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EMBARGOED UNTIL 9:30 A. M.
Wednesday, July 29, 1981

THE ECONOMY AT MIDYEAR

Statement

of

The Honorable Murray L. Weidenbaum
Chairman, The President's Council of Economic Advisers

before

the

Committee on Banking, Housing and Urban Affairs

U. S. Senate

July 29, 1981

Mr. Chairman and Members of the Committee:

Since I last appeared before you in early March to discuss the economic situation and the Administration's program for economic recovery, there has been encouraging progress. We have made significant advances in laying the foundations for a strengthened U. S. economy for the rest of the 1980s. The essential features of the President's budget and tax programs have met with acceptance by the Congress and are well on the way to implementation; the Administration has taken more than 100 significant steps on the road to regulatory reform for business, state and local governments, and nonprofit institutions; and the Federal Reserve has been following a policy of monetary restraint which is consistent with our mutual objective of bringing inflation down permanently.

In other words, in cooperation with the Congress and the Federal Reserve System, all four elements in the President's Program for Economic Recovery have been advanced significantly during the past four months.

At the same time, the economy, by and large, has been performing as anticipated. The pace of economic activity has slowed as the year has progressed, after an unsustainably rapid start early in the first quarter. In March, I noted that real economic activity would soften in the months ahead, and that the possibility of at least one quarter of negative growth could not be ruled out. That possibility has now been realized in the preliminary results for the second quarter. I will elaborate on the reasons for this pattern in a moment.

At the present time, we are experiencing a pronounced slowing in the performance of such key indicators as industrial production, auto sales, and homebuilding and related activity. In a word, I would describe the economy as "spongy"; that is, temporarily soft, but with the inherent ability to resume expanding rather smartly, especially with the economic policies that the Administration is pursuing.

Perhaps the most heartening development over the past several months has been a moderation in inflationary pressures. In May, for the first time in 27 months, the increase in the Consumer Price Index, when measured over a 12 month period, dropped below double digits, and June repeated the pattern. Increases in most other price indices have shown comparable moderation. Although month-to-month variations in these volatile indicators can be quite large, we now expect, that for 1981 as a whole, the CPI will rise slightly less than 10 percent over 1980.

While oil prices frequently have been emphasized as an important factor in this moderating trend of inflation, monetary and fiscal restraint is the critical element underlying any sustained deceleration of inflation. The maintenance of restraint is absolutely necessary if this trend is to continue in the months and years ahead. I believe that further progress in bringing down the rate of inflation will begin to dampen inflationary expectations, and lead to a healthy readjustment in the saving, spending, and investment patterns of individuals and businesses alike. These expectations can be reinforced further through prompt action by the Congress on those aspects of the Administration's tax and budget proposals that have yet to be resolved.

Some observers have drawn attention to the continuing double digit rate of increase in wage and salary costs. It has been suggested that more attention be paid to this factor as an element in underlying inflationary pressures. Let me simply observe that these trends reflect private sector decisions, and are heavily influenced by recent inflation - through formal and informal cost-of-living adjustments - and by expectations of future inflation.

We intend to avoid any jaw-boning of what are essentially private sector matters. Instead, our basic policy thrust is to create an environment characterized by a substantially lower rate of inflation, an environment in which both labor and management can negotiate without continuing concern about inflationary pressures and their impact on real wages and nominal profits.

But the need for hard and realistic bargaining on both sides of the labor-management negotiating table should be appreciated. Firms which incur unrealistically high wage bills which cannot be passed on in the form of higher product prices will see their profitability erode. And they should not look to this Administration for help in such a situation. In other words, since inflation is moderating, current wage negotiations should take that fact into account. Of course, at times when productivity gains are high -- and we anticipate this will be the case in the future -- it would be natural to expect wage costs to reflect such a positive factor.

Monetary Policy and the Economy

One of the purposes of these Congressional oversight hearings is to ascertain whether the monetary policy objectives of the Federal Reserve are consistent with the economic objectives of the Administration and the budgetary and tax actions of the Congress. As you know, this Administration, from the beginning, has stressed the great importance of a steady, persistent anti-inflationary monetary policy. Achievement of our economic growth and employment objectives during the next several years depends on a significant reduction of inflation, inflationary expectations, and the inflation premiums in nominal interest rates.

The monetary growth objectives the Federal Reserve has set for itself during the next several years are consistent with what the Administration believes to be necessary to reinforce the other parts of our economic program. At oversight hearings before Congress in 1980 and earlier this year, Chairman Volcker described the Federal Reserve's policy as being one of a persistent reduction in the trend rate of monetary growth. We have confidence that the consistent implementation of that policy by our central bank will make a significant contribution to the restoration of credibility of the government's determination to end inflation.

Chairman Volcker has reaffirmed the Federal Reserve's target growth rates for the various monetary aggregates in 1981, as originally specified earlier this year. The target for the more commonly used of these measures -- M1B -- is growth in the range of 6 to 8-1/2 percent from the fourth quarter of 1980 to the fourth quarter of 1981. That is the

target range for this measure before adjustment for NOW accounts. During the first half of 1981 -- from the fourth quarter of 1980 to the second quarter of 1981 -- M1B grew at a rate slightly below 7 percent. In his testimony last week, Chairman Volcker indicated that the M1B measure of the money supply may grow in the lower half of its target range for the balance of this year. That growth pattern of money this year is consistent with our expectations about economic growth for the remainder of this year. We expect that the Federal Reserve will continue its policy of gradual, sustained reduction in the growth of monetary and credit aggregates during the next several years. The Administration endorses the Fed's long-run, as well as short-run, policy objectives.

A few comments on our view of the economy in 1981 might be appropriate. The statistical highlights are contained in the accompanying Table. I will not repeat the detail of the midyear Review that was issued earlier this month, but our interpretation of some changes in economic assumptions may be informative. In the first quarter of this year, total spending in the economy -- nominal GNP -- grew at almost a 20 percent annual rate while real output grew at an 8-1/2 percent rate. Those exceptionally high growth rates were the lagged response of the economy to the highly stimulative monetary growth and government spending that occurred in 1980.

The growth of the money supply in the first half of 1981 was about one-half the growth rate that occurred in the second half of 1980.

ADMINISTRATION PROJECTIONS OF ECONOMIC ACTIVITY

	<u>1980</u> actual	<u>1981</u> estimate	<u>1982</u> estimate
Gross National Product (in billions)	\$2,626	\$2,951	\$3,296
Real Growth	-0.2%	+2.6%	+3.4%
Inflation:			
GNP deflator	+9.0%	+9.6%	+8.0%
CPI	+13.5%	+9.9%	+7.0%
Unemployment Rate	7.2%	7.5%	7.3%
Interest Rate, 91-day Treasury bills	11.5%	13.6%	10.5%

Furthermore, the growth of government spending has been cut substantially compared to last year. As a consequence, we expect the growth of nominal GNP in the balance of 1981 to be at only one-half the rate that occurred in the first quarter.

For 1982, we expect the growth of nominal income to be somewhat less than for the average of the full year of 1981, but we expect real output to be higher while the rate of inflation is lower. In other words, we expect that the "mix" of total spending in the economy will shift towards more output and less inflation as the effects of the personal tax rate reduction and business tax incentives start to induce greater real investment spending in the economy.

The policy framework within which we are operating is based on four critical relationships:

- Reduction of government spending as a share of GNP constitutes a major shift of resource utilization out of the public sector and into the private sector;
- Sustained reduction in the increase of the monetary aggregates reduces the growth of nominal GNP and thus reduces the inflationary momentum in the economy;
- Reduced inflation results in lower nominal interest rates;

- Accelerated depreciation, together with continuation of investment tax credits and regulatory relief, will result in a major increase in real investment spending and employment in the private sector, especially in a less inflationary environment.

These elements of the President's economic program are interdependent and mutually reinforcing. The policy objective of reducing the trend growth of the money supply is as important as the reduction in the growth of government spending and the reduction in personal and business taxation.

Turning to the important question of interest rates, I have to acknowledge that progress here has been slow. Although most short-term rates, at present, are down somewhat from their highs of mid-May, we have not yet seen the major downward movement that would ordinarily be expected to follow clear-cut evidence of a moderation in inflationary pressures and business activity. Even though many sectors of the economy have shown an impressive ability to adapt to a high interest rate environment, it is clear that some areas, such as autos, homebuilding, and the thrifts are being adversely affected.

However, there is little doubt in my mind that we should begin to see, in the near future, a substantial unwinding of the large inflationary premium that has been built into both short- and long-term interest rates over the past several years.

If participants in financial markets have been slow to adapt to the changed environment, I believe they have some basis for being cautious. After all, in recent years they have been burned on a number of occasions by false starts in getting inflation under control. However, as the evidence continues to accumulate that the Administration and the Congress are determined to stay the course, our policies of fiscal and monetary restraint can be expected to lead to the favorable trend of interest rates that we show in our mid-year forecast for the period through 1982 and beyond.

In closing, I would like to re-emphasize the importance of "staying the course". From the very beginning, the Reagan Administration has emphasized that our program differs fundamentally from the stop-and-go practices of the past. We believe that the most constructive role for government policy in the economy is to provide a stable framework for the private sector's risk-bearing and entrepreneurship. Experience in previous years has taught us that trying to "fine tune" the economy is a fruitless, not to say counter productive, activity. The U. S. economy is far too intricate and Americans are far too independent to be susceptible to closely calibrated and detailed orchestration by the Federal government.

It is with this knowledge, and in this spirit, that we intend to go forward in creating an environment in which the basic strengths of the U. S. economy will be allowed to provide the jobs and standards of living to which all Americans aspire.

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PRODUCTIVITY, TAXES, AND THE ECONOMY

Statement

by

Murray L. Weidenbaum, Chairman
Council of Economic Advisers

before the

Subcommittee on Trade, Productivity and Economic Growth
of the
Joint Economic Committee

June 17, 1981

Mr. Chairman and members of the Committee:

I welcome the opportunity to appear before this Committee to discuss with you one of the most troubling symptoms of our current economic problems, a pervasive slowdown and stagnation in productivity growth in the American economy. This is a subject which has rightly been in the forefront of the concerns of the members of the Joint Economic Committee for some time. As a matter of fact, my last contribution to the study of this subject was a paper discussing the connection between productivity and regulatory reform prepared for a congressional conference sponsored by the Joint Economic Committee only last December.

The problem of productivity is closely linked to trends in the profitability and competitiveness of American industry at home and abroad. A reduced rate of productivity growth is an important contributing factor to the historically high rates of inflation experienced over the past decade. Stagnant productivity makes real wage gains for American workers increasingly hard to come by.

If we are to restore our economy to sustained and vigorous growth, with our industries able to compete successfully at home and abroad with foreign competitors, then we must employ the widest possible range of appropriate government policies. A comprehensive tax program of personal and business tax relief is an essential element in achieving those objectives.

Let me begin with a short professorial overview. What do we mean by productivity growth? Simply put, we mean "producing more with less." For example, assume we can produce 500 widgets a day in a factory with 100 employees and two machines, and the managers replace those two machines with two new ones that enable those 100 employees to produce 750 widgets a day. As you can easily see, labor productivity has increased 50 percent.

Clearly, one of the objectives of economic policy should be to create an environment in which the acquisition of new and more productive machinery is an attractive proposition for business. And one of the most efficient ways to achieve this objective is with well designed tax policies which encourage the demand for investment and the supply of the savings to finance that investment.

Labor productivity--the amount of output per employee - is the most commonly cited productivity measure. But we can also measure productivity in terms of capital (machines, in this case) or in terms of the amount of energy consumed.

We can also lump together such disparate elements as labor, capital, energy, and raw materials and get a measure of "total factor productivity". This type of measurement, as you might suspect, is typically carried out by academic economists, who find it useful because it attempts to give us an idea of the economy's overall ability to produce efficiently.

When we are analyzing productivity trends in the economy over a period of time, there are serious measurement problems, which I do not need to review today. However, even allowing for problems with productivity measurement, our productivity growth has been extremely disappointing for over a decade. Labor productivity in the nonfarm business sector grew at an average annual rate of more than 2-1/2 percent from 1945-1965. During the next eight years it grew at a 2-1/4 percent rate. Since 1973, however, productivity growth has fallen to under one-half percent a year. In fact, for the past three years it has actually fallen. A somewhat similar pattern also prevails when we look at total factor productivity.

It is instructive to compare this performance with trends in other countries. The Bureau of Labor Statistics has recently published data for manufacturing that allow us to do this (see Table 1). They show U. S. productivity growing 3 percent annually, on average, between 1960 and 1973, but only 1-3/4 percent thereafter. While other major countries, including all our major trading partners, also witnessed slowdowns like ours, they were generally of lesser magnitude and from a higher base. For example, Japan showed gains of 10-1/2 percent during the first period, and 7-1/4 more recently. Germany showed 5-1/2 percent, followed by 4-3/4 percent. So, although we are not alone in facing the problem of productivity slowdown, our problem may well be a lot worse than those of many other industrialized countries.

Table 1

Output Per Hour in Manufacturing, 11 Countries
Average Annual Rates of Change
1960-1980

	<u>1960-1980</u>	<u>1960-1973</u>	<u>1973-1980</u>
United States	2.7	3.0	1.7
Canada	3.8	4.5	2.2
Japan	9.3	10.5	7.2
Belgium	7.3	7.0	6.6
Denmark	6.6	7.2	4.4
France	5.5	6.0	4.9
Germany	5.4	5.5	4.8
Italy	5.9	6.9	3.5
Netherlands	7.4	7.6	5.5
Sweden	5.4	6.9	2.2
United Kingdom	3.2	4.1	1.4

Source: Bureau of Labor Statistics

There is one important caveat to ~~make~~ about recent productivity growth. It is strongly ~~proportional~~. That is, labor inputs are not reduced proportionally when production falls, so productivity falls more sharply than output. Economists refer to this as "labor hoarding". This "excess" labor is put back to work when demand ~~grows~~ again, so productivity then grows faster than output. Because ~~our~~ economic growth has been so weak in recent years, part ~~of~~ the recent dramatic slowdown can probably be ascribed to this phenomenon. But, likewise, the most recent figures for the first quarter, showing productivity growth at an annual rate of 4.3 percent, do not mean that the problem has been solved. The recent good news is probably the result of the business cycle. The productivity slowdown in the United States is a long-term problem, and it requires long-term solutions.

Causes of the Problem

There are two kinds of causes behind the productivity slowdown: those we cannot do anything about, and those we can do something about. Analysts differ on the magnitude of each of the major causes, and some feel that much of the slowdown still remains unexplained. But even if our problem were caused entirely by forces beyond our control, (which it isn't), we would still have the means to cure it.

It is important to realize that even if lagging investment isn't the sole cause of the slowdown, boosting investment will still go a long way toward restoring growth. The same is true for reducing inflation, for eliminating the burden of government regulation, and for increasing research and development.

As I have suggested, there are causes of the slowdown that have been beyond our control. The post-war baby boom and changes in women's participation in the workforce have reduced the average level of experience of the workforce, a development that time will reverse. Oil price increases have caused businesses to substitute labor for energy when possible, and may have rendered large portions of our capital stock obsolete. Finally, changes in consumer demand toward services, where productivity is lower (and productivity changes are harder to measure) have also reduced productivity growth. But there is a great deal that public policy can do -- and undo.

Solving the Productivity Problem

The most important principle of productivity growth, I believe, is that it is most encouraged by the unfettered operation of a competitive economy in an environment of stable government policy, free from frequent changes in tax and spending programs. Whatever increases uncertainty or reduces the freedom of markets or the competitiveness of business, whatever discourages the taking of risks, and whatever distorts or distracts the attention of workers and business from productive work is sure to cripple productivity growth. There are four key actions that are required to enhance the performance of the American economy.

First, we must restore a stable price level. Inflation is an insidious disease in a market economy. The smooth functioning of the economy depends upon the information that prices give to workers and to businesses. It tells them what is scarce, what is costly, and what is profitable. These are the bases for rational decisions. Once prices lose any

reasonable degree of predictability, as they do during inflation, the message is lost. This is true particularly in long-term planning where interest rates and long-term contracts play such crucial roles. Thus, monetary and fiscal restraint make vital contributions to productivity by bringing down inflation and the accompanying high interest rates.

Second, we must reduce the burden of arbitrary and inefficient government regulation. Frankly, it is difficult to overestimate the explosive expansion of government involvement in private enterprise over the past two decades. These days all major aspects of the day-to-day operation of virtually every business firm must be carried out with one eye on Washington. This is a significant burden for large and established firms and it literally can be fatal for many small and innovative firms.

There are at least three major ways in which government regulations inhibit the growth of productivity. First, and most obvious, regulation diverts capital from more productive uses. It does this both by requiring particular processing that would not otherwise be done, and also by mandating that inefficient processes be used. But regulation also takes a more hidden and costly toll: it robs us of entrepreneurial and managerial talent. So much attention is devoted in discussions about productivity to the blessings of hardware. But machines and factories are only as good as the men and women who plan and manage them. Regulation diverts the time, attention and creativity of much of our best talent. This is not merely a question of the

paperwork burden, though that is a real problem. Too much managerial talent has to be devoted simply to avoiding conflicts with the regulators. And, for that matter, I suspect that too much of our best talent is attracted today to the legal profession.

Finally, a changing pattern of regulation creates uncertainty, and poorly-conducted regulation creates instability. This is more than just not knowing how regulations will change from year to year, (though this certainly makes planning difficult and discourages investment). An environment of over-regulation generates concerns about what might be regulated next, and what retroactive obligations might be imposed in the future. Thus a climate of increasing regulation inhibits those who are not regulated as much as it does those who are regulated.

Third, we must restore a healthy growth of capital stock via incentives. A great deal had been written and spoken about this, so I will be brief. But, I do have some observations that I think deserve mention. First, the revised National Income and Product Accounts show that investment as a share of GNP has performed relatively well in recent years. However, because much of this investment was devoted to replacement and because much of it was of a short-lived nature (due, at least in part, to inflationary expectations), this investment pattern did not translate into a comparable growth in the capital stock. Table 2 shows what this has meant for the ratio of capital to labor, a useful indicator of the ability of investment to contribute to productivity:

Table 2 -- The Investment Share and Growth
in the Capital-Labor Ratio, 1949-79

Period	Real business fixed investment as percent of real GNP ¹	Percent change, average annual rate (end of year to end of year)		
		Net capital stock (non- residential) ²	Employment	Capit employm ratio
1949-59	9.1	4.0	1.1	2.9
1959-69	9.8	4.6	1.6	3.0
1969-74	10.5	4.2	1.2	2.9
1974-79	10.3	3.0	3.1	-1.1

¹Average annual investment-GNP ratio, in percent.

²Net fixed nonresidential business capital, 1972 dollars, end of year.

³For private business, all persons. End of year calculated as average of year's fourth quarter and following year's first quarter.

Sources: Department of Commerce(Bureau of Economic Analysis) and
Department of Labor (Bureau of Labor Statistics).

It is not merely the interaction of the tax code and inflation that has been a government-sponsored disincentive to invest. The government's credit activities also play an important role. The government deficit has to be financed by borrowing, raising interest rates in the process and squeezing out private borrowers. This is well-known. But also, by giving preferential treatment to lenders through loan guarantees and other credit assistance, the government is also pushing more productive ventures out of the capital markets.

Finally, let me emphasize that, even if investment were high and the capital stock continued to grow apace, increasing investment would still be an appropriate means to restore productivity growth.

Fourth, we must encourage the thrust that comes from R&D. We have not done badly in this regard, but we could do much better. The problem is to provide the right incentives for human ingenuity. This is not something the government can do. I was a civil servant myself for many years, and I know from experience that there are many intelligent, skilled, and devoted people in government service. But is beyond the talents of any single group to divine the future. This must be left to the talents of all our people. If the right incentives are provided, they will respond -- with no need for direction from Washington.

The Administration's tax proposals provide many of the incentives necessary to encourage those creative talents and to encourage in other ways a restoration of productivity growth.

Much that I have said has been said before. Indeed, many similar statements were made by past Administrations. However, I believe that today there is a very important difference, and it is currently an issue for debate. Too many government policies are aimed at achieving excessively narrow goals. This is as true in productivity as in any other area. Too many programs have been proposed to stimulate particular kinds of capital investment or employment; too many suggestions have been made to encourage particular forms of saving; too many ideas have been floated for encouraging the growth of particular industries or areas. We take a fundamentally different view.

This Administration, instead, believes in providing broad incentives so that each person will do his or her best, and in reducing obstacles so that each person can achieve his or her best. In so doing, productivity growth will be enhanced. Thus, the essential need is to restore incentives for creativity. For this reason we believe that the President's program of personal tax cuts is of key importance in solving the productivity problem. By lowering tax rates at the margin, prohibitive tax rates that now encourage unproductive work and unproductive investment will become a thing of the past. Rather than forcing productivity growth through one government-selected channel or another, we believe that the people as a whole will invest their time, talents, and wealth in the most productive activities -- those which the signals of a competitive market indicate are likely to yield the highest returns.

Summary

To recapitulate: the most effective policy to encourage productivity is not a narrowly focused effort aimed at productivity itself. Rather, it is the creation of a healthier, more competitive economy which by its basic nature operates at higher levels of productivity .. Boiled down to its essence, my suggestions for productivity improvements are as follows:

1. Reduce the heavy burden of taxes on the economy by prompt enactment of a comprehensive program of tax relief. The Reagan Administration's tax program is designed to do just that.

2. Reduce the heavy burden of regulations on the economy. That means supporting our program of regulatory relief.

3. Reduce the heavy burden of inflation and high interest rates on the economy. That means supporting fiscal and monetary restraint.

The accomplishment of these objectives will generate the higher levels of R&D, capital formation, efficiency, and entrepreneurial activity which are at the heart of productivity growth.

INFORMATION

Date: July 16, 1981

MEMORANDUM FOR: SECRETARY REGAN

From: Paul Craig Roberts *CR*

Subject: Indexation vs. Historical Tax Cuts

Senator Armstrong will offer an indexing amendment to the tax bill.

The attached tables, prepared in response to the Senator's request, confirm with real world data an earlier memo to you which stated that historical tax cuts have not offset the impact of inflation on either average or marginal tax rates; that increases in exemptions and deductions have held average rates down somewhat, and that marginal rates on the remaining taxable income have soared.

Average and marginal rates are shown for three income levels over a twenty year period under four tax systems:

- (1) The 1965 (post-Kennedy) tax system, had it remained unaltered all this time.
- (2) The 1965 tax system, had it been indexed, but otherwise unaltered.
- (3) The actual historical experience with ad hoc tax changes, with current law projected to 1985.
- (4) The historical code, but with the Administration's proposal projected to 1985.

For each income level, average and marginal tax rates are up sharply in spite of numerous tax "cuts." Although personal exemptions and standard deductions have roughly kept pace with inflation, the remaining taxable portion of income has faced sharply higher tax rates. The Administration's proposals barely prevent further increases through 1985 for the median

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	ED:ENTIN					
Initials / Date	SE / 7/16	/	/	/	/	/

income earner. They partially roll back bracket creep and prevent increases for a bit longer for the twice median income family. They do not hold off bracket creep even that long for a half median income family.

The markets would be more certain that incentives are to be improved permanently if the tax code were indexed. Now, all the markets can expect from the tax program is a temporary pause in the continuing decline of incentives.

Attachment

FAMILY OF FOUR
TWICE MEDIAN INCOME

A Comparison of Average Tax Rates and Marginal Tax Rates
for a Four-person Family with Income at Twice the Median Income
for All Four-person Families under Selected Tax Law
1965-1985

Year	Tax rates under 1965 law		Tax rates under 1965 law indexed for inflation		Tax rates under tax law actually in effect: 1980 law ex- tended through 1985		Tax rates under tax law actually in effect: proposed law in 1985 1/	
	Average	Marginal	Average	Marginal	Average	Marginal	Average	Marginal
1965	11.1%	22.0%	11.1%	22.0%	11.1%	22.0%	11.1%	22.0%
1970	13.2	25.0	11.9	22.0	13.5	25.6	13.5	25.6
1975	15.8	32.0	12.0	22.0	14.9	32.0	14.9	32.0
1980	21.0	45.0	12.4	25.0	18.9	43.0	18.9	43.0
1985	25.8	53.0	12.6	25.0	23.8	49.0	18.3	38.0

Office of the Secretary of the Treasury
Office of Tax Analysis

July 13, 1981

Note: Calculations assume all wage income and itemized deductions equal to 23 percent of gross income.

1/ Proposed law for one-earner families.

FAMILY OF FOUR
ONE-HALF MEDIAN INCOME

A Comparison of Average Tax Rates and Marginal Tax Rates
for a Four-person Family with Income at One-half the Median Income
for All Four-person Families under Selected Tax Law
1965-1985

Year	Tax rates under 1965 law		Tax rates under 1965 law indexed for inflation		Tax rates under tax law actually in effect: 1980 law ex- tended through 1985:		Tax rates under tax law actually in effect: proposed law in 1985 <u>2/</u>	
	Average	Marginal	Average	Marginal	Average	Marginal	Average	Marginal
1965	2.2%	14.0%	2.2%	14.0%	2.2%	14.0%	2.2%	14.0%
1970	4.9	15.0	3.4	15.0	4.7	15.0	4.7	15.0
1975	7.2	17.0	3.6	15.0	4.1	27.0 <u>1/</u>	4.1	27.0 <u>1/</u>
1980	10.0	19.0	4.0	15.0	6.5	18.0	6.5	18.0
1985	11.9	22.0	4.2	15.0	9.4	21.0	7.2	16.0

Office of the Secretary of the Treasury
Office of Tax Analysis

July 13, 1981

Note: Calculations assume all wage income and itemized deductions equal to 23 percent of gross income.

1/ Reflects the earned income credit which phased out at a 10 percent rate for incomes between \$4,000 and \$8,000.

2/ Proposed law for one-earner families.

Justice Accused Power Play Oil Merger

By Merrill Brown
Washington Post Staff Writer

Federal Trade Commission used the Justice Department filing a 43-year-old agreement apparent power play to gain action over Mobil Corp.'s proposed \$8.2 billion takeover of Conoco Inc.

An independent commission said the Justice Department has ignored additional guidelines for determining which of the two enforcement agencies will handle the anti-trust investigation surrounding the proposed merger of Conoco Inc.

A letter signed by Acting FTC Chairman David Clanton, a Republican, and endorsed by the entire commission, the commission charged the Justice Department's anti-trust division is seeking to use the case as a means to provide information to the public about the administration's merger policy.

Justice Department officials could not be reached for comment.

Conoco, the nation's ninth largest oil company, is the primary target of E.I. du Pont de Nemours & Co. and Seagram Co. as well as Mobil.

The FTC lost a tense battle with the Justice Department for control of the Du Pont bid earlier this month, although the commission was given the right to review the Justice Department's earlier bid for Conoco. The letter reflects the scars of the agency's fight over Du Pont.

The commission had initially declined and been granted, clearance for the proposed acquisition of Conoco by Seagram, the FTC said in a letter to Assistant Attorney General.

President's Speech Has Hill Switchboards Ablaze

7-29-81

By Lou Cannon and Kathy Sawyer
Washington Post Staff Writers

President Reagan's televised Monday night speech in behalf of his tax cut bill lit up the switchboards on Capitol Hill yesterday in the kind of public outpouring the White House claimed could well tip the scales for the president when the House votes today.

Early in the day both the White House and House Democrats said on the strength of headcounts that a rival Democratic tax bill was still ahead, though only by a handful of votes. But by nightfall some Democrats were saying privately they were unsure their narrow majority would hold, and one Democratic leader said the Republicans could count on 38 Democratic votes — enough to put them over the top.

The final jockeying came as the Senate virtually completed action on its version of the tax cut bill, on which it has been working for 11 days. (Details, Page A3)

Reagan kept up the tax pressure on the House yesterday, meeting with 32 more members and making a telephone call to a radio station in the district of one, Democrat Ralph Hall of Texas.

Members of Congress on all sides reported their offices at home and here flooded with calls, running as high as 6 to 1 in the president's favor. Western Union reported that telegrams to Washington were running at least 10 times normal volume by late afternoon, not including the slower Mailgrams.

See PRESIDENT, A2, Col. 1

3 Families Skeptical About Both Tax Plans

By Pete Earley and Sandra Saperstein
Washington Post Staff Writers

For Walter and Teresa Joiner of Adelphi, who earned \$29,916 in 1980, the difference between the Democratic and Republican tax packages scheduled for a vote in the House today is that under the Democratic plan, the couple would pay \$2,415 in taxes — \$270 less in 1982 than under the Republican one.

But Joiner, a salesman for Metropolitan Life Insurance Co., and his wife, a Montgomery County school teacher, are not rushing out to commit themselves to any long-term debts. Simply put, the Joiners say they will not believe that Congress has actually given them a tax break until next year's Form 1040 arrives.

"What they tell you now, that doesn't really mean much," said Joiner, 30. "They want to do enough publicity to get the bill through and then they'll start sticking it to you later."

The Joiners are one of three families, all with different incomes, interviewed by The Post yesterday who said the proposed tax cuts are too little, too late. They are skeptical that Congress will actually approve a tax package that will make any meaningful dent in their tax bill. All, regardless of their incomes, seemed to believe the vocal Democratic mes-

sage that President Reagan's tax plan will help those earning more than \$50,000, much more than middle income and poor Americans.

George Turner has operated the B and B Beauty Supply Co. in Washington for 31 years, netting his family about \$45,000 last year. Turner would save \$796 in taxes next year under the Republican plan on 1981 income and \$1,139 under the Democratic plan. But the life-long Democrat, like the Joiners, isn't holding his breath waiting for Congress. He, too, is skeptical of whether Congress really will deliver any meaningful tax relief.

The most biting criticism, however, comes from David and Mildred Ward who live in Alexandria with their five children. A 42-year-old floor refinisher, Ward earned \$14,500 last year. The Democratic plan would net the Wards an extra \$216 next year compared to the Republicans' \$151. That is less, they said, than what they spend each month for groceries.

"It's like reading a Racing Form," says Turner. "You have to judge them on what they have done before and the company they have."

See INCOME, A12, Col. 1

Launch Pad in a Texas Cow Pasture

Private Firms Challenge NASA's Space Monopoly

By Dan Balz
Washington Post Staff Writer

MATAGORDA ISLAND, Tex. — David Ross gingerly drops the single-engine plane onto the private runway and taxis to the nearby hangar. "Welcome," he says with a chuckle, "to Matagorda Space Port."

The only thing you can see from

space venture in U.S. history is rapidly taking shape, in the middle of a cow pasture on the South Texas coast.

Two companies — Space Services Inc. of Houston and GCH Inc. of Sunnyvale, Calif. — have joined forces to challenge the National

Aviation Administration can cut through its red tape fast enough.

By NASA standards, the first test launching will be a chip shot — 14,500 feet up and a few miles out into the Gulf. But you've got to start somewhere.

By 1983, the companies hope to begin commercial operations from

the ranch road from the landing strip to the launch pad. He's trying to get the cows out of the way so Ross can show a group of visitors the operation. The cows pleasantly return the greeting and scamper out of the way. The island is also full of deer and waterfowl. The endangered

the new fiscal stringency in Washington.
President Reagan is to come here

share to 8 and 10 percent, respectively, by "retreating under pressure" from interest groups to maintain

bring them lower taxes."
Manatt predicted that "state and local taxes will go up next year as a

Hill Flooded With Calls on Tax Bill

PRESIDENT, From A1

By last evening the White House said it had received more than 4,000 phone calls and nearly 1,200 telegrams and Mailgrams on the tax issue, the calls 6 to 1 in favor of the president's position, the telegrams 10 to 1. The biggest single previous response in a 24-hour period during this administration was slightly more than 1,000 phone calls after the president's televised February speech in behalf of his budget cuts.

After an "inundation" of calls from constituents yesterday, Rep. Carroll Hubbard Jr. of Kentucky, a conservative Democrat who earlier voted against Reagan on the budget and who was counted as a swing vote on taxes, announced he will support the president. With 480 out of his 500 callers on Reagan's side, Hubbard said, "It is obvious that the president's tax cut plan has overwhelming support in western Kentucky."

Some Democrats grumbled that the blitz, orchestrated by the Republicans, came mainly from the upper-income individuals and businessmen who they said would be the main beneficiaries of the Reagan bill. House Speaker Thomas P. (Tip) O'Neill Jr. (D-Mass.), still predicting victory for the Democrats, shrugged off questions about the outpouring.

"Three people hung up on me when I asked them if they made

more than \$50,000 a year," he cracked about what he said was only a trickle of calls and cables to his own office.

But Rep. Barbara Mikulski (D-Md.), a strong Democrat and opponent of the president's plan, had received over 360 calls by 1 p.m. "overwhelmingly" favoring the president's plan, according to aide Nick Glyphis. The calls came from middle-class suburban areas which were "not necessarily Republican but had voted Republican... My guess is it's spontaneous," he said.

In Democrat Morris Udall's office, calls from his Arizona constituents were running 6 to 1 in favor of the president, according to aide Pat Krueger, who was answering phones. "I'd say they are definitely from real people."

Rep. Beverly Byron (D-Md.), one of 15 Democrats wooed by the administration at Camp David last weekend, remained uncommitted despite phone calls running at five times the normal number, most in favor of Reagan. "Many are just John Doe constituents, but there are also some corporations represented," said aide Jack Holliday. Byron "of course takes into consideration what her constituents express to her," he said. "But she will vote her conscience."

Ellen Buchanan, an aide to Rep. Ken Holland (D-S.C.), who has op-

posed the president's tax plan after supporting his budget earlier, reported the successive waves of calls had forced the staff to "stop everything else just to answer the phone." But, she added, their calls were evenly divided. "People from more affluent areas support the president."

The eleventh-hour White House lobbying assault produced at least one mistake of a sort unusual in the Reagan operation, and more reminiscent of the Carter administration. Veteran legislative liaison Max Friedersdorf signed a letter which was sent to Arkansas Democrat Rep. Beryl Anthony Jr. The letter heartily solicited the support of one Rep. Anthony Beryl Jr.

The last-minute White House effort might have been damaged to some extent by the unexpected illness of Friedersdorf, who is hospitalized with an asthma attack.

SEC Reports No Wrongdoing In Mobil President's Actions

The Securities and Exchange Commission has closed an 18-month investigation into Mobil Oil Corp., apparently finding no fault with company president William P. Tavoulaareas, whose son became an owner of a shipping firm in 1974 that operates Mobil-owned super-tankers.

Neither Mobil nor SEC officials would comment on the closing of the investigation. But Mobil's corporate law firm, Milbank, Tweed, Hadley & McCloy, said in a July 23 letter to Tavoulaareas' personal attorney that the case is closed.

"As a result of a number of recent discussions with staff of the SEC enforcement division, we understand that the investigation has been com-

actions against Mobil that did not reach the commission.

"My understanding is that they [SEC officials] recommended something at the staff level... and we want to look at the SEC files to see what it was," Barrett said.

Mobil, the second-largest oil company in the nation, has maintained that everything about Tavoulaareas' dealings with his son was proper and fully disclosed in public releases. But the subcommittee chairman and the SEC staff disputed the adequacy of the disclosure. Barrett said that SEC enforcement officials negotiated with Mobil over a proposed consent decree from August 1980 up to this summer without success.

William Tavoulaareas and his son.



LAST DAY

2F

ENJOY 2 BETTER

Imagine. Both of you fitter, plain more attractive — for the

***Tumultuous Debate:***

House Ratifies Savings Plan In Stunning Reagan Victory

President Reagan's victory on budget reconciliation clearly demonstrates that it is he who pulls the levers in the House, even though the Democrats have a nominal majority in the chamber.

In two successive days the Republicans, with the help of a group of 29 hard-core conservative Democrats, engineered a critical procedural victory that paved the way for the ultimate triumph June 26 of the Reagan-backed package of budget cuts known as "Gramm-Latta II."

The vote approving the Gramm-Latta reconciliation substitute, which the GOP estimates would save \$38.2 billion in fiscal 1982, was 217-211.

The House went on to pass the bill, 232-193.

The Reagan victory followed two days of often acrimonious debate as well as considerable lobbying by the president.

Members from both political parties decried their situation: Most of the details on the Gramm-Latta proposal were not available until hours before the House vote.

"This has been a terrible way to legislate, but we have no alternatives," lamented Barber B. Conable Jr., R-N.Y.

Leon E. Panetta, D-Calif., chairman of the House Budget reconciliation task force, said, "We are dealing with over 250 programs with no committee consideration, no hearings, no debate and no opportunity to offer amendments."

Before the close of debate, House Budget Committee Chairman James R. Jones, D-Okla., urged his colleagues "not to abandon your legislative responsibility, not to abandon the substantive issues, because of partisan pressures."

But Delbert L. Latta, R-Ohio, a cosponsor of the amendment and ranking GOP member of the House

Budget Committee, framed the vote this way: "It is a question of whether we turn the country around economically or not."

The president, jubilant at the results of the procedural victory June 25, said, "The simple truth is that Congress heard the voice of the people, and they acted to carry out the will of the people."

In the Senate, there never was any doubt that the Republicans had an iron grip on the budget. The Senate approved its version of the reconciliation measure (S 1377 — S Rept 97-139), designed to save \$39.6 billion in fiscal 1982, June 25 by an 80-15 vote.

House Action

Rule Strategy Fails

House Democrats thought they

had thwarted Republican efforts to overturn the reconciliation bill reported by the House Budget Committee (HR 3982 — H Rept 97-158). They carefully drafted a rule for floor debate under which members would be forced to vote separately on individual spending cuts supported by the administration. Those cuts were deeper than the ones agreed to by 15 House authorizing committees.

The Republicans wanted a single, up-or-down vote on their budget package, named for the sponsors of the House-passed fiscal 1982 budget resolution. (*Background, Weekly Report* p. 1079)

The Democratic leadership believed that members would shrink away from voting to slash an additional \$20 billion over the next three years from programs such as Social Security, student loans and Medicaid, and instead would vote for the \$37.6 billion package of spending cuts crafted by the committees.

The ground rules upon which the Democratic-controlled Rules Committee agreed made it even more difficult for members to accept further deep cuts, since the rule did not include Gramm-Latta's so-called "sweeten-



President Reagan lobbied by telephone or telegraph the entire group of 63 Democrats who voted with him on the first budget resolution.

—By Dale Tate with Andy Plattner

ers" — additional funding for popular programs such as the Export-Import Bank and educational impact aid.

The scheme blew up in the Democrats' faces, however, when after several days of intense administration lobbying and a morning of biting rhetoric, the House defeated, 210-217, a procedural motion that would have cleared the way for the Democrats' ground rules for debate. (*Vote 95, p. 1160*)

"The Rules Committee came out with a rule that takes two-thirds of the [Gramm-Latta] cuts and throws them in the trash can, and then takes the remaining one-third and rewrites them," said Phil Gramm, D-Texas, co-sponsor of the substitute package. "Don't be deceived, the issue here is not the whole package *vs.* separate cuts. What this rule does is destroy the opportunity for Congress to work the people's will."

Minority Leader Robert H. Michel, R-Ill., said it was "not only a bad rule, it's a rotten rule."

But Majority Leader Jim Wright, D-Texas, told members that they owed themselves the "right to make choices." He characterized the vote on the rule as one by which the House would decide either to vote on a package whose details were determined by David A. Stockman, director of the Office of Management and Budget, and the president, or one that would allow votes on "the hard, tough questions — which programs to cut."

Wright said the House owed the president its cooperation, but "we do not owe him obeisance, obedience and submissiveness."

Rules Committee Chairman Richard Bolling, D-Mo., maintained that voting down the rule would be voting "in a narrow partisan game in support of a narrow, doubtful [economic] program."

"Do we have the guts to stand up for what we believe in?" Bolling asked.

When the votes were in, however, it was evident the Republicans had successfully sold their case: A vote against the rule would allow the House to vote to implement the Gramm-Latta budget adopted earlier in the first budget resolution. Anything less, they maintained, would be denying Reagan his economic program and denying the mandate of the American people.

After the vote, a despondent Speaker Thomas P. O'Neill Jr., D-Mass., told the members, "I've never

Defecting Democrats

Here is a list of 34 Democrats who voted with President Reagan May 7 on the Latta substitute for first fiscal 1982 budget resolution but who voted with the Democrats June 25 on the key vote on the rule to consider the reconciliation bill. (*Budget resolution, vote 30, Weekly Report p. 832; reconciliation rule, vote 95, p. 1160*)

Albosta, Mich.	Hatcher, Ga.
Andrews, N.C.	Holland, S.C.
Anthony, Ark.	Jacobs, Ind.
Bevill, Ala.	Jenkins, Ga.
Bouquard, Tenn.	Jones, Tenn.
Bowen, Miss.	Levitas, Ga.
Brinkley, Ga.	Long, Md.
Derrick, S.C.	Luken, Ohio
Dyson, Md.	Mazzoli, Ky.
English, Okla.	Mica, Fla.
Evans, Ind.	Natcher, Ky.
Flipppo, Ala.	Nelson, Fla.
Fountain, N.C.	Patterson, Calif.
Fuqua, Fla.	Skelton, Mo.
Gibbons, Fla.	Volkmer, Mo.
Ginn, Ga.	Yatron, Pa.
Hall, Ohio	Young, Mo.

Here is a list of 29 Democrats who sided with President Reagan on both the May 7 budget resolution vote and the vote on the rule to consider the reconciliation bill.

Atkinson, Pa.	Ireland, Fla.
Barnard, Ga.	Leath, Texas
Bennett, Fla.	McDonald, Ga.
Breaux, La.	Montgomery, Miss.
Byron, Md.	Mottl, Ohio
Chappell, Fla.	Nichols, Ala.
Daniel, Va.	Roemer, La.
Evans, Ga.	Santini, Nev.
Gramm, Texas	Shelby, Ala.
R. Hall, Texas	Stenholm, Texas
S. Hall, Texas	Stump, Ariz.
Hance, Texas	Tauzin, La.
Hightower, Texas	White, Texas
Huckaby, La.	Wilson, Texas
Hutto, Fla.	

seen anything like this in my life, to be perfectly truthful."

Reagan Influence Prevails

O'Neill and the Democratic leadership have reason to be despondent. The solid bloc of House Republicans plus an unswerving group of dissident Democrats appear to have created a coalition that can work the will of the

president.

Reagan himself lobbied by telephone and telegraph the entire group of 63 Democrats who voted with him on the first budget resolution.

According to Budget Chairman Jones, Reagan used all his powers of persuasion, including promises of sweetening some farm programs. "The Democratic cloakroom had all the earmarks of a tobacco auction," Jones said after the June 25 vote.

When asked if there was anything the Democrats could have done differently or if he saw any future hope of changing the course the Republicans had charted, Jones said that eventually "the substantive issues will be debated, and that's when there will be hope for the Democrats."

Following the defeat of the Democratic rule, the House went on to approve a procedure, by a vote of 214-208, that allowed up-or-down votes on the Gramm-Latta package of amendments, plus an amendment — later withdrawn — dealing with cuts in the Energy and Commerce Committee's jurisdiction. (*Vote 98, p. 1160*)

Gramm-Latta II

Following is a summary of the principal provisions of Gramm-Latta II. The omnibus measure would:

Food Stamps. Establish gross income eligibility limits at 130 percent of the poverty level. The measure also would restrict scheduled increases in income deductions used in calculating eligibility and benefits; reduce benefits to most recipients during their first month on the program; and base benefits on a recipient's actual income in the past, rather than estimated income in the future. These changes would amount to an additional \$1.9 billion in savings in fiscal 1982.

Welfare. Permit states to include food stamps and housing subsidies when calculating income to determine eligibility for Aid to Families with Dependent Children (AFDC) benefits. Earned-income tax credits and lump sum payments also would have to be counted as income. The welfare changes also would make strikers ineligible for AFDC and reduce benefits to recipients with earned income. In addition, they would establish "workfare" programs under which recipients would perform community service work in exchange for their benefits.

Social Security. Do away with new Social Security postsecondary student awards starting in June 1982

and phase out existing awards 25 percent each year. It would eliminate all minimum retirement benefits beginning April 1982.

Subsidized Housing. Limit the 1982 increase in subsidized housing units to 162,500 (instead of 175,000); gradually increase the tenant rent burden from 25 percent to 30 percent of income; and allow conversion of rent supplement units to the Section 8 program.

School Lunch. Reduce subsidies to higher income children while focusing aid on the neediest.

Guaranteed Student Loans. Limit the size of a loan to the amount of money needed to cover a student's educational costs, less other financial aid and a family contribution.

Cost-of-Living Adjustment for Federal Civilian Retirees. Limit the cost-of-living adjustment (COLA) to once a year.

Civilian Pay Cap. Restrict 1982 civilian pay increases to 4.8 percent, and 1983 and 1984 raises to 7 percent.

Energy and Commerce. Reduce discretionary health programs not included in block grants. Federal Medicaid payments to states would be reduced by 3 percent in fiscal 1982, 2 percent in fiscal 1983 and 1 percent in fiscal 1984. The proposal also would make other reforms in Medicaid eligibility and reimbursement.

Transportation provisions would divest Conrail of its commuter operations in a two-step process and eliminate operating subsidies from the rail freight assistance program.

Energy provisions include: making the Strategic Petroleum Reserve a permanent off-budget item; placing a \$5.6 billion cap on the fiscal 1982 Energy Department budget; and striking out the natural gas restrictions under the Powerplant and Industrial Fuel Use Act.

These provisions reflect the Democratic proposal.

Block Grants. Create a series of block grants. The proposals would consolidate 14 health programs into three block grants: maternal and child health; prevention; and alcohol/drug abuse.

The social services grants would consolidate six federal grant programs into a single block grant.

The home energy assistance grant would allow states to determine eligibility and allow a carryover of unused funds from the previous year.

Education grants would lump 25 separate elementary and secondary

education programs into two grants. One would include programs for disadvantaged children, the other would provide financial help to states for improvement in school resources.

Community and economic development grants would be created for economic development in rural communities and small cities.

Other Provisions. Gramm-Latta also would delete these provisions agreed to by the House committees: a three-month delay of the COLA adjustment for Social Security recipients; and elimination of military retirement pay of federal civilian employees and dual pay for reservists.

The substitute would restore impact aid payments for children who live on federal property and whose parents work on federal property, but phase out other impact aid.

Gramm-Latta would provide about \$2 million more in direct loan obligations for the Export-Import Bank in fiscal 1982.

Senate Action

While the Senate made some minor revisions in its \$39.6 billion reconciliation package, the significant elements remain the same as the measure drafted by the Senate authorizing committees and put together by the Budget Committee. The final tally on savings in the Senate-approved bill has not yet been determined, but it should be close to the original \$39.6 billion figure.

Before finally passing the omnibus spending cut package by an 80-15 vote, the Senate agreed to delete many of its extraneous provisions — those having no budgetary impact. But then, on up-or-down votes, the Senate agreed to put some of those back.

This arrangement, arrived at by the leadership of both parties, satisfied the concerns of Minority Leader Robert C. Byrd, D-W.Va. "If we are going to go down this road of including extraneous matter," he said, "I want it to be done here, on this floor — come in the front door and let every senator, with his eyes open, have a chance to vote on it as we now have in connection with adding legislation to an appropriation bill."

The most important provisions to be restored were Banking, Housing and Urban Affairs Committee additions that reauthorized housing and community development programs and denied federal funds to cities with rent control and rent stabilization.

The vote on this amendment, offered by Banking Chairman Jake Garn, R-Utah, was 54-42. (*Background, Weekly Report p. 983*)

The Senate also restored provisions dealing with programs under the Commerce Committee's jurisdiction that would deregulate radio broadcasting and liberalize television licensing. The vote was 55-40. (*Weekly Report p. 1066*)

By a vote of 51-47, the Senate also agreed to an amendment to keep Medicare as the primary health insurance provider for federal employees with dual coverage. Sponsors Ted Stevens, R-Alaska, and William V. Roth Jr., R-Del., said that without the amendment, previously rejected 47-50, federal employees' health insurance premiums would be increased, since the burden of providing health insurance would be switched to private health plans. (*Votes 170-72, p. 1157*)

Other amendments agreed to by the Senate would:

- Restore funds for Indochinese, Cuban and Haitian refugee programs to a level requested by the administration.

- Restore \$300 million for impact aid to school districts with large military and other federal installations.

- Restore burial benefits for disabled veterans.

- Authorize the sale of silver from the strategic stockpile.

- Allow the administration to sell Conrail as a single entity after June 1, 1982, and sell Conrail lines after Dec. 1, 1982, if the railroad were determined to be unprofitable. The Senate also authorized \$150 million for interim operating expenses and \$400 million for labor protection costs. (*Weekly Report p. 1065*)

- Reallocate VHF television stations to New Jersey and Delaware.

- Require the Corporation for Public Broadcasting to pay 50 percent of satellite interconnection costs.

The Senate rejected amendments that would have:

- Restored budget authority for rehabilitation programs for the disabled. (*Vote 168, p. 1157*)

- Reduced fees for consultants and federal travel. (*Vote 173, p. 1157*)

- Reduced funds for the nuclear fission program by \$309 million.

- Restored federal assistance for rape victims.

- Barred the Transportation Department from selling Conrail lines before Aug. 1, 1984, if the railroad were determined to be profitable. ■

For: B
From: NJR

7/22/81

THE PRESIDENT'S BIPARTISAN TAX PROGRAM
TALKING POINTS

Tax Cut vs. Tax Increase

- * The fundamental difference between the two proposals is that the President's plan is a real tax cut while the Rostenkowski-O'Neill plan would allow taxes to continue to increase on working people.
- * The full 25 percent tax cut is essential to provide a real tax cut to working people. Tax rate reductions of more than 22 percent are needed merely to offset the tax increases facing the American people. A two-year tax cut of 15 percent is no tax cut at all. We need at least a 25 percent tax cut to provide relief to working people.

Tax Relief for Working People

- * The Democratic leadership's claims that their bill provides more relief to working people is false. While their proposal does provide a few dollars more in the short run (\$22 for a family now earning \$15,000), this temporary tax relief will be wiped out as the higher tax rates called for under their bill siphon off off more and more of working peoples' wages.
- * The President's tax program is the only plan which will provide real long-term tax relief for the American people.
- * By 1984, under the Rostenkowski-O'Neill plan, working people in almost every tax bracket will be paying higher taxes than they did in 1980. At virtually every income level, working people will get greater tax relief under the President's program.

Higher Tax Rates Under Rostenkowski-O'Neill Plan

- * According to a Treasury Department analysis, families at virtually every income level will be faced with higher tax rates under the Rostenkowski-O'Neill alternative.
- * In fact, the alternative proposal will actually result in an increase in marginal tax rates for substantial numbers of families.
- * Rather than helping working people, the Rostenkowski-O'Neill plan will result in less savings, fewer jobs, and continued economic stagnation for the working people of this country.

Business-As-Usual Under Rostenkowski-O'Neill Plan

- * The Rostenkowski-O'Neill bill is a business-as-usual tax bill, designed to give the economy a one-shot boost without any regard to its impact on work, savings, and investment.
- * It is merely more of the same type of policies which has produced inflation, unemployment, and a declining economy.
- * Throughout the 1970's , the Democratic leadership promised working people tax cuts which they never saw. They are promising the same again.
- * In the last ten years, the Democratic leadership gave the American people five "tax cuts." Yet over the same ten years, taxes increased by more than \$400 billion.
- * The Rostenkowski-O'Neill bill promises more of the same--higher taxes for working Americans.

The President's Tax Cut is Fair to All

- * The President's tax plan reduces tax rates across-the-board for all taxpayers, giving all Americans the opportunity and incentive to save and invest more.
- * Three-fourths of the tax cut will go to middle-income taxpayers--the ones who now pay most of the taxes. Taxpayers earning between \$10,000 and \$60,000 now pay 72 percent of all taxes and will receive 74 percent of the President's tax cut.
- * The Rostenkowski-O'Neill bill claims to be "skewed" toward the working people. Yet it provides billions of dollars in special tax breaks to a few hundred commodity traders, to selected big industries, and to married couples earning more than \$60,000.

Only the President's Plan Will Restore Economic Growth

- * The President's tax bill has been designed to create a growing economy for all Americans by increasing incentives to work, save, invest, and produce.
- * The higher tax rates called for under the Rostenkowski-O'Neill plan will have a devastating impact on the economy, resulting in less savings and investments, fewer jobs, and lower economic growth.

David
Gerson
1980

entitlements
(unemployment
payments for)

% of GNP

% of GNP

1955

\$14,382.0

21.0%

4.0%

1970

\$62,529.2

31.8%

6.5%

1980

\$266,762.1

46.0%

10.4%

1982

\$45,774.2

49.7%

10.8%

1983

\$75,445.9

51.3%

10.4%

1984

\$406,017.7

52.7%

10.1%



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

TO: Ken Khachigian

FROM: Dave Stockman

[Handwritten signature]

I. Basic Line on House Reconciliation Bill

- A. The bills represent a sweeping, unprecedented effort to revise laws and funding levels for hundreds of Federal programs in order to curb Federal spending and implement the President's budget reductions as embodied in the Gramm-Latta resolution passed in May. It is an important step forward. (Do not say we support 70% of it, however.)
- B. The House Reconciliation Bill claims to save \$37 billion in FY 82 and \$140 billion over FY 82-84. However, these claims are substantially inflated by the inclusion of \$7 billion in FY 82 savings and \$35 billion in FY 82-85 savings that are accounting gimmicks, or totally unrealistic (such as a \$10 billion savings claimed for shutting down the Export-Import Bank in FY 83). Generally, we don't want to make a big deal of this, but it is one of the reasons for the Gramm-Latta amendment (i.e. to replace phony savings with real).
- C. The Committee Reconciliation Bills have two grave short-comings, and these are the focus of the Gramm-Latta amendment:
 - ° serious shortfall in automatic (entitlement) program savings
 - ° nearly a total rejection of the President's block grant proposals.
- D. The Gramm-Latta amendment is not designed to over-turn the vast bulk of Committee work or to dictate every jot and tittle as has been charged by the Democrats. Its purpose is to correct the above glaring omissions and defects -- corrections which are essential to the success of the President's overall Economic Recovery Program.

II. Entitlement Savings Shortfall

- A. The explosive growth of automatic spending programs is the single biggest threat to budget control and elimination of deficits:

<u>Fiscal Year</u>	<u>Entitlement Spending (billions)</u>
1955	\$14.3
1970	62.5
1980	266.8
1984	406.1

The staggering FY 84 spending total will occur automatically unless the President's proposals to re-target benefits and eliminate waste, fraud and abuse are implemented. The above figures cover everything from Food Stamps to Medicaid, Black Lung, AFDC, Veterans and Social Security.

- B. Examples of specific entitlement programs that are out of control:

- Food stamp expenditures have grown from \$550 million in 1970 to \$11 billion today -- 2,000%
- Housing subsidies have increased 10-fold, from \$400 million to over \$5 billion in one decade
- Medicaid expenditures (Federal/State) have grown from \$5.2 to \$25 billion in 10 years.

- C. The President's budget and Gramm-Latta Resolution called for revision of more than a dozen entitlement programs at a savings of \$46 billion for FY 82-84. The House Committee bill saves only \$29 billion, a \$17 billion shortfall. By contrast, the Senate entitlement savings of \$49 billion exceed the Reconciliation Instructions.

- D. The Gramm-Latta amendment focuses on nine specific entitlement program reforms where the House Committees have substantially diluted the reforms called for by the Gramm-Latta Resolution. These programs are:

- AFDC
- Medicaid
- Social Security student and minimum benefits
- food stamps
- subsidized housing
- shift to once/year COLAs for Federal retirees
- school lunch program
- guaranteed student loans

The original Gramm-Latta resolution approved by the House called for savings of \$32.7 billion over the next three years. In these nine specific programs the House Committees came up with only \$11.1 -- nearly \$22 billion short.

	<u>FY 82</u>	<u>83</u>	<u>84</u>	<u>Total</u> <u>FY 82-84</u>
Gramm-Latta instructions	\$8.1	11.0	13.6	\$32.7
Actual Committees savings	2.8	3.7	4.6	11.1
Percent of the job done	34%	33%	34%	34%

The Gramm-Latta amendment now pending would recover most of these lost savings (\$19 billion) by faithfully implementing the original resolution and the President's reform program.

If the amendment does not pass, substantial budget over-runs will occur next year and FY 84 balanced budget will be seriously jeopardized.

III. Block Grants

- A. The House Committee bills rejected wholesale the President's plan to consolidate 88 categorial grants into a half dozen block grants. This proposed reform would reduce Federal over-head and bureaucracy as follows:

pages of Law.....	613
pages of regulation.....	1,539
Federal bureaucrats to write regulations and read applications.....	4,000
number of separege grants.....	10,435
number of grant sites and local agencies managed from Washington	88,624
number of local manhours to fill out Federal forms.....	7,576,255

- B. Gramm-Latta amendment would include slightly modified versions of original block grants for:

health
education
low income energy aid
social services
community development
(descriptions attached)

- C. Block Grants would reduce Federal spending by \$12.2 billion over the next three years, while permitting the remaining dollars to be stretched further through elimination of Federal overhead.
- D. Theme on Block Grants: It is unfair to cut the funds without removing the strings.


Block GrantsHealth Block Grants

These proposals would consolidate 25 categorical health programs into three block grants to States -- for Health Services (11 programs), Preventive Health (7 programs), and Maternal and Child Health (7 programs). The block grants are similar to the Administration's original proposals but accommodate the program configurations and funding levels in the minority substitute to the Energy and Commerce Committee bill. They are critical to accomplishing the President's goal of restoring a more appropriate balance among the levels of government and encouraging more effective and efficient use of health resources for the benefit of the Nation's citizens.

The health block grants would serve the same program purposes as the existing categorical programs but would allow States to coordinate health care services and improve continuity of care for their residents. Duplicative and low priority programs could be eliminated, while gaps in needed services could be filled. State elected officials with the advice of their constituents, would be free to target funds to programs which would best deal with the preventive health and health services problems in the State.

Enactment of the health block grants will streamline program administration by eliminating Federal requirements now imposed on grantees which encompass more than 200 pages of Federal law and 200 pages of Federal regulation, as well as more than 350,000 manhours for completion of required reports. At the Federal level, the approximately 1,600 employees now required to oversee the categorical programs will be reduced to fewer than 100.

Health Services (\$882 million)	Preventive Health (\$216 million)	Maternal and Child Health (\$393 million)
Primary Care Centers Primary Care R&D Black Lung Services Home Health Migrant Health Emergency Medical Services Mental Health Services Drug Abuse Project Grants Alcoholism Project Grants Alcoholism Formula Grants	Hypertension Health Incentive Grants Health Education/Risk Reduction Fluoridation Rat Control Family Planning Adolescent Health	Maternal and Child Health SSI for Disabled Children Hemophilia Sudden Infant Death Syndrome Lead-Based Paint Genetic Diseases Developmental Disabilities

Gramm-Latta Amendment

Social Services Block Grant

This proposal would consolidate eight current Federal grant programs into a single flexible source of funds for States, allowing them to better meet the priority service needs of their residents. Under the proposal, funding for the following programs would be consolidated within the framework originally proposed by the Administration: Title XX Social Services, Training and Day Care; Child Welfare Training and Social Services; Runaway Youth; Child Abuse; and the Community Services Administration. Unlike the original Administration proposal, Adoption Assistance and Foster Care programs would not be consolidated and Rehabilitation Services and Developmental Disabilities programs would be treated in other block grants.

Funding for the block grants would be set at \$2,868 billion, approximately 78 percent of the 1981 level for the programs being consolidated. Block grant funds could be used to serve all of the purposes of the programs being consolidated, including the provision of legal assistance to the poor. The extensive maze of categorical program requirements would be replaced by two State-designed financial reports and biennial State audits. A strong non-discrimination provision and the requirement for citizen participation in planning for use of the block grant funds would ensure their equitable distribution by State elected officials. By eliminating unnecessary, resource consuming Federal administrative requirements and barriers to program efficiency, the proposal would provide a total of \$3.8 billion in budget savings over the next three fiscal years without reducing services to those who need them most.

Home Energy Assistance Block Grant

This proposal is substantially the same as the Administration's original proposal for an energy and emergency assistance block grant with two changes. The small emergency assistance program, which comprised less than three percent of the total funding proposed for the block grant, is not included in the program. In addition, funding for home energy assistance is maintained at about the FY 1981 level rather than being reduced.

Under the proposal, arbitrary operating constraints on home energy assistance now in current law would be eliminated. States would have the flexibility to design their own recipient eligibility criteria, ensuring that assistance is focused on those most in need. Use of block grant funds for low-cost weatherization would be authorized, allowing States to provide cost effective alternatives to direct energy assistance where indicated. In addition, States would be allowed to carry over funds allotted to them in a fiscal year to the next fiscal year, rather than returning unused funds to the Federal Government. This change would remove an incentive for wasteful expenditures in current law and provide States with an increased capacity to respond to energy emergencies.

Funding for the home energy assistance block grant would be set at \$1.875 billion. States would receive block grant funds in proportion to the funds they received in 1981 under the Low-Income Energy Assistance program. While the proposal would not result in budgetary savings over 1981 levels, it would result in funds being more efficiently and effectively used.

Education Block Grants

These proposals generally parallel the Administration's original education block grant proposals. They would consolidate 34 separate elementary and secondary education programs into two block grants to the States, reducing Federal regulation and control of State and local education programs to more appropriately reflect the Federal Government's role in education.

Title I would streamline and consolidate programs for disadvantaged children and children in schools undergoing desegregation. It also would consolidate funding for programs which would provide States resources to meet the educational needs of children in State institutions and migratory children. Handicapped Act programs, originally proposed for inclusion in this Title, would not be consolidated so that programs for the disadvantaged and the handicapped would not have to compete with each other for funds. Adult and Career Education Act programs also would be excluded from the consolidation so they could be more closely coordinated with future employment and training initiatives.

As in the Administration's original proposal, States would be required to pass through 87 percent of Title I funds to local education agencies (LEAs). Because the substitute provides an increase of \$231 million over the Administration's bill, all of which would be subject to the passthrough requirement, LEAs would receive funds in addition to those initially contemplated.

Title II would provide financial assistance to States for improvement of school resources and performance by consolidating 26 small categorical programs, 17 of which currently are funded at less than 10 million dollars each. States could use these funds for purposes and activities authorized under the current categorical programs, meeting priority needs either directly or through contracts with LEAs and other public and private agencies.

Complex and confusing requirements, which have placed a heavy administrative burden on States and LEAs and often resulted in practices counterproductive to educational achievement, would be eliminated under the block grants. They would be replaced by planning and reporting requirements that (1) insure block grant funds are used in accordance with law and (2) are flexible enough so that States and their citizens will view and use them as useful tools rather than as mere paperwork requirements. Maintenance of effort at 90 percent of the average of the three preceeding fiscal years would be required.

Title I: Financial Assistance to Meet Special Educational Needs:

- Grants for Disadvantaged
 - Basic Grants to Local Educational Agencies
 - Concentration Grants
 - State Agency Migrant Grants
 - State Agency Handicapped Grants
 - State Agency Neglected and Delinquent Grants
- Emergency School Aid
 - Basic Grants to Local Educational Agencies
 - Special Programs and Projects
 - Magnet Schools, Pairing, and Neutral Site Schools

Budget Authority (in millions of dollars):

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
3,168	3,314	3,468	3,630	3,800

Title II: Financial Assistance for Improvement of School Resources and Performance:

- Grants for Disadvantaged
 - State Administration
 - Technical Assistance Centers
- Improving Local Educational Practice
- Strengthening State Educational Agency Management
- Emergency School Aid
 - Special Programs and Projects
 - Grants to Nonprofit Organizations
 - Educational Television and Radio
- Training and Advisory Services
- Women's Educational Equity
- School Libraries and Instructional Resources
- Community Schools
- Consumer's Education
- Law-related Education
- Basic Skills
 - State Grant Programs
 - Discretionary Grant Programs
- Follow-Through (Local Educational Agency Service Projects and Sponsors)
- Gifted and Talented (State Administered Grants, Statewide Activities and Model Projects)
- Alcohol and Drug Abuse Education
- Arts in Education
- Metric Education
- Ethnic Heritage Studies
- Cities in Schools
- PUSH for Excellence
- Teacher Corps
- Teacher Centers
- Pre-college Science Teacher Training

Budget Authority (in millions of dollars):

<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
475	499	524	550	578

Gramm-Latta Amendment

Title I - Community Planning and Development

The current House Banking Committee proposal basically maintains the status quo, largely ignoring the recommendations of the Administration and those contained in the Gramm-Latta Amendments. The House Banking Committee proposal would continue the current Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) programs without making States an active partner in their own community and economic development programs, without simplifying application requirements, without changing the entitlement/nonentitlement split to 70/30 to more closely approximate community and economic development need, without expanding eligible activities so as to increase the flexibility of CDBG funds, and without deauthorizing categorical programs which duplicate the CDBG program.

The Gramm-Latta Amendments, on the other hand, would combine the CDBG and UDAG programs beginning in 1982. This consolidated program, to be funded at \$4,166 million, would incorporate the best features of both programs. It would significantly reduce Federal intervention in local decision-making and unnecessary Federal requirements, as it increases local and State flexibility to design and carry out their own community and economic development programs.

More specifically, the amendments would:

- continue entitlement grants to our Nation's urban cities and counties (entitlement recipients);
- begin a State Community and Economic Development block grant program for assistance to small communities and rural areas (nonentitlement recipients);
- institute a 70/30 split of CDBG funds (excluding funds for Section 107) between entitlement and nonentitlement areas;
- expand eligible activities to include the provision of assistance to private, for-profit entities in conjunction with an economic development program;
- reduce application requirements; and
- deauthorize the Rehabilitation Loan Fund, the Planning Assistance program, Neighborhood Self-Help Development program, and DOE's Low-Income Weatherization program, all of which can be assumed by the CDBG program.

HHS NEWS

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

ALL CONTENTS STRICTLY EMBARGOED

UNTIL: 10:30 A.M., EDT

Tuesday, May 12, 1981

Contact: Laura Genero--(202) 245-6343 (OS)
Jim Brown --(202) 472-3060 (SSA)

Statement of HHS Secretary Richard S. Schweiker

I am today announcing social security reform proposals which will keep the system from going broke, protect the basic benefit structure, and reduce the tax burden of American workers.

---We will stand by the traditional retirement age of 65; we will not raise it.

---We will not propose raising social security taxes for the 114 million working men and women now contributing to the system. In fact we propose future tax reductions.

---We will phase out the retirement earnings test, thus ending the penalty now in law which discourages senior citizens from remaining in the labor force to supplement their social security income.

---These proposals do not remove from the rolls, or cut benefits for, those currently receiving benefits.

Restoring social security to financial health and high public confidence will stay at the top of my agenda until legislation is enacted to turn the system away from bankruptcy and toward long term solvency.

The crisis is inescapable. It is here. It is now. It is serious. And it must be faced. Today we move to face it head-on and solve it. If we do nothing, the system would go broke as early as Fall, 1982, breaking faith with the 36 million Americans depending on social security.

Our package consists of major changes to restore equity to social security benefits and to restrain the growth of non-retirement portions of the program which are out of control.

Some of the changes will be difficult. But as things now stand, without changes, the social security trust fund deficit could climb as high as \$111 billion in the next five years and have a long-term deficit of 1.52% of total payroll over the next 75 years.

To turn this around, our amendments would address the major causes of the social security crisis facing us today:

---We must reduce the welfare oriented elements which duplicate other programs and which have been introduced over the years into the social security system;

(More)

---We must relate disability insurance more closely to a worker's earnings history and medical condition;

---We must reduce the opportunity for "windfall" benefits which now can mean higher monthly benefit checks to a short-term double-dipper worker than to a low-wage earner who has spent a lifetime contributing to the system;

---We must do more to encourage workers to stay on the job until the traditional social security retirement age of 65;

---We must restrain the benefit growth rate for future retirees by altering temporarily the initial benefit formula computation which takes into account the prior overindexing in the system.

The sole impact today's proposals would have on the 36 million beneficiaries now on the rolls would be a three-month delay in the automatic cost-of-living increase scheduled for July, 1982. This change would end the anomaly of social security, the largest single federal program, still operating on the pre-1976 fiscal year calendar.

If these proposals are enacted, we will not only put social security back on sound financial ground indefinitely, but also we will be able to significantly lessen the taxes of those currently supporting the system.

We will be able to reduce the social security tax rate increase now scheduled for 1985, and to actually decrease social security tax rates by 1990 below what they are today.

This means that the young person entering the labor force next year would pay an average of \$33,600 less in social security taxes over his/her lifetime, a reduction of over 10%.

This Administration is acting now to solve both the short-term and long-range financing crisis with steps that will at once ensure the system's fiscal integrity and redirect social security to its original purpose as a stable base around which working men and women can plan for their retirement years.

It is vital that we make these hard choices---and make them now. We cannot postpone any longer the day of reckoning for social security.

HHS FACT SHEET

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

ALL CONTENTS STRICTLY EMBARGOED

UNTIL: 10:30 A.M., EDT

Tuesday, May 12, 1981

PROVISIONS OF THE SOCIAL SECURITY PROPOSAL

I. CHANGES TO ENCOURAGE WORK BETWEEN 62-65

--Change Benefit Computation Point from Age 62 to 65

The benefit formula treats early retirement the same as waiting until age 65. After 65, there is an annual incentive to continue working. Early retirees at 62 get 80% of what they would get at 65.

Proposal would discourage early retirement by assigning zero value to the age 62-64 period, thus reducing benefits in such cases while rewarding those who elect to work until age 65. This returns the program to the formula used before the age of retirement for women was lowered to 62 in 1956.

--Reduce Benefits for Early Retirement

Workers electing early retirement at 62 now receive benefits equal to 80 percent of what they would receive if they delayed retirement to age 65.

Proposal would reduce early retirement benefits to 55 percent of the maximum, thus strongly encouraging workers to remain in the work force until age 65.

II. CHANGE TO REDUCE OPPORTUNITY FOR "WINDFALL" BENEFITS

--Eliminate "Windfall" Benefits for Non-Covered Employment

The benefit formula now makes it possible for a person, such as a retired Federal employee, who enters Social Security-covered employment for only a few years to receive disproportionately high benefits, in some cases exceeding those paid to low-wage earners who have spent a lifetime in covered employment.

Proposal would have formula take pension resources from non-covered employment into account in such cases, thus sharply lowering the Social Security benefit in such cases.

III. CHANGES TO RELATE DISABILITY INSURANCE CLOSER TO WORK HISTORY AND MEDICAL CONDITION

--Require "Medical Only" Determination of Disability

Workers can now qualify for disability benefits on combinations of medical and non-medical factors, such as age, education and work experience. More than one-third of disability cases age 60 to 65 involve non-medical factors

Proposal would limit qualification to medical factors alone, thus restoring program to original purposes.

--Increase Waiting Period to Six Months

Under a 1972 liberalization of the program, the waiting period for disability benefits was reduced from six to five months on the assumption that ample funds would be available.

Proposal would restore the six-month waiting period previously in law. This conforms to the terms of most private disability insurance programs.

--Require Prognosis of 24-Plus Months of Disability

Workers now seeking disability benefits must show only that disability claimed will exceed 12 months or will result in death. The 12-month test, enacted in 1965, replaced a test of "long-continued and indefinite duration" in prior law.

Proposal would restore the original intent of the law, requiring that the prognosis of disability be of long duration, at least 24 months, a more reasonable definition of disability.

--Increase Requirement for Insured Status to 30 Quarters

Workers may now qualify for disability benefits even if they have been in the work force only 20 out of the past 40 quarters. Therefore a person could be out of covered employment for 5 years and still qualify.

Proposal would set the minimum at 30 out of the past 40 quarters, thus more closely tying benefits to the principle that they are replacement for wages recently lost.

IV. CHANGES TO REDUCE WELFARE ELEMENTS

--Eliminate Children's Benefits in Early-Retirement Cases

Children under 18 or under 22 if in school are now eligible for benefits on the basis of a retired parent's wage record. Thus a retiree with a child receives a dependent's benefit, whereas a retiree with no children gets only his own benefit.

Proposal would end this inequity in early-retirement cases and thus encourage the worker to continue work until 65.

--Extend Disability Maximum Family Benefit to Retirement and Survivors Cases

Benefits for families of retired and deceased workers can now actually exceed that worker's net take-home pay.

Proposal would extend the maximum limitation on benefits to families in disability cases enacted in 1980 to retirement and survivor cases. This would return the program closer to its original purpose as a "floor" of protection.

V. OTHER AMENDMENTS FOR SHORT-TERM

--Increase Bend Points by 50% Instead of 100% of Wage Increases For 1982-87

In 1977, the "bend points" (dollar amounts referred to in the weighted benefit formula) were made subject to automatic wage indexing. This change was adopted in legislation intended in part to offset the cost impact of earlier legislation and the faulty benefit computation procedure adopted in the 1972 amendments. However, benefit levels today remain disproportionately high (by about 10 percent) compared with the pre-1972 levels.

Proposal would restore the traditional relative benefit levels for future beneficiaries by increasing the "bend points" by 50% (instead of 100%) of increases in average wage earnings for the years 1982-87, after which the 100% factor would be restored to the formula.

--Move Date for Automatic Benefit Increases from June to September and Use 12-Month CPI Average

Under the 1972 amendments (as modified in 1974), annual Social Security benefit increases have been automatic each June (payable beginning in July). The increase is based on changes in the Consumer Price Index as measured between the first quarter of the current calendar year and the corresponding quarter of the preceding year, a provision which can unduly inflate or deflate the increase, depending on economic conditions in those quarters.

Proposal would correct the anomaly of having benefit increases initiated on the pre-1976 Federal Fiscal Year basis and change the CPI computation to cover a full year (July-June) period, thus making the measurement a more accurate reflection of economic trends and measuring living costs in a period ending closer to the initiation of benefit increases.

VI. CHANGE IN COVERAGE

--Extend Coverage to First Six Months of Sick Pay

Most sick pay is not taxed due to complex exclusion which forces employers to track sick pay on daily, even hourly basis, and leads some to unwittingly break the law.

Proposal would extend tax to all sick pay during first six months of an employee's illness. This would eliminate the administrative burden and would treat sick pay in the same way as vacation pay.

VII. PHASE OUT RETIREMENT EARNINGS TEST BY 1986

Under current law, 1981 Social Security benefits payable to persons aged 65 through 71 are reduced by \$1 for each \$2 of annual earnings in excess of \$5,500, a level which rises each year in relation to average wage earnings. However, benefits are not reduced for those aged 72 and over (70 and over beginning in 1982).

Proposal would phase out the retirement test over a three-year period, permitting \$10,000 in earnings in 1983, \$15,000 in 1984, \$20,000 in 1985 and unlimited earnings thereafter.

VIII. REDUCE LONG-RANGE SOCIAL SECURITY TAXES

Assuming enactment of these proposals, and those introduced in the Administration's Budget proposals, it will be possible to lessen the Social Security tax increase now scheduled for 1985 and to actually decrease Social Security taxes below the current level in 1990. (See chart below). Note that while an increase will again become necessary in 2020 due to the aging of the population, the rate will still be lower than the 1990-and-after rate scheduled under current law.

SOCIAL SECURITY TAX RATES UNDER PROPOSAL

<u>PERIOD</u>	<u>PRESENT LAW</u>	<u>PROPOSAL</u>	
		<u>UNDER BUDGET ASSUMPTIONS</u>	<u>UNDER WORST-CASE ASSUMPTIONS</u>
TAX SCHEDULE			
1981	6.65%	6.65%	6.65%
1982-84	6.70	6.60	6.70
1985	7.05	6.45	6.95
1986-89	7.15	6.45	7.05
1990-2019	7.65	6.45	6.45
2020 AND AFTER	7.65	7.55	7.55

ESTIMATED SHORT-RANGE EFFECT OF PROPOSAL AS COMPARED WITH PRESENT LAW,
FUND RATIOS AT START OF YEAR a/

Calendar Year	Expected Economic Conditions		Worst-Case Economic Conditions	
	Present Law	Proposal	Present Law	Proposal
1981	23%	23%	23%	23%
1982	21	22	21	22
1983	18	23	16	22
1984	16	25	6 <u>b/</u>	19
1985	14	28	<u>c/</u>	17
1986	16	30	<u>c/</u>	18
1987	22	35 <u>d/</u>	<u>c/</u>	21 <u>e/</u>

- a/ Balance in combined Old-Age and Survivors Insurance Trust Fund, Disability Insurance Trust Fund, and Hospital Insurance Trust Fund at beginning of year as percentage of outgo from trust funds in coming year (i.e., assumes availability of inter-fund borrowing).
- b/ Funds have insufficient balance to pay monthly benefits (actually, this situation would occur several months earlier).
- c/ Funds exhausted.
- d/ By 1990, the fund ratio would be about 50%.
- e/ By 1990, the fund ratio would be about 30%, and by 1995 it would be about 50%.

YEAR-BY-YEAR COST ANALYSIS OF PROPOSAL

(In billions)

Calendar Year	Proposal	
	Under Expected Economic Assumptions	Under Worst-Case Economic Assumptions
1981	\$.9	\$.9
1982	9.1	11.3
1983	11.8	16.2
1984	15.7	21.7
1985	20.5	28.1
1986	23.9	33.6
1981-86	81.9	111.8

COST ANALYSIS OF EFFECT OF VARIOUS SOCIAL SECURITY OPTIONS

(Positive numbers indicate savings; negative numbers indicate added costs or amounts needed to meet cost of present program)

Item	Short-Range Effect CY 1982-86 <u>a/</u>	Long-Range Effect <u>b/</u>
Status of Present System, Deficit	-\$11.0(-110.8)	-1.52(100)
Effect of Budget Proposal	35.5(36.8)	.20 (15)
Status of Program After Budget Proposals Enacted	(-74.0)	-1.32 (87)
Proposal		
(1) Cover Sick Pay in First 6 Months	2.6(2.6)	.02 (1)
(2) Change Computation Points for Average Indexed Monthly Earnings from Age 62 to Age 65	1.3(1.4)	.39 (26)
(3) Increase Bend Points in Primary Benefit Formula by 50% (instead of 100%) of Wage Increases, 1982-87	4.2(4.7)	1.30 (86)
(4) Benefit Rate of 55% of Primary Benefit for Retired Workers (and 27 1/2% for Spouses) at Age 62	17.6(20.3)	.85 (56)
(5) Eliminate Benefits for Children of Retired Workers Aged 62-64	1.9(2.0)	.02 (1)
(6) Disability Maximum Family Benefit Applicable to Survivor and Retirement Cases	2.9(3.3)	.10 (7)
(7) Eliminate Windfall Portion of Benefits for Persons with Pensions from Non-Covered Employment	.6(.6)	.10 (7)
(8) Require "Medical Only" Determination of Disability (i.e., exclude vocational factors)	7.7(9.0)	.06 (4)
(9) Increase Disability Waiting Period from 5 Months to 6 Months	1.4(1.5)	.03 (2)
(10) Require Disability Prognosis of 24+ Months Duration (instead of 12+ months)	2.8(3.4)	.07 (5)
(11) Require 30 QC Out of Last 40 Quarters for Disability Benefits (instead of 20/40)	10.0(11.5)	.21 (14)
(12) Move Date for Automatic Benefit Increases from June to September (and Use 12-Month Average)	6.3(27.8)	.14 (9)
(13) Raise Retirement-Test Exemption for Age 65+ to \$10,000 in 1983, \$15,000 in 1984, \$20,000 in 1985, and Eliminate Test in 1986	-6.5(-7.4)	-.14 (-9)
TOTAL EFFECT	46.4(75.0) <u>d/</u>	2.86 (188)

In billions. Figures in parentheses are based on "worst case" assumptions; other figures are based on the expected economic assumptions (those in the President's Budget). Average-cost over 75-year period, in percentage of taxable payroll. Figure in parentheses is long-range effect of this item as percentage of actuarial deficiency of present program. Amount necessary to restore financial soundness of program over the long range.

Including effect of additional net income to Hospital Insurance program.

ILLUSTRATIVE BENEFITS FOR WORKERS RETIRING AT AGES 62 AND 65
UNDER PROPOSAL AND UNDER PRESENT LAW a/

<u>Earnings Category b/</u>	<u>Present Law</u>	<u>Proposal</u>
Age 62 at Retirement in 1/82		
Low	\$247.60	\$163.90
Average	372.80	246.80
Maximum	469.60	310.50
Age 65 at Retirement in 1/82		
Low	\$355.30	\$355.30
Average	535.40	535.40
Maximum	679.30	679.30
Age 62 at Retirement in 1/87		
Low	\$384.40	\$225.20
Average	580.70	348.30
Maximum	755.60	430.90
Age 65 at Retirement in 1/87		
Low	\$477.10	\$447.40
Average	719.00	691.90
Maximum	942.80	860.30

- a/ Includes effect of (1) 55% benefit rate (instead of 80%) for retirement at age 62, (2) age-65 computation point (instead of age 62) for all ages at retirement, and (3) increasing bend points in primary-benefit formula by 50% (instead of 100%) of wage increases in 1982-87. Benefit amounts are for worker only. Worker is assumed to reach exact age shown in January.
- b/ "Low earnings" are defined as the Federal Minimum Wage in each past year, and the 1981 Minimum increased by the change in average wages in future years. "Average earnings" are defined as the average wage for indexing purposes in each year. "Maximum earnings" denote the contribution and benefit base in each year.

Assumptions:

- (1) Worker entered covered employment in 1956 and worked steadily thereafter.
- (2) Future earnings (for retirement in 1/87) follow trend under intermediate assumptions in 1980 Trustees Report.

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(More)

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#

from March 1981 Employment & Earnings

5096

ESTABLISHMENT DATA HISTORICAL HOURS AND EARNINGS

C-1. Gross hours and earnings of production or nonsupervisory workers¹
on private nonagricultural payrolls by industry division, 1960 to date

Year and month	Average												
	Weekly earnings	Weekly hours	Hourly earnings	Weekly earnings	Weekly hours	Hourly earnings	Weekly earnings	Weekly hours	Hourly earnings	Weekly earnings	Weekly hours	Hourly earnings	Hourly earnings excl. overtime
	Total private ¹			Mining			Construction			Manufacturing			
1960.....	\$80.67	38.6	\$2.09	\$105.04	40.4	\$2.60	\$112.67	36.7	\$3.07	\$89.72	39.7	\$2.26	\$2.19
1961.....	82.60	38.6	2.14	106.92	40.5	2.64	118.08	36.9	3.20	92.34	39.8	2.32	2.25
1962.....	85.91	38.7	2.22	110.70	41.0	2.70	122.47	37.0	3.31	96.56	40.4	2.39	2.31
1963.....	88.46	38.8	2.28	114.40	41.6	2.75	127.19	37.3	3.41	99.23	40.5	2.45	2.37
1964.....	91.33	38.7	2.36	117.74	41.9	2.81	132.06	37.2	3.55	102.97	40.7	2.53	2.43
1965.....	95.45	38.8	2.46	123.52	42.3	2.92	138.38	37.4	3.70	107.53	41.2	2.61	2.50
1966.....	98.82	38.6	2.56	130.24	42.7	3.05	146.26	37.6	3.89	112.19	41.4	2.71	2.59
1967.....	101.84	38.0	2.68	135.89	42.6	3.19	154.95	37.7	4.11	114.49	40.6	2.82	2.71
1968.....	107.73	37.8	2.85	142.71	42.6	3.35	164.49	37.3	4.41	122.51	40.7	3.01	2.88
1969.....	114.61	37.7	3.04	154.80	43.0	3.60	181.54	37.9	4.79	129.51	40.6	3.19	3.05
1970.....	119.83	37.1	3.23	164.40	42.7	3.85	195.45	37.3	5.24	133.33	39.8	3.35	3.23
1971.....	127.31	36.9	3.45	172.14	42.4	4.06	211.67	37.2	5.69	142.44	39.9	3.57	3.45
1972.....	136.90	37.0	3.70	189.14	42.6	4.44	221.19	36.5	6.06	154.71	40.5	3.82	3.66
1973.....	145.39	36.9	3.94	201.40	42.4	4.75	235.89	36.8	6.41	166.46	40.7	4.09	3.91
1974.....	154.76	36.5	4.24	219.14	41.9	5.23	249.25	36.6	6.81	176.80	40.0	4.42	4.25
1975.....	163.53	36.1	4.53	249.31	41.9	5.95	266.08	36.4	7.31	190.79	39.5	4.83	4.67
1976.....	175.45	36.1	4.86	273.90	42.4	6.46	283.73	36.8	7.71	209.32	40.1	5.22	5.02
1977.....	189.00	36.0	5.25	301.20	43.4	6.94	295.65	36.5	8.10	228.90	40.3	5.68	5.44
1978.....	203.70	35.8	5.69	332.88	43.4	7.67	318.69	36.8	8.66	249.27	40.4	6.17	5.91
1979.....	219.30	35.6	6.16	365.50	43.0	8.50	342.99	37.0	9.27	268.94	40.2	6.69	6.43
1980.....	235.10	35.3	6.66	396.58	43.2	9.18	367.78	37.0	9.94	288.62	39.7	7.27	7.02
1980:													
FEB.....	226.75	35.1	6.46	384.48	43.2	8.90	343.08	35.7	9.61	278.60	39.8	7.00	6.75
MAR.....	229.15	35.2	6.51	388.43	43.4	8.95	350.42	36.2	9.68	280.99	39.8	7.06	6.81
APR.....	228.55	35.0	6.53	389.48	42.8	9.10	355.62	36.7	9.69	279.35	39.4	7.09	6.85
MAY.....	229.95	35.0	6.57	387.72	42.7	9.08	360.51	36.9	9.77	280.21	39.3	7.13	6.91
JUN.....	233.33	35.3	6.61	395.71	43.2	9.16	371.80	37.9	9.81	283.68	39.4	7.20	6.98
JUL.....	234.39	35.3	6.64	380.45	41.9	9.08	373.61	37.7	9.91	282.85	38.8	7.29	7.07
AUG.....	237.14	35.5	6.68	395.66	43.1	9.18	374.87	37.3	10.05	286.89	39.3	7.30	7.05
SEPT.....	240.04	35.3	6.80	405.42	43.5	9.32	386.20	37.9	10.19	294.57	39.7	7.42	7.16
OCT.....	242.16	35.3	6.86	407.60	43.5	9.37	388.48	37.9	10.25	298.10	39.8	7.49	7.23
NOV.....	244.63	35.3	6.93	413.69	43.5	9.51	377.20	36.8	10.25	305.12	40.2	7.59	7.32
DEC.....	247.06	35.6	6.94	422.48	44.1	9.58	383.99	37.1	10.35	313.75	40.8	7.69	7.40
1981:													
JAN. P ..	246.05	35.0	7.03	427.39	43.7	9.78	378.25	36.3	10.42	308.03	39.9	7.72	7.45
FEB. P ..	245.70	34.9	7.04	421.15	42.8	9.84	357.76	34.6	10.34	304.94	39.5	7.72	7.46
	Transportation and public utilities			Wholesale and retail trade			Finance, insurance, and real estate			Services			
1960.....	-	-	-	\$66.01	38.6	\$1.71	\$75.14	37.2	\$2.02	-	-	-	-
1961.....	-	-	-	67.41	38.3	1.76	77.12	36.9	2.09	-	-	-	-
1962.....	-	-	-	69.91	38.2	1.83	80.94	37.3	2.17	-	-	-	-
1963.....	-	-	-	72.01	38.1	1.89	84.38	37.5	2.25	-	-	-	-
1964.....	\$118.78	41.1	\$2.89	74.66	37.9	1.97	85.79	37.3	2.30	\$70.03	36.1	\$1.94	-
1965.....	125.14	41.3	3.03	76.91	37.7	2.04	88.91	37.2	2.39	73.60	35.9	2.05	-
1966.....	128.13	41.2	3.11	79.39	37.1	2.14	92.13	37.3	2.47	77.04	35.5	2.17	-
1967.....	130.82	40.5	3.23	82.35	36.6	2.25	95.72	37.1	2.58	80.38	35.1	2.29	-
1968.....	138.85	40.6	3.42	87.00	36.1	2.41	101.75	37.0	2.75	83.97	34.7	2.42	-
1969.....	147.74	40.7	3.63	91.39	35.7	2.56	108.70	37.1	2.93	90.57	34.7	2.61	-
1970.....	155.93	40.5	3.85	96.02	35.3	2.72	112.67	36.7	3.07	96.66	34.4	2.81	-
1971.....	168.82	40.1	4.21	101.09	35.1	2.88	117.85	36.6	3.22	103.06	33.9	3.04	-
1972.....	187.66	40.4	4.65	106.45	34.9	3.05	122.98	36.6	3.36	110.85	33.9	3.27	-
1973.....	203.31	40.5	5.02	111.76	34.6	3.23	129.20	36.6	3.53	117.29	33.8	3.47	-
1974.....	217.48	40.2	5.41	119.02	34.2	3.48	137.61	36.5	3.77	126.00	33.6	3.75	-
1975.....	233.44	39.7	5.88	126.45	33.9	3.73	148.19	36.5	4.06	134.67	33.5	4.02	-
1976.....	256.71	39.8	6.45	133.79	33.7	3.97	155.43	36.4	4.27	143.52	33.3	4.31	-
1977.....	278.90	39.9	6.99	142.52	33.3	4.28	165.26	36.4	4.54	153.45	33.0	4.65	-
1978.....	302.80	40.0	7.57	153.64	32.9	4.67	178.00	36.4	4.89	163.67	32.8	4.99	-
1979.....	325.98	39.9	8.17	164.96	32.6	5.06	190.77	36.2	5.27	175.27	32.7	5.36	-
1980.....	352.04	39.6	8.89	175.91	32.1	5.48	209.24	36.2	5.78	190.71	32.6	5.85	-
1980:													
FEB.....	338.05	39.4	8.58	170.98	31.9	5.36	203.28	36.3	5.60	185.25	32.5	5.70	-
MAR.....	340.49	39.5	8.62	172.80	32.0	5.40	206.18	36.3	5.68	186.88	32.5	5.75	-
APR.....	344.05	39.5	8.71	171.72	31.8	5.40	205.62	36.2	5.68	186.30	32.4	5.75	-
MAY.....	342.70	39.3	8.72	172.90	31.9	5.42	205.77	36.1	5.70	187.02	32.3	5.79	-
JUN.....	346.50	39.6	8.75	175.39	32.3	5.43	210.03	36.4	5.77	190.57	32.8	5.81	-
JUL.....	355.11	39.9	8.90	178.10	32.5	5.48	208.87	36.2	5.77	191.65	33.1	5.79	-
AUG.....	355.32	39.7	8.95	179.20	32.7	5.48	211.27	36.3	5.82	192.31	33.1	5.81	-
SEPT.....	358.89	39.7	9.04	178.48	32.1	5.56	211.91	36.1	5.87	192.73	32.5	5.93	-
OCT.....	366.16	39.8	9.20	179.44	32.1	5.59	214.53	36.3	5.91	195.60	32.6	6.00	-
NOV.....	368.42	39.7	9.28	180.48	32.0	5.64	218.16	36.3	6.01	198.86	32.6	6.10	-
DEC.....	372.40	40.0	9.31	181.76	32.4	5.61	217.80	36.3	6.00	199.51	32.6	6.12	-
1981:													
JAN. P ..	366.13	39.2	9.34	182.96	31.6	5.79	221.54	36.2	6.12	201.20	32.4	6.21	-
FEB. P ..	369.57	39.4	9.38	184.18	31.7	5.81	226.04	36.4	6.21	203.47	32.4	6.28	-

¹ For coverage of series, see footnote 1, table B-2.

p = preliminary.

NOTE: Data from April 1979 forward are subject to revision when more recent benchmark data are introduced. See "Benchmark adjustments" in the Explanatory notes of this publication.

For: B
From: NJR
7/22/81

THE PRESIDENT'S BIPARTISAN TAX PROGRAM
TALKING POINTS

Tax Cut vs. Tax Increase

- * The fundamental difference between the two proposals is that the President's plan is a real tax cut while the Rostenkowski-O'Neill plan would allow taxes to continue to increase on working people.
- * The full 25 percent tax cut is essential to provide a real tax cut to working people. Tax rate reductions of more than 22 percent are needed merely to offset the tax increases facing the American people. A two-year tax cut of 15 percent is no tax cut at all. We need at least a 25 percent tax cut to provide relief to working people.

Tax Relief for Working People

- * The Democratic leadership's claims that their bill provides more relief to working people is false. While their proposal does provide a few dollars more in the short run (\$22 for a family now earning \$15,000), this temporary tax relief will be wiped out as the higher tax rates called for under their bill siphon off more and more of working peoples' wages.
- * The President's tax program is the only plan which will provide real long-term tax relief for the American people.
- * By 1984, under the Rostenkowski-O'Neill plan, working people in almost every tax bracket will be paying higher taxes than they did in 1980. At virtually every income level, working people will get greater tax relief under the President's program.

The President's Tax Cut is Fair to All

- * The President's tax plan reduces tax rates across-the-board for all taxpayers, giving all Americans the opportunity and incentive to save and invest more.
- * Three-fourths of the tax cut will go to middle-income taxpayers--the ones who now pay most of the taxes. Taxpayers earning between \$10,000 and \$60,000 now pay 72 percent of all taxes and will receive 74 percent of the President's tax cut.
- * The Rostenkowski-O'Neill bill claims to be "skewed" toward the working people. Yet it provides billions of dollars in special tax breaks to a few hundred commodity traders, to selected big industries, and to married couples earning more than \$60,000.

Only the President's Plan Will Restore Economic Growth

- * The President's tax bill has been designed to create a growing economy for all Americans by increasing incentives to work, save, invest, and produce.
- * The higher tax rates called for under the Rostenkowski-O'Neill plan will have a devastating impact on the economy, resulting in less savings and investments, fewer jobs, and lower economic growth.