief for financial markets.

5. Entitlements Reform.

A comprehensive proposal for reform of open-ended spending programs, so called entitlement programs, will be transmitted to Congress in the near future. A task force with representatives from the White House, the Office of Management and Budget, the Departments of Health and Human Services, Labor, and Education, and other affected agencies, will be convened next week to finalize this legislative proposal.

. The entitlement reform package will continue the President's commitment to provide adequate benefits for the truly needy.

. All entitlement programs other than Social Security will be reviewed, including medicare, medicaid, food stamps, subsidized housing, Aid to Families with Dependent Children, railroad retirement, black lung, federal civilian employee and military retirement, and student loans.

. Entitlements often overlap and provide total assistance far beyond the level of benefits envisioned by the eligibility rules of any one program.

. The entitlements reform package will be designed to eliminate many of the duplications, inconsistencies, and inequities in our present Federal and state assistance programs.

6. User Charges

The President has renewed his request to the Congress to act favorably on his proposals, submitted earlier this year, to establish user charges that would permit recovering from those who benefit the allocable share of the costs of providing services.

The President's proposals call for charges to recover part of the costs of:

. Coast Guard services to owners of yachts and commercial vessels;

. Dredging, construction and maintenance of river channels, locks, dams and ports; and

. Licensing, inspection and navigation services to commercial airlines and private pilots.

The proposals would authorize the Government to recover an additional $980 million during 1982, 30% of the cost to the government of providing the services.

7. Tax Code Revisions

To eliminate abuses, remove obsolete incentives and enhance tax collections, a variety of changes in the Internal Revenue Code are currently being reviewed. A detailed package of changes will be submitted to Congress in the very near future. These changes under consideration could result in additional tax receipts of $3 billion in FY 1982, $8 billion in FY 1983 and $11 billion in FY 1984. The following are among those items under review:

. Business tax accounting rules dealing with the completed contract method.

. Certain residential and business energy tax credits.

. The use of tax-exempt industrial development bonds.

. Modified coinsurance arrangements by life insurance companies.

. The tax threshold for unemployment compensation.

. Corporate tax collections.

. Administrative rules to facilitate IRS collection and enforcement efforts.

8. Reduction in Federal Employment of 75,000 by FY 1984.

Non-defense civilian employment as measured by full-time equivalent (FTE) would be reduced from planned FY 1982 levels by 75,000--or 6.5% overall by 1984.

. The reduction will be achieved initially by a pro-rata cut assigned to almost all departments and agencies. The President has exempted or assigned less stringent reductions to the following major agencies:

- VA Department of Medicine and Surgery and Veterans' Benefits Regional Offices.
- FBI
- Immigration and Naturalization Service
- State Department
- IRS
- Customs Bureau
- Secret Service

- Other agencies will be expected to reduce employment by 8% to 10%--and more in some cases.

- To the extent possible, staff reductions will be achieved through retirements and other attrition rather than layoffs.

- Departments and Agencies will have the flexibility to allocate reductions within their organizations. Within those agencies and departments the cuts will be targeted toward less essential functions.

9. Allocation of $74 Billion FY 1983-1984 Unspecified Savings.

In the revised FY 1982 budget, transmitted to the Congress in March, the President established outlay targets for FY 1983 and FY 1984. These targets were predicated on the attainment of additional outlay savings of $29.8 billion in FY 1983 and $44.2 billion in FY 1984.

- The President has now allocated these previously unspecified savings to the Cabinet departments and agencies through the issuance of budget outlay ceilings for FY 1983 and FY 1984.

- These outlay ceilings will be the basis for the regular Fall budget review process in developing the President's FY 1983 budget.

- A number of specific actions, initiated for the FY 1982 budget, will result in out-year budget reductions.

The $74 billion of spending reductions contemplated by these budget ceilings will be difficult to achieve. However, they are a critical step in implementing the President's overall economic recovery program. The improvement of the financial markets, reduction of interest rates and creation of a positive business climate are dependent on the attainment of these reductions.

10. Reorganization of the Federal Bureaucracy.

Legislative proposals that will significantly reduce the Federal bureaucracy will be prepared and forwarded to the Congress as early as possible. The President directed that decisions outlined below be implemented and that the Director of the Office of Management and Budget seek other ways to eliminate excessive bureaucracy.

. Dismantling the Department of Energy (DOE).

- The Administration plans to transmit to the Congress detailed legislation carrying out the President's commitment to dismantle DOE in the near future.

- The Reagan budget for FY 1982 represented the first major step toward carrying out the President's commitment to dismantle DOE. Funding for major regulatory programs was reduced substantially or ended. DOE subsidy programs aimed at "commercial" demonstrations of energy technology were virtually eliminated, while the research programs were preserved and strengthened.

- Dismantling the Energy Department will also result in significant cost reductions. In FY 1972, the predecessor agencies of the Department of Energy (other than the regional Power Marketing Administrations) had only 8,300 employees and budgeted spending of $2.7 billion. By FY 1982, spending for energy programs had grown to $11.1 billion, and the ranks of Federal energy employees had swollen to 15,700--who engage an additional 115,000 contractor employees in government-owned facilities.

- Estimated savings of more than $1.5 billion and a reduction of 4,400 positions by FY 1984 may be attributed to the dismantling of the Department of Energy.

- A number of important functions now performed by DOE will continue, including: basic scientific and engineering research on a broad range of new energy technologies, carefully-targeted conservation programs, the strategic petroleum reserve, the atomic energy defense programs, and civilian nuclear power programs such as waste management, uranium enrichment, and the breeder reactor research and development.

. Abolishing the Department of Education

The President pledged during his campaign to abolish the Department of Education, and legislation will be transmitted in the near future to fulfill that promise.

- Education is primarily a State and local responsibility.

- Creation of the Department of Education symbolized the progressive intrusion of the Federal government into an educational system that had traditionally drawn its strength from diversity, adaptability, and

- The Administration has already taken major steps to reverse the trend of rising federal involvement and control over education. Regulations have been reduced, and narrow, special-purpose programs have been consolidated into block grants.

- The organizational arrangements for Federal support for education to be proposed will emphasize assistance and discourage Federal intervention.

. Abolishing, Restructuring and Realigning Selected Sub-Cabinet Bureaus and Agencies.

Proposals to the Congress, or administrative actions within the Executive Branch where that is sufficient, will be made soon to abolish, restructure or realign a number of bureaus, agencies, advisory boards and commissions.

11. Stepped Up Debt Collection.

More than $25 billion of the $175 billion in debts owed the Federal government are either delinquent or in default. An additional $8.4 billion in loans are in some form of rescheduled status because of borrowers' inability to pay.

President Reagan has directed the heads of all Federal departments and agencies to develop and implement an aggressive debt collection program that includes the following:

. Designation of an official with responsibility and authority for debt collection.

. Preparation of a detailed review of issues affecting the collection of debt, including an outline of the actions to be taken to resolve the issues and a timetable for completion of the actions.

. Development of a plan for improved credit management and more efficient debt collection in the future.

. Systematic reporting to OMB on the status of debt collection improvement efforts.

REVISED BUDGET OUTLOOK

	FY 1982	FY 1983	FY 1984
	(dollars in billions)		
1) September Revised Outlay estimates	$722.3	$769.0	$818.8
2) New savings proposals			
. 12% across-the-board FY 82 cut	8.4	5.3	3.8
. Defense slow-down	2.0	5.0	6.0
. Entitlements reform	2.6	10.0	15.0
Subtotal	13.0	20.3	24.8
3) Revised outlay estimates, net of new savings	709.3	748.7	794.0
4) September Revised Receipt estimates	663.2	706.1	760.0
5) Proposed revenue enhancement thru tax code changes .	3.0	8.0	11.0
6) Revised receipt estimates, with new proposals	666.2	714.1	771.0
7) Future savings to be identified for FY 1983-1984 ...	0.0	11.7	23.0
8) Deficit targets	43.1	22.9	0.0

September 24, 1981

THE WHITE HOUSE

Office of the Press Secretary

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THE PRESIDENT'S ADDRESS
ON THE STATE OF THE UNION
BEFORE A JOINT SESSION OF CONGRESS

Capitol Hill

9:00 P.M. EST

THE PRESIDENT: Thank you. (Applause.) Thank you very much. Mr. Speaker, Mr. President, distinguished members of the Congress, honored guests and fellow citizens, today marks my first State of the Union address to you, a constitutional duty as old as our republic itself.

President Washington began this tradition in 1790 after reminding the nation that the destiny of self-government and the "preservation of the sacred fire of liberty" is "finally staked on the experiment entrusted to the hands of the American people." For our friends in the press, who place a high premium on accuracy, let me say: I did not actually hear George Washington say that -- (Laughter. Applause.) But it is a matter of historic record. (Laughter.)

But from this podium, Winston Churchill asked the free world to stand together against the onslaught of aggression. Franklin Delano Roosevelt spoke of a day of infamy and summoned a nation to arms. Douglas MacArthur made an unforgettable farewell to a country he had loved and served so well. Dwight Eisenhower reminded us that peace was purchased only at the price of strength and John F. Kennedy spoke of the burden and glory that is freedom.

When I visited this chamber last year as a newcomer to Washington, critical of past policies which I believed had failed, I proposed a new spirit of partnership between this Congress and this administration and between Washington and our state and local governments.

In forging this new partnership for America, we could achieve the oldest hopes of our republic -- prosperity for our nation, peace for the world, and the blessings of individual liberty for our children and, someday, for all of humanity.

It's my duty to report to you tonight on the progress that we have made in our relations with other nations, on the foundation we have carefully laid for our economic recovery, and finally, on a bold and spirited initiative that I believe can change the face of American government and make it again the servant of the people.

Seldom have the stakes been higher for America. What we do and say here will make all the difference to autoworkers in Detroit, lumberjacks in the Northwest, and steelworkers in Steubenville who are in the unemployment lines; to black teenagers in Newark and Chicago; to hard-pressed farmers and small businessmen; and to millions of everyday Americans who harbor the simple wish of a safe and financially secure future for their children.

To understand the state of the union, we must look not only at where we are and where we are going but where we've been. The situation at this time last year was truly ominous.

The last decade has seen a series of recessions. There was a recession in 1970, in 1974, and again in the spring of 1980. Each time, unemployment increased and inflation soon turned up again. We coined the word "stagflation" to describe this.

Government's response to these recessions was to pump up the money supply and increase spending. In the last six months of

1980, as an example, the money supply increased at the fastest rate in postwar history, 13 percent. Inflation remained in double digits and government spending increased at an annual rate of 17 percent. Interest rates reached a staggering 21-1/2 percent. There were eight million unemployed. Late in 1981 we sank into the present recession, largely because continued high interest rates hurt the auto industry and construction, and there was a drop in productivity, and the already high unemployment increased.

This time, however, things are different. We have an economic program in place, completely different from the artificial quick-fixes of the past. It calls for a reduction of the rate of increase in government spending and already that rate has been cut nearly in half.

But reduced spending alone isn't enough. We have just implemented the first and smallest phase of a three-year tax-rate reduction designed to stimulate the economy and create jobs.

Already interest rates are down to 15-3/4 percent, but they must still go lower. Inflation is down from 12.4 percent to 8.9, and for the month of December it was running at an annualized rate of 5.2 percent.

If we had not acted as we did, things would be far worse for all Americans than they are today. (Applause)

Inflation, taxes, and interest rates would all be higher. A year ago, Americans' faith in their governmental process was steadily declining. Six out of 10 Americans were saying they were pessimistic about their future. A new kind of defeatism was heard. Some said our domestic problems were uncontrollable, that we had to learn to live with the seemingly endless cycle of high inflation and high unemployment.

There were also pessimistic predictions about the relationship between our Administration and this Congress. It was said we could never work together. Well, those predictions were wrong. The record is clear, and I believe that history will remember this as an era of American renewal; remember this Administration as an Administration of change; and remember this Congress as a Congress of destiny.

Together, we not only cut the increase in government spending nearly in half, we brought about the largest tax reductions and the most sweeping changes in our tax structure since the beginning of this century. And because we indexed future taxes to the rate of inflation, we took away government's built-in profit on inflation and its hidden incentive to grow larger at the expense of American workers.

Together, after 50 years of taking power away from the hands of the people in their states and local communities, we have started returning power and resources to them.

Together, we have cut the growth of new Federal regulations nearly in half. In 1981 there were 23,000 fewer pages in the Federal Register, which lists new regulations, than there were in 1980. (Applause)

By deregulating oil we have come closer to achieving energy independence and helped bring down the cost of gasoline and heating fuel.

Together, we have created an effective federal strike force to combat waste and fraud in government. In just six months it has saved the taxpayers more than $2 billion, and it's only getting started.

Together we have begun to mobilize the private sector, not to duplicate wasteful and discredited government programs, but to bring thousands of Americans

MORE

into a volunteer effort to help solve many of America's social problems. Together we've begun to restore that margin of military safety that insures peace. Our country's uniform is being worn once again with pride. (Applause.)

Together we have made a New Beginning, but we have only begun. No one pretends that the way ahead will be easy. In my Inaugural Address last year, I warned that the "ills we suffer have come upon us over several decades. They will not go away in days, weeks or months, but they will go away, because we as Americans have the capacity now, as we've had it in the past, to do whatever needs to be done to preserve this last and greatest bastion of freedom." (Applause.)

The economy will face difficult moments in the months ahead. But the program for economic recovery that is in place will pull the economy out of its slump and put us on the road to prosperity and stable growth by the latter half of this year.

And that is why I can report to you tonight that in the near future the state of the Union and the economy will be better -- much better -- if we summon the strength to continue on the course that we've charted.

And so the question: If the fundamentals are in place, what now?

Two things. First, we must understand what is happening at the moment to the economy. Our current problems are not the product of the recovery program that is only just now getting underway, as some would have you believe; they are the inheritance of decades of tax and tax and spend and spend.

Second, because our economic problems are deeply rooted and will not respond to quick political fixes, we must stick to our carefully integrated plan for recovery. That plan is based on four common-sense fundamentals: continued reduction of the growth in federal spending; preserving the individual and business tax reductions that will stimulate saving and investment; removing unnecessary federal regulations to spark productivity; and maintaining a healthy dollar and a stable monetary policy, the latter a responsibility of the Federal Reserve System.

The only alternative being offered to this economic program is a return to the policies that gave us a trillion dollar debt, runaway inflation, runaway interest rates and unemployment.

The doubters would have us turn back the clock with tax increases that would offset the personal tax-rate reductions already passed by this Congress.

Raise present taxes to cut future deficits, they tell us. Well, I don't believe we should buy their argument. There are too many

MORE

imponderables for anyone to predict deficits or surpluses several years ahead with any degree of accuracy. The budget, when I took office, had been projected as balanced. It turned out to have one of the biggest deficits in history.

Another example of the imponderables that can make deficit projections highly questionable -- a change of only one percentage point in unemployment can alter a deficit up or down by some $25 billion. As it now stands, our forecast, which we are required by law to make, will show major deficits starting at less than $100 billion and declining, but still too high. More important, we are making progress with the three keys to reducing deficits -- economic growth, lower interest rates, and spending control. The policies that we have in place will reduce the deficit steadily, surely, and in time, completely.

Higher taxes would not mean lower deficits. If they did, how would we explain that tax revenues more than doubled just since 1976, yet in that same six-year period we ran the largest series of deficits in our history. In 1980 tax revenues increased by $54 billion, and in 1980 we had one of our all-time biggest deficits. Raising taxes will not balance the budget -- it will encourage more government spending and less private investment. Raising taxes will slow economic growth, reduce production, and destroy future jobs, making it more difficult for those without jobs to find them and more likely that those who now have jobs could lose them. So I will not ask you to try to balance the budget on the backs of the American taxpayers. (Applause.)

I will seek no tax increases this year and I have no intention of retreating from our basic program of tax relief. (Applause.) I promise to bring the American people -- to bring their tax rates down and to keep them down, to provide them incentives to rebuild our economy, to save, to invest in America's future. I will stand by my word.

MORE

Tonight, I'm urging the American people: seize these new opportunities to produce, to save, to invest and together we'll make this economy a mighty engine of freedom, hope and prosperity again. (Applàuse.)

Now, the budget deficit this year will exceed our earlier expectations. The recession did that. It lowered revenues and increased costs. To some extent, we're also victims of our own success. We've brought inflation down faster than we thought we could and have thus deprived -- (applause) -- and in doing this, we have deprived government of those hidden revenues that occur when inflation pushes people into higher income tax brackets.

And the continued high interest rates last year cost the government about $5 billion more than anticipated.

We must cut out more non-essential government spending and root out more waste and we will continue our efforts to reduce the number of employees in the federal work force by 75,000.

The budget plan I submit to you on February 8th will realize major savings by dismantling the Departments of Energy and Education and by eliminating ineffective subsidies for business.

We'll continue to redirect our resources to our two highest budget priorities, a strong national defense to keep America free and at peace and a reliable safety net of social programs for those who have contributed and those who are in need.

Contrary to some of the wild charges you may have heard, this administration has not and will not turn its back on America's elderly or America's poor. (Applause.)

Under the new budget, funding for social insurance programs will be more than double the amount spent only six years ago. But it would be foolish to pretend that these or any programs cannot be made more efficient and economical.

The entitlement programs that make up our safety net for the truly needy have worthy goals and many deserving recepients. We will protect them.

But there's only one way to see to it that these programs really help those whom they were designed to help. And that is to bring their spiraling costs under control.

Today, we face the absurd situation of a federal budget with three-quarters of its expenditures routinely referred to as, "uncontrollable." And a large part of this goes to entitlement programs.

Committee after committee of this Congress has heard witness after witness describe

MORE

many of these programs as poorly administered and rife with waste and fraud. Virtually every American who shops in a local supermarket is aware of the daily abuses that take place in the food stamp program which has grown by 16,000 percent in the last 15 years. Another example is medicare and medicaid -- programs with worthy goals but whose costs have increased from $11.2 billion to almost $60 billion, more than five times as much, in just 10 years.

Waste and fraud are serious problems. Back in 1980, federal investigators testified before one of your committees that "corruption has permeated virtually every area of the medicare and medicaid health care industry." One official said many of the people who are cheating the system were "very confident that nothing was going to happen to them." Well, something is going to happen. Not only the taxpayers are defrauded, the people with real dependency on these programs are deprived of what they need because available resources are going not to the needy but to the greedy. The time has come to control the uncontrollable.

In August we made a start. I signed a bill to reduce the growth of these programs by $44 billion over the next three years while at the same time preserving essential services for the truly needy. Shortly you will receive from me a message on further reforms we intend to install -- some new, but others long recommended by your own congressional committees. I ask you to help make these savings for the American taxpayer.

The savings we propose in entitlement programs will total some $63 billion over four years and will, without affecting social security, go a long way toward bringing federal spending under control.

But don't be fooled by those who proclaim that spending cuts will deprive the elderly, the needy, and the helpless. The federal government will still subsidize 95 million meals every day. That's one out of seven of all the meals served in America. Head Start, senior nutrition programs, and child welfare programs will not be cut from the levels we proposed last year. More than one-half billion dollars has been proposed for minority business assistance. And research at the National Institute of Health will be increased by over $100 million. While meeting all these needs, we intend to plug unwarranted tax loopholes and strengthen the law which requires all large corporations to pay a minimum tax. (Applause.)

MORE

I am confident the economic program we have put into operation will protect the needy while it triggers a recovery that will benefit all Americans. It will stimulate the economy, result in increased savings and provide capital for expansion, mortgages for homebuilding, and jobs for the unemployed.

Now that the essentials of that program are in place, our next major undertaking must be a program -- just as bold, just as innovative -- to make government again accountable to the people, to make our system of federalism work again.

Our citizens feel they've lost control of even the most basic decisions made about the essential services of government -- such as schools, welfare, roads, and even garbage collection. And they're right.

A maze of interlocking jurisdictions and levels of government confronts average citizens in trying to solve even the simplest of problems. They don't know where to turn for answers, who to hold accountable, who to praise, who to blame, who to vote for or against.

The main reason for this is the overpowering growth of federal grants-in-aid programs during the past few decades.

In 1960, the federal government had 132 categorical grant programs, costing seven billion dollars. When I took office, there were approximately 500, costing nearly $100 billion -- 13 programs for energy, 36 for pollution control, 66 for social services, and 90 for education. And here in the Congress, it takes at least 166 committees just to try to keep track of them.

You know and I know that neither the President nor the Congress can properly oversee this jungle of grants-in-aid; indeed, the growth of these grants has led to the distortion in the vital functions of government. As one Democratic governor put it recently: The national government should be worrying about "arms control not potholes." (Applause.)

The growth in these federal programs has -- in the words of one intergovernmental commission -- made the federal government "more pervasive, more intrusive, more unmanageable, more ineffective and costly and above all more unaccountable."

Let's solve this problem with a single, bold stroke -- the return of some $47 billion in federal programs to state and local government, together with the means to finance them and a transition period of nearly 10 years to avoid unnecessary disruption.

I will shortly send this Congress a message describing this program. I want to emphasize, however, that its full details will have been worked out only after close consultation with congressional, state and local officials.

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Starting in fiscal 1984, the Federal Government will assume full responsibility for the cost of the rapidly growing medicaid program to go along with its existing responsibility for medicare. As part of a financially equal swap, the States will simultaneously take full responsibility for aid to families with dependent children and food stamps. (Applause)

This will make welfare less costly and more responsive to genuine need because it will be designed and administered closer to the grassroots and the people it serves.

In 1984 the federal government will apply the full proceeds from certain excise taxes to a grassroots trust fund that will belong in fair shares to the 50 States. The total amount flowing into this fund will be $28 billion a year.

Over the next four years the states can use this money in either of two ways. If they want to continue receiving federal grants in such areas as transportation, education, and social services, they can use their trust fund money to pay for the grants, or to the extent they choose to forego the federal grant programs they can use their trust fund money on their own for those or other purposes. There will be a mandatory pass-through of part of these funds to local governments.

By 1988, the states will be in complete control of over 40 federal grant programs. The trust fund will start to phase out, eventually to disappear, and the excise taxes will be turned over to the states. They can then preserve, lower, or raise taxes on their own and fund and manage these programs as they see fit.

In a single stroke we will be accomplishing a realignment that will end cumbersome administration and spiraling costs at the federal level while we insure these programs will be more responsive to both the people they are meant to help and the people who pay for them.

Hand in hand with this program to strengthen the discretion and flexibility of state and local governments, we are proposing legislation for an experimental effort to improve and develop our depressed urban areas in the 1980s and 1990s. This legislation will permit states and localities to apply to the federal government for designation as urban enterprise zones. A broad range of special economic incentives in the zones will help attract new business, new jobs, new opportunity to America's inner cities and rural towns.

Some will say our mission is to save free enterprise. Well, I say we must free enterprise so that together we can save America. (Applause)

MORE

Some will also say our states and local communities are not up to the challenge of a new and creative partnership. That might have been true 20 years ago before reforms like re-apportionment and the Voting Rights Act, a ten-year extension of which I strongly support. It's no longer true today.

This administration has faith in state and local governments and the constitutional balance envisioned by the Founding Fathers.

We also believe in the integrity, decency and sound good sense of grassroots Americans.

Our faith in the American people is reflected in another major endeavor. Our Private Sector Initiatives Task Force is seeking out successful community models of school, church, business, union, foundation and civic programs that help community needs.

Such groups are almost invariably far more efficient than government in running social programs.

We're not asking them to replace disgarded and often discredited government programs dollar for dollar, service for service. We just want to help them perform the good works they choose and help others to profit by their example.

Three hundred and eighty-five thousand corporations and private organizations are already working on social programs ranging from drug rehabilitation to job training. And thousands more Americans have written us asking how they can help.

The volunteer spirit is still alive and well in America. (Applause).

Our nation's long journey towards civil rights for all our citizens, once a source of discord, now a source of pride, must continue with no backsliding or slowing down. We must and shall see that those basic laws that guarantee equal rights are preserved and, when necessary, strengthened.

Our concern for equal rights for women is firm and unshakable. We launched a new Task Force on Legal Equity for Women and a Fifty-States Project that will examine state laws for discriminatory language. And for the first time in our history, a woman sits on the highest court in the land. (Applause.)

So, too, the problem of crime -- one as real and deadly serious as any in America today. It demands that we seek transformation of our legal system which overly protects the rights of criminals while it leaves society and the innocent victims of crime without justice.

We look forward to the enactment of a responsible Clean Air Act to increase jobs while continuing to improve the quality of our air. We're encouraged by the bipartisan initiative of the House and are hopeful of further progress as the Senate continues its deliberations.

So far, I've concentrated largely, now, on domestic matters. To view the State of the Union in perspective, we must not ignore the rest of the world. There isn't time tonight for a lengthy treatment of social -- or foreign policy, I should say -- a subject I intend to address in detail in the near future. A few words, however, are in order on the progress we've made over the past year

MORE

reestablishing respect for our nation around the globe and some of the challenges and goals that we will approach in the year ahead.

At Ottowa and Cancun, I met with leaders of the major industrial powers and developing nations. Now, some of those I met with were a little surprised that I didn't apologize for America's wealth. Instead, I spoke of the strength of the free marketplace system and how that system could help them realize their aspirations for economic development and political freedom. I believe lasting friendships were made and the foundation was laid for future cooperation.

In the Caribbean Basin, we are developing a program of aid, trade and investment incentives to promote self-sustaining growth and a better, more secure life for our neighbors to the South. Towards those who would export terrorism and subversion in the Caribbean and elsewhere, especially Cuba and Libya, we will act with firmness.

Our foreign policy is a policy of strength, fairness and balance. By restoring America's military credibility, by pursuing peace at the negotiating table wherever both sides are willing to sit down in good faith, and by beginning or regaining the respect of America's allies and adversaries alike, we have strengthened our country's position as a force for peace and progress in the world.

When action is called for, we are taking it. Our sanctions against the military dictatorship that has attempted to crush human rights in Poland -- and against the Soviet regime behind that military dictatorship -- clearly demonstrated to the world that America will not conduct "business as usual" with the forces of oppression. (Applause.)

If the events in Poland continue to deteriorate, further measures will follow. Let me also note that private American groups have taken the lead in making January 30th a day of solidarity with the people of Poland. So, too, the European Parliament has called for March 21st to be an international day of support for Afghanistan. Well, I urge all peace-loving peoples to join together on those days, to raise their voices, to speak and pray for freedom.

Meanwhile, we are working for reduction of arms and military activities. As I announced in my address to the nation last November 18th, we have proposed to the Soviet Union

MORE

a far-reaching agenda for mutual reduction of military forces and have already initiated negotiations with them in Geneva on intermediate range nuclear forces.

In those talks it is essential that we negotiate from a position of strength. There must be a real incentive for the Soviets to take these talks seriously. This requires that we rebuild our defenses

In the last decade, while we sought the moderation of Soviet power through a process of restraint and accommodation, the Soviets engaged in an unrelenting build-up of their military forces.

The protection of our national security has required that we undertake a substantial program to enhance our military forces.

We have not neglected to strengthen our traditional alliances in Europe and Asia, or to develop key relationships with our partners in the Middle East and other countries.

Building a more peaceful world requires a sound strategy and the national resolve to back it up. When radical forces threaten our friends, when economic misfortune creates conditions of instability, when strategically vital parts of the world fall under the shadow of Soviet power, our response can make the difference between peaceful change or disorder and violence. That is why we have laid such stress not only on our own defense, but on our vital foreign assistance program. Your recent passage of the foreign assistance act sent a signal to the world that America will not shrink from making the investments necessary for both peace and security. Our foreign policy must be rooted in realism, not naivete or self-delusion.

A recognition of what the Soviet empire is about is the starting point. Winston Churchill, in negotiating with the Soviets, observed that they respect only strength and resolve in their dealings with other nations.

That is why we have moved to reconstruct our national defenses. We intend to keep the peace -- we will also keep our freedom. (Applause.)

We have made pledges of a new frankness in our public statements and worldwide broadcasts. In the face of a climate of falsehoo and misinformation, we have promised the world a season of truth -- the truth of our great civilized ideas: individual liberty, representative government, the rule of law under God.

We have never needed walls or mine fields or barbwire to keep our people in. Nor do we declare martial law to keep our people from voting for the kind of government they want.

Yes, we have our problems; yes, we are in a time of recession. And it's true, there is no quick fix, as I said, to instantly end the tragic pain of unemployment. But we will end it -- the process has already begun and we'll see its effect as the year goes on.

We speak with pride and admiration of that little band of Americans who overcame insuperable odds to set this nation on course 200 years ago. But our glory didn't end with them. Americans ever since have emulated their deeds.

We don't have to turn to our history books for heroes. They are all around us. One who sits among you here tonight epitomized that heroism at the end of the longest imprisonment ever inflicted on men of our armed forces. Who will ever forget that night when we waited for television to bring us the scene of that first plane landing at Clark Field in the Philippines -- bringing our POW's home. The plane door opened and Jeremiah Denton came slowly down the ramp. He caught sight of our flag, saluted it, and said,

MORE

"God bless America," and then thanked us for bringing him home. (Applause.)

Just two weeks ago, in the midst of a terrible tragedy on the Potomac, we saw again the spirit of American heroism at its finest -- the heroism of dedicated rescue workers saving crash victims from icy waters. And we saw the heroism of one of our young government employees, Lenny Skutnik, who, when he saw a woman lose her grip on the helicopter line, dived into the water and dragged her to safety. (Applause.)

And then there are countless quiet, everyday heroes of American life -- parents who sacrifice long and hard so their children will know a better life than they've known; church and civic volunteers who help to feed, clothe, nurse and teach the needy; millions who have made our nation, and our nation's destiny so very special -- unsung heroes who may not have realized their own dreams themselves but then who reinvest those dreams in their children.

Don't let anyone tell you that America's best days are behind her -- that the American spirit has been vanquished. We've seen it triumph too often in our lives to stop believing in it now. (Applause.)

One hundred and twenty years ago, the greatest of all our presidents delivered his second State of the Union message in this chamber. "We cannot escape history," Abraham Lincoln warned. "We of this Congress and this administration will be remembered in spite of ourselves." The "trial through which we pass will light us down in honor or dishonor to the latest generation."

That President and that Congress did not fail the American people. Together they weathered the storm and preserved the Union.

Let it be said of us that we, too, did not fail; that we, too, worked together to bring America through difficult times. Let us so conduct ourselves that two centuries from now, another Congress and another President, meeting in this chamber as we are meeting, will speak of us with pride, saying that we met the test and preserved for them in their day the sacred flame of liberty -- this last, best hope of man on Earth.

God bless you. Thank you. (Applause.)

END 9:46 P.M. EST