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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

Date: 1/28/81

To: Ken Khachigian

From: Murray Weidenbaum

This was my rough draft.

Weidenbaum Draft
1-28-81

A NATIONAL ECONOMIC RENEWAL

Two weeks ago in my inaugural address, I spoke to you about the need to embark upon an era of National Renewal. With renewed determination, renewed courage, and renewed strength, the United States will once again be a nation in which no dream is too big, no goal unattainable. Tonight I would like to talk to you about renewing our economic strength and vitality -- a National Economic Renewal.

I would have liked to be able to tell you that the economy is now in excellent health, or at least that there are quick and easy solutions to our economic problems. But, in truth I cannot.

To begin, we all must acknowledge the obvious: the American economy is not performing well. Too many of our people are out of work and all of our citizens are suffering from an inflation of unparalleled intensity.

The basic economic strength of this nation has been drained by rising tax burdens, expanding government spending and a plethora of rules and restrictions that weigh on every business firm, farm, and professional person.

Where Are We Now?

Let me review with you briefly the economic conditions that we have inherited. First of all, inflation -- which averaged 1 percent in the early 1960s -- has risen to over 10 percent at the end of 1980. The costs of this inflation are enormous. Inflation distorts and confuses individual economic decisions. Inflation erodes the purchasing power of those who can least afford it -- the elderly, the poor, the struggling young, and others who must survive on fixed incomes. Inflation reduces the attractiveness of investment in new poductive capital, and discourages saving. Inflation has turned the average consumer into a speculative borrower who buys now hoping to pay later with inflation-cheapened dollars.

Second, we have a tax system which discourages work and personal initiative, inhibits investment, and penalizes successful achievement. The weight of taxation has become unbearable for so many of our people. Inflation has pushed taxpayers into ever-higher brackets, even when their real incomes have not increased at all. The fraction of taxpayers paying more than 25 cents to the Federal Government from each additional dollar they earn has tripled in the last decade.

For businesses, the tax burden has also grown heavier. They are taxed on meaningless inflation-swollen profits. As a result, many businesses have neither the incentive nor the resources available to invest in new productive technologies and expanded facilities. All this contributes to the lower rate of economic growth which we have been experiencing.

Third, despite record-high tax burdens on the American people, the Federal Government is unable to live within its means. Huge budget deficits follow year after year. In the last fiscal year, the deficit was $60 billion, the second highest on record. The budget prepared by the previous Administration for the current fiscal year is in truth about as high. Twenty years ago, the Federal Government took for itself 18½ percent of our national production. Last year, it took 23 percent. And even these numbers understate the total costs the government has imposed. Regulations have proliferated, requiring businsses, schools, hospitals, and many other private institutions to spend enormous amounts to satisfy the commands of Federal agencies far removed from those whom they regulate. The cost of complying with all of these regulations constitutes a hidden tax pushing up the prices that consumers pay for the goods and services that they buy.

Fourth, high interest rates shatter the dreams of millions of Americans -- the dream of home ownership. High interest rates also add to the cost of every business and retard new investment.

Finally, unemployment remains far too high. Last year's recession pushed unemployment rates from about 6 percent to nearly 7½ percent. The human suffering that implies cannot be measured by any statistical report.

It is convenient, of course, to blame these economic failings on factors beyond our control -- world oil price increases, poor harvests, declines in the dollar. But we cannot escape the fact that most of the blame belongs right here in Washington. Since the early 1960s the Federal Government has followed policies based on the hope that we could "fine tune" our way out of inflation and unemployment. The result has been 20 years of stop-and-go -- fighting inflation one year and unemployment the next. whenever inflation became too high, Washington would increase unemployment by raising taxes and interest rates. When unemployment then became too high, Washington would open the budget floodgate and print more money. And each time the government tried to apply the quick economic cure, it found that the patient needed even larger doses of economic medicine.

Now those who have promoted the notion that the government offers the cure for our economic ills have run out of medicine. Inflation, unemployment, interest rates, taxes, and the Federal deficit are all higher than they were just four years ago. All of these problems are the legacy of a bankrupt idea: that the government is the source of our economic well-being. I believe it is time to recognize the error of this view, and to acknowledge that the creativity of individuals and the free exchange of the marketplace is now, and always has been, the source of our Nation's wealth.

We are not only running out of medicine — we are, more to the point, running out of time.

What Must We Do?

There is an urgent need for the American people to embark upon a comprehensive and sustained effort at National Economic Renewal. In the next few days I, and members of my Administration, will be announcing a series of proposals designed to restore the government to its proper role in our economy. These will not be policies to put the economy on stop this month, to be replaced by other policies to put the economy on go the next month. We have suffered from too much tinkering that responds to the ill of the moment. What is needed now are steady, consistent policies which will reduce inflation and unemployment at the same time.

Because our economy has long been fettered, it will not be unchained overnight. Because the promise of government solution has acted like a drug, the addiction may not be overcome instantly or without pain. My program is for the long haul.

My program is based on a very simple principle: if you want less of something you tax it. If you want more of something you reward it. If you want more work and saving, you reward work and saving. If you want more productivity you reward productivity. Unfortunately, the tax and budget policies of the last 20 years have not done this. They have taxed work and productivity and rewarded borrowers instead of savers.

My programs rest on four key points:

1. There must be substantial cuts in personal tax rates made to restore the reward to creativity and the incentive to work and to save and invest. Creativity, innovation, and productivity all stem from the initiatives and risk-taking of individuals. Personal income tax rates should be reduced by 10 percent each year for the next three years. It is essential that our citizens know that less of each additional dollar they make will be taken by the government.

2. For businesses, large and small, we need to liberalize their traditional ability to write off capital investment on their income taxes. Such liberalization will encourage investment in new plant and equipment and provide the capital to support badly needed productivity growth.

3. There must be a very substantial reduction in the growth of government spending. It is time to reduce our dependence on Washington. It is not enough to advocate the broad principle of economy in government. Each of us must support the reduction of wasteful, inefficient, and postponable government spending in our own areas and sectors of the economy. But simultaneously we must provide for a stronger national defense.

4. The burden and intrusiveness of government must be pared in all of its dimensions. We must reform government regulation, eliminating needless and excessively costly rules and requirements. Many of the goals of these activities are laudable. But they need to be achieved in a far more effective and efficient manner. There was a disturbing rush of last-minute regulations

promulgated just prior to my inauguration. We must carefully review these hasty actions to identify which are truly in the public interest. We will act to reduce the burdens of government, but we will never lose sight of the legitimate ends that need to be served.

In addition to these proposals, there is an important role to be served by the independent Federal Reserve System. A keystone of our program to reduce inflation and restore healthy growth in jobs and production is the maintenance of a sound, predictable, and steady monetary policy. I will support the Federal Reserve in doing its vital part to reduce inflation by preventing excessive monetary growth.

Where Are We Headed?

As I stated in my inaugural address, the economic ills we suffer have come upon us over several decades. They will not go away in days, weeks, or even months -- but they will go away. We must now lay the foundation for a future economic system in which people will have more power over their own daily lives.

Because our policies address the long-term, economic problems we now face, there should be no sudden or capricious changing of the economic "rules-of-the-game." Any set of economic policies soundly conceived and smartly implemented must have at their foundations a central theme. Thus, the economic policies of my administration can best be expressed by quoting a 19th-century British philosopher named John Stuart Mill. In his classic book Considerations on Representative Government, Mill stated:

> Let us remember, then, in the first place, that political instituions are the work of men, owe their origin and their whole existence to human will. Men did not wake on a summer morning and find them sprung up. ... Like all things which are made by men, therefore, they may be either well or ill made...

The goal of the economic policies adopted by my administration will be to transform the Federal Government from something ill-made to something well-made; from a menace inhibiting the economic prosperity and individual liberty of Americans, to a stimulant that widens promoting the latitudes of individual choice and the range of economic renewal.

With the policies of National Economic Renewal, we can achieve the economic strength and vitality necessary to provide a future of progress and prosperity and freedom.

The United States will once again become great not so much for what it is, but for the opportunities it affords all of its citizens -- in helping you, my fellow citizens, become all that you can be.

THE WHITE HOUSE

WASHINGTON

February 3, 1981

Memorandum for Ken Khachigian

From: Dave Gergen

Subject: Economic Speech

Here are the beginnings of a different draft, picking up from the early part of the original and carrying through on a different slant. I will show it to a very limited number of others, but let's discuss before it goes much farther. Should be back from lunch/Deaver meeting around 2-2:30.

ADDRESS TO THE NATION -- THURSDAY, FEBRUARY 5, 1981

GOOD EVENING:

Throughout the Presidential election campaign last fall, I came before you in the process of what I called a national conversation. It gave me an opportunity to speak plainly about the difficult problems facing our Nation.

Tonight, for the first time as your President, I am continuing this conversation to share with you my views on the profound economic crisis we face.

Shortly before I took the oath of office, I asked my advisers to prepare a comprehensive look at the American economy. Just as you review your personal finances and prepare your income taxes, I wanted to have a national audit of America's financial condition, as I began my Presidency.

Their preliminary report was presented to me yesterday. Frankly, I found no surprises. You are going to find no surprises. The sum total of what we face is nothing less than the worst economic mess in half a century. Those are blunt words, but we have long since passed the time when we can hide behind lofty economic phrasing.

Tonight, I am going to outline the dimensions of the crisis, how we got here and the direction we are heading. Two weeks from now, I will outline to the Congress of the United States the actions I feel must be taken to rescue us from further damage.

Let us begin with the plain truth. We are not on the road to prosperity. We are on the road to bankruptcy -- not now, not tomorrow, but somewhere over the horizon unless we soon change course.

For two straight years, we have been afflicted with double digit inflation in the United States -- the worst inflationary siege since the First World War.

Over seven million Americans are now out of work -- so many people that if they stood three feet apart from each other, their line would stretch from Maine to California.

Interest rates are now so high that less than one American family in ten can afford a new home.

And some of our most vital industries -- steel, autos, housing -- are almost flat on their backs. Just two days ago, General Motors -- our third biggest company -- reported its first losses in 60 years.

Numbers can hardly describe the anxiety -- and yes, the fear -- that grips millions of Americans tonight.

For many of us who grew up in an age when this nation was a beacon of hope and prosperity around the world, the change in our national condition is bitterly disappointing.

We fondly remember the years after World War II when this country was a cornucopia of abundance.

Our workers outproduced every nation on earth; our scientists and engineers were coming up with new marvels almost every day; our farmers harvested so many bushels of grain and wheat that we literally gave them away to other peoples; our industries made us the showcase of mankind.

Inflation? Yes, there was some -- a percentage point or so a year. Unemployment? Yes, there was some of that, too -- about _ percent a year during the 1950s.

The numbers were small, however, and they hardly seemed to matter because America was enjoying the biggest economic boom that man has ever known. In the 25 years after World War II, the income of the average American family more than doubled. In just 25 years, we increased our take-home pay by more than we had amassed in all the 150 years before that -- combined!

No wonder that for many, those years -- the Truman years, the Eisenhower years, the Kennedy years -- were the golden years.

But times have changed -- and changed radically.

Today, a worker in Germany can turn out a ton of steel in ______ hours; here in America, it takes ___ hours. And people wonder why our steel industry is in trouble.

Today, a worker in Japan can produce a new car in ___ days; here in America, it takes ___ days. And people wonder why our auto industry is in trouble.

"Made in the USA" is no longer a label that opens every door -- even here in our own country.

Over the past 10 years, our record of productivity gains is the worst of any major democracy in the industrialized world; our record of savings and investment is also the worst, and our record of inflation is one of the worst.

Now, why has all this happened to us?

There are those who say that in the natural course of events, the sun rises and sets on every nation. What we are seeing, they tell us, is the decline and fall of America.

The doomsdayers tell us, too, that we have entered an era of limits -- that America has nearly exhausted her natural and human limits.

Apparently, they are prepared to accept these events as inevitable -- to sit back and enjoy the few remaining comforts of life, to descend even into decadence, because tomorrow brings the deluge.

Well, I am one American who is not prepared to surrender. And I believe there are millions upon millions of others of you who are not prepared to either -- and that's why you decided to send a new team to Washington.

We are in no danger of running out of resources in America. We are only in danger of running out of imagination.

Nor should we accept the notion of limits. There is no limit to what America can achieve -- or the good that we can do -- so long as we place no limit on our freedom or our courage.

I believe you elected me because you want to introduce fresh hope to our nation.

You want to change the course of history.

You want to leave your children with a country that is dynamic, growing -- and best of all, is still a cradle of freedom.

And I believe we can achieve these great goals so long as we understand how we got into this mess and resolve that, whatever the price, we will work our way out of it.

Today's economic crisis is not simply an accident of history.

Its roots are very clearly implanted in the mistaken notions that took hold some two decades ago. In the flush of prosperity, we decided back then that we should rebuild our cities; we should double and redouble our housing stock; we should lift everyone out of poverty; we should criss-cross the nation with four-lane highways; we should cleanse our air and our waters; and we should send a man to the moon. Each of these goals was worthy of a great people; each of them, standing alone could have been accomplished.

But we made two enormous mistakes: we decided that we would do them <u>all</u> -- all at the same time; and we decided that Washington, the Federal government, would be the chariot that would carry us to success.

The burden has been more than our economy could bear.

When President Eisenhower left office, the Federal government was running about a hundred different programs. Today it is trying -- and failing -- to manage over 700 different programs. The government catalogue that tells you what the programs are is thicker than the Manhattan phone directory.

Each of these programs costs money, of course -- usually far in excess of what anyone first envisioned. Bureaucracies sprout up around them; vested interests begin to defend them; Federal assistance that was once considered a privilege is soon defined as an "entitlement". And suddenly, we are told, the programs are untouchable -- "uncontrollable" according to Washington jargon -- and only the foolhardy, or the heartless, would try to change them.

Well, again, I reject that philosophy and I hope you do, too. All of us must recognize that the explosive growth in Federal spending over these past 20 years -- from less than a hundred billion a year when Ike left office to over six times that amount today -- has had two devastating impacts upon our economy.

First, it has forced us again and again to enlarge the federal tax requirements of our government. When

John Kennedy was President, you paid less than 11 cents to Washington for every dollar you earned. Today, you are paying 18 cents.

When you take into account increases in state and local taxation -- many of which have been stimulated by Federal programs -- the picture is even bleaker. Some two decades ago, the average taxpayer worked until _______________ each year in order to earn enough money to pay all his taxes; today he must work until May __ to earn his tax payments; he doesn't start earning a penny for himself until May __.

This huge increase in our tax burdens is smothering personal incentives in America. Why should you work overtime if the government is going to chew up most of the extra income? Why should you produce a better profit if the profits are going to head straight for Washington? Why should you invent a new engine, experiment with a new theory, or write a new book? Those are questions that too many are asking -- and answering -- the wrong way. Excessive taxation has thus become one of the biggest single roadblocks in our economy.

There is a second effect of runaway government spending -- and this one is equally devastating. Unfortunately, as Washington has built up its bureaucratic empire, it has allowed spending to increase far more rapidly than revenues. As a result, we not only have runaway spending -- but runaway deficits.

Before World War II, we ran the government on a fairly sound financial basis. Four years out of five -- in peacetime, at least -- the Federal budget was in the black. Since World War II, however, the situation has been totally the reverse -- for more than four years out of five, the government has been in the red. Indeed, Washington hasn't seen a balanced budget since the early days of the Kennedy administration.

I have been particularly appalled by the deterioration in Federal finances over the past seven months. Last June, the Congressional Budget Office -- an independent arm of the Congress - - estimated that Washington's accounting books for 1981 would show a balanced budget by the end of the year. That was in June. Today, that same office is projecting a deficit of more than $60 billion for 1981 -- a hemorrhaging that is causing enormous alarm both here in my office and in our financial markets. The deficits seem almost out of control.

Now, why are deficits such a problem? For a very simple reason: the only way the government can cover a deficit is to borrow money from you and me or to print more money of its own. Either way, the result is the same: more and more inflation.

That's why it is no accident that the explosion in Federal deficits over the past 20 years has been accompanied by an explosion in inflation. The two are intricately linked, and no matter how much the liberal economists of the past may try to erase the laws of economics, they cannot change one fundamental rule: any government that tries to live beyond its means, year-in, year-out, will eventually lead a nation into bankruptcy.

Many of us in public life began warning back in the 1960s of the consequences of unfettered spending sprees in Washington. We didn't receive much of an ear back then -- the country was too busy enjoying its binge -- but we've woken up with such a bad hangover now that I am very hopeful we can change our ways.

As you do, I believe we must also cure another problem that arose with a vengeance in the 1970s and is also at the root of our economic paralysis. Inevitably, as the bureaucracies found that simply spending money on a problem would solve it, they hit upon another central idea in the early 1970s -- to control it through government regulation.

Thus, over the course of the past decade, following along behind the wave of new spending programs, we have had a second wave of new regulatory programs. In 1970, there were approximately ___ special agencies in Washington trying to regulate our national life; today, there are ___ times that many. New rules and regulations are literally pouring out of Washington at the rate of better than 1500 pages a day -- far more than we need, far more than we want, and certainly far more than anyone can possibly read.

The painful result is we are not only showering Federal forms and inspectors upon average citizens but we are tieing private business into knots. Like the famous Gulliver who was shackled to the ground by hundreds of small dwarfs, companies across America -- especially small ones -- feel overwhelmed by Federal bureaucrats.

In industries like steel, more than ___ of every new investment dollar goes into compliance with Federal regulations.

A company like Chrysler rightly points out that regulations are adding more than $666 a year to the price of a new American car.

And Pharmacists in every drug store in the country will tell you that many good, safe drugs are now available in Europe long before they reach American consumers -- mostly because of excessive regulation.

So this is why we have such an economic mess in the United States. For too many years, we have indulged ourselves in the fantasy that we could simultaneously enjoy good times and still have more and more spending, more and more taxes, more and more regulation. Well, maybe we've learned our lesson -- but we've sure done it the hard way.

(From here, the draft will address the point that just continuing like we are today will cause hardships in the future, citing statistics from original draft. But our problem is that we can't simply preserve even this: there are time-bombs built into this system; cite Greenspan, other economic calamities. Note that democratic institutions themselves can be threatened in an economic collapse. Then come up briefly -- very briefly -- with the main elements of the program RR will present to Congress; close with original ending. At least, that's the way I envision it. More to come. D.G.)

(Dolan) Draft 1/26/81

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ECONOMIC SPEECH

During the past two weeks ~~, a~~ -- time of national joy ~~over~~ ~~when we welcomed~~ when we welcomed home ~~the return home of~~ 52 imprisoned Americans ~~,~~ -- other events, far less happy, have been taking place here in Washington.

It is my duty tonight to report to you on those events, events which, I must tell you, I consider ~~which I consider~~ grave and disturbing.

Within hours of taking office on January 20th, I began issuing a series of directives that included a freeze on Federal hiring, a 15% cutback in Federal travel, a 15% cutback on consultants contracts, a complete halt on the procurement of equipment for Federal offices -- even a ban on office redecorating by senior government officials.

I announced the formation of a task force on regulatory relief under Vice President Bush. Its instructions? To cut away the thicket of irrational and senseless Federal regulations that have discouraged productivity and stifled the economy.

Similarly, within days of the Inaugural ceremonies, the inspectors general of all major Federal departments were dismissed. We are looking now for replacements -- officials who will serve as point men in the war on waste and fraud in the government, a problem I have called an unrelenting national scandal.

Even larger scale cutbacks in Federal spending are now the subject of intensive conferences between the Director of the Office of Management and Budget and Cabinet heads -- I am awaiting their recommendations.

As you know, I also ordered an end to price controls on oil produc tion and marketing in the United States -- ~~This is~~ a step, which whatever its ~~temporary~~ temporary or political consequences, will ultimately stimulate domestic oil production, promote conservation and help end our dependnece on foreign oil.

~~And~~ Last week I also ordered a 60 day freeze on all pedning federal ~~regua~~ regulations; And, finally, I announced the termination of wage and price ~~guid~~ guidelines administered by the Coucil on Wage and Price Stability as well as a major cutback in the ~~role,~~ size and budget of that agency.

~~In taking these actions this early in~~

Taking ~~such actions~~ these actions this early in ~~our administraton~~ office obviously required considerable planning and direction during our transition phase. But our purpose was to set a brisk though not frantic pace for a new administration; ~~andxto~~ and to impart to our nation -- especially to the bureaucracy here in Washington -- our own sense of urgnecy ~~in dealing with~~ about our economic troubles.

These steps were also intenend to begin redeeming our pledges to the American people: a pledge to make government live within its means, a pledge to stop the drain on the conomy by the public sector, a pledge to recover our national prosperity.

~~In light of the information~~

~~I wish I could say to you tongiht that these actions by themselves will set us on the road to economy recovery --~~

~~While these actions~~

In light of the information we have received during recent weeks about the national government's finances, these actions ~~are advisable~~ can be called well-advised ~~indeed~~ perhaps even ~~me foru~~ fortuitous.

But I wish I couls say to you tongiht that thses ~~actions~~ steps by themselves ~~will~~ will be enough to set us on the road to economic revocery. I cannot do so.

My fellow Americans, it is my duty to report to you tongiht that the federal budget is badly out of control; that in both fiscal 1981 and 1982 we are faced with runaway deficts, that estimates of Federal spending for both of these years have continued to climb -- indeed within this ~~a single~~ ~~year~~ last year alone these estimates haved increased by more ~~xhatxxthanxix~~ than $100 billion.

To illustrate ~~the fiscal choas that xxxxxxxxxxx has~~ the legacy of fiscal choas ~~this administraton has inherited~~ the current administration has inherited, let me give you a chronology of ~~the 1981 budget~~ official projections for the 1981 budget.

When the first budget estimate was made last March by the Office of Management and Budget, the ~~last~~ former administration projected a $16.5 billion ~~xupxx~~ surplus. Four months later, that surplus turned into a deficit of $29.8 billion. Six months after that, it went to a $55.2 billion deficit. And now ~~our administration has~~ we have learned ~~the within recent weeks~~ that that deficit will approach $80 billion -- the largest ever ~~dificit~~ in history.

I am afraid the story is much the same for the 1982 budget. That deficit was supposed to be ~~$22x~~ $27.5 billion -- ~~I am afriad~~ I must tell you; the real figure is close to double that.

In a short time, ~~These two~~ runaway deficits will bring the total national debt to an incredible $1 trillion.

This year ~~alone will~~ we are going to pay 80 billion in interest alone on that debt. $80 billion in interest payments! (80 billion ~~a $___ billion~~ was enough money to run the etnire government for most of the years Dwight Eisenhower was president.

We know of course ~~what~~ that this kind of federal spending and these ~~kind of~~ runaway deficits ~~will produce~~ will mean a repeat of last year's high interest rates, double digit inflation, unemployment, stifled productivity, a cutback in housing starts, threats to the ~~ability~~ stability of ~~major~~ major businesses and lending institutions.

It is no wonder that the stock market is down, the banks are worried, business is discouraged. The unskilled can't get a job, the young cna't buy a home and working men and women can't get ahead.

Only a few weeks ago, we learned that the ~~S~~onumer price index ~~had risen~~ rose again. Within the last two years, food prices ~~have gone~~ went up 10%. And ~~D~~uring the last three years, we ~~have~~ suffered ~~in~~ the worst inlfation since World War I.

These developments -- coulpled with the government's punitive tax system and its ~~morass of regilations and controls~~ heavy regulatory burden -- ~~can be expected to tXXXXX~~ will continue stifling the edonomic initiatives of both individuals and businesses. And, if left unchecked, ~~all of~~ all of this will crush any chance for economic recovery in the immediate future.

Before we look into the root cuases of these ominous trends, we must understand how deeply imbedded they are in our economy. -- and yet, how quicly they ~~have~~ have worsened in recent years.

In the early 1960s, AS THIS GRAPH SHOWS (GRAPH I), inflation averaged only 1 per cent a year. Today -- after a steady, twenty year climb, (ARROW MOVES UP CHART) inflation is averaging 10% per year.

You and I know that inflation means much more than this rising line on a graph -- and ~~Its~~ its tremendous impact on the purshasing power of the dollar is CLEARLY SHOWN HERE. (SHOW GRAPH II) The dollar you earned or spent in 1960 (ARROW POINTS TO 1960) can today purchase only 38 cents worth of goods or services. (ARROW POINTS TO 1980)

~~Look how this XXXXXXXXXXXXXXX KIND OF INFLATIONARY TREND~~

Look at ~~how~~ this inflationary trend in practical terms, ~~has affected the cost of a buying a home or an automobile.~~

(SHOW GRAPH III) In 1960, it took 25% of your family ;income to buy a home. (ARROW POINTS TO 1960 DOLLAR) Ten years later, it took 27%. (ARROW POINTS TO 1970 DOLLAR) But today it takes 42% of your family income to pruchase a home. (ARROW POINTS TO 1980 DOLLAR)

Or the purchase of a car. (SHOW GRAPH IV) In 1971, it took slightly lmore than 35 months to ~~purchase a car~~ pay for [redacted] Today

(ARROW POINTS TO 1971) (ARROW POINTS TO 1980)

an automobile. Today it takes nearly 44 months. Almost a 10 month rise

~~itztakesznearly 44 months -- jxxxxxxx Almxxxxxxxx Almost a 10% rise~~

~~xxxxxxxxxx~~ in as many years. (ARROW ACROSS length of ~~THE~~ GRAPH)

We all know When this kinds of inflation occurs, banks and lending institutions -- in order to ~~maintain their own existence~~ -- keep up with inflation ~~are required to protect themsevles by demanding more in interest payments~~ must ask for higher interest rates ~~on loxxxx their~~ when they make loans.

HERE (SHOW CHART V) is an illustration of how steadily mortage (ARROW MOVES FROM 1965 to 1980) interest rates have gone up ~~xx~~ since 1965 -- this graph also shows how dramtic this rise has been in the last year. (A_RROW MOVES ~~FROM~~ BETWEEN 1979 to ~~XX~~ 80)

But when banks and lending institutions ask for higher interest on loans -- businesses (which provide jobs and incomes for all of us) must struggle even ~~hxxxx~~ harder to find ~~workingzcapitalzz~~ the capital it needs to reinvest ~~and~~ or even ~~to~~ survive. HERE (SHOW CHART VI), measured in dolars terms, is the upward trend of business failures ~~in~~ in the last 20 years. (ARROW MOVES UPWARD ON GRAPH)

~~Theexpansion in of inflation, the rise in mortage rates,~~

~~the increasing~~

As we have seen, ~~Th~~ The expansion of inflation, therduction n the pruchasing pwoer of your dollar, the ~~upward trend~~ rise in ~~moretage~~ mortage rates and busiesns failures -- all ~~of these~~ have been steady trends druing the last twenty years.

Well, ~~But~~ there has ~~been another~~ one other steady trend during the last three years -- ~~a teady~~ the trend that is principally responsible for ~~our~~ the problems we have just seen. ~~oure conomic troubles~~. That steady trend has been the growth of goernment a growth of government that has imposed ~~-- and its burden on our producitivyt -- a burden~~ ~~and the burden of deficit spending -- our econom Quite simply put -- oure conomy is reeling under~~ the burden of ~~deficit spending~~ runaway deficits, excessive egulation and ~~punxxxxxxxxx~~ pun;tive taxes on our economy. ~~It has imposed~~

In 1960, gov consumed 18½ % of our national production. last year, it took 23%

HERE (SHOW GRPH VI) IS AN ILLUSTRATON OF THE growth of government during the past two decades. In 1960, goyernment was spending almost $1900 ~~per~~ family (ARROW POINTS TO 1900) -- today in 1980 -- even though the average family ~~is not paying any~~ ~~has still had the~~ is no better off -- the government is spending an incredible $7,800 per family. (ARROW POINTS TO ~~XX~~ $7,800)

~~What~~ All of this spending has ~~done~~ accomplished three things:

it has ~~caused the deficit spending which triggers inflation~~:

First, it has ~~cused the~~ huge federal deficits which trigger inflation. (SHOW REVISED CHART VIII) This chart shows the steady rise in deficits from 1970 (ARROW POINTS TO ~~xxx~~ 1970) to 1980. (ASRROW MOVES UP THE CHART.)

~~Increasingly~~ this

This enormous increase in federal deficits has imposed a greater and greater burden on the average family. From 1960 (ARROW POINTS TO 1960) the ~~nation~~ federal debt has risen from $4000 per household (ARROWS to ~~more than $9,000 per household~~ POINT TO $4,000) to $9,000 per household. (ASRROW POINTS TO $9,000.)

Second, the growth of government has sent the number of ~~Besdies this burden of federal debt~~ federal regulations ~~have~~ skyrocketing. ~~in recent years.~~

(SHOW REVISED CHART X) As you can see, 40 years ago, ~~in 1940~~, the federal regulatory burden was light -- now look at the steady climb upward of federal regulations -- regulations imposed on nearly every aspect of our economic lives. (ARROW MOVES FROM ~~XXXXX XXX~~ TOP OF THE 1940 BAR TO THE TOP OF THE 1980 ~~XXX~~ BAR.)

There is one final burden imposed ~~by all~~ this growth of government -- ~~one~~ that is the same burden I do not need to stress to ~~all of~~ you ~~listening~~ todnight. That is the burden you struggle with every April at income tax time, the burden of federal taxes. ~~of taxes.~~

In 1960, you were paying almost 11¢ on every ~~per~~ dollar you earned to the federal government (SHOW GRAPH XI) now you are paying neary 18¢. ~~more.~~ Another way of looking at this: today i~~t tak~~ in 1960 ~~you~~ an average fmialy of four earned enough income by Febraury 8 to pay its federal tax bill. In 1980, the average family of four

(7)

has to work nearly a month longer to pay its tax bill. (NO CHART).

Here, we can see a dramatic illustration of the increasing burden of federal taxes on your family (SHOW GRAPH XII) -- In 1965, that burden was just under $1,500 (ARROW POINTS TO ~~XXXXX~~ $1,500) -- today that burden is nearly $6,000. (ARROW POINTS TO $6,000).

But the federal government has not only raised taxes in ~~the~~ these obvious ways during the last two decades -- it also has ~~xx~~ imposed ~~hiddenxtaxxkxtx~~ a hidden tax on every family. Let me explain.

~~In 1960~~, If you earned $10,000 in 1960, you would have to earn $16,000(?) today just to ~~dx x~~ stay even with inflation. However, in 1960 you were only paying 12(?)% of ~~that~~ your $10,000 ~~to the~~ ~~on your~~ in income taxes. But today if you are earning ~~that~~ $1600 just to ~~stay even today -- you are alo paying more to the federal government~~ ~~because now you are in a higher income bracket you are alo~~ you are also in a higher income tax bracket ~~-- that means~~ and you ~~are~~ are paying 18(?)% of your 16,000 income. Whereas, in 1960, you were only paying 10% of your ~~$10,000~~ icom.e.

This is what economists refer to when they tlak about bracket creep -- bracket creep, this has ~~added ________ more to~~ This hidden tax ~~of bracket creep~~ has added $? billion to -the federal treasury during the past twenty years. And yet ~~the fe~~ even with all this ~~a added~~ hidden ~~revneu the~~ revenue the federal ogovernment has ~~continued to spend its run up hughe deficits~~. not been able to control its deficits.

This brief statistical survey of economic trends does not of course do justice to the impact of high inflation, taxes, interest rates and u~~nemplo~~y unemploymnet on the lives of the American people.

You and I know the simple facts:

-- the real value~~s~~ of the ~~average~~ weekly take-home check is roughly ~~about~~ what it was 20 years ago. Government-fueled inflation and taxes have nearly wiped away the fruits of your work, svaings and sacrafice during two decades.

-- A dollar saving in 1960 is worth 18% less today. All of us have elderly friends or relatives who rely on savings or fixed incomes to live -- we know the kind of devastation that government excess has brought to their lives.

-- Business is staggering under the wieght of government regulations and taxes. To cite one example: government regulation has added $666 to the cost of the average automobile. Business must add these hidden costs to the price of its services and goods and services in order to survive. And even then -- as those of you listening tongiht who work in Chrylser assembly lines know -- many business still have trouble making ends meet. And who can estimate the loss to our economy of potential Edisons or Fords who were discouraged by government from trying to develop industrial or technological breakthoughs -- breathroughs that would have meant better lives for all of us.

-- And finally ~~in the last year~~ we have seen a sad steady rise in unemployment. In ayear, ~~the~~ it has grown from 6% to 7 and one-half per cent. Among young people, who badly need that first job to learn productive economic skills, ~~Youth~~ unemployment fluctuates betwee 16% and 18%. ~~Minority productive skills,~~ Among minority youths, the rate is nearly doubled. IN some cities, unemployment has reached ~~levels~~ depression levels.

And I want those of you with whom I visited lat fall during our country's electon campaign -- inctities like Kokomo Indiana and Flint Mich where the unemployment rate is at depression elvels -- this administration has not lost its conern or its committment to get you and other Americans back to work.

And yet we must not tonight make the mistake of just discssuing the economic discomfort ~~all of htis has cuased in~~ these developments have brought into our lives. For the impact of our economic troubles goes far beyond ~~this more~~ material hardship.

Let us look for example at teh impact of a high inflation rate and a discriminatory tax system on the stability of the fmaily. Because ~~this~~ the tax system with its heavily increasing ~~rates~~ progressive rates discrinates against one agressive bread winner, many women, who would not ordinarily choose a career, have had to go to work just to hlep their families stay ~~ahead~~ even. When ~~inflation~~ the burden of inflation is added, ~~we have~~ what transpires is two half-hearted pariticpants in the ablor market working harder than ever just to ~~say even~~ insure their families a decent standard of living.

This has cut down on the intimacy of family live ~~that it has reduced~~ by reducing leisure time for familiy acitvities. Among working people, it has led to ~~an economy~~ feelings of frsutration and demoralization -- even rage and exhuastation. In my opinion, these developments are in great measure responsible for the serious rise we have seen in familly instability and unhappiness.

~~Among lower income groups~~

~~Among working people, this has led to feelings of frustration and demoralization -- even rage and exhuastation. This has reduced leisure time for familly activities and cut down on the intimacy of family life.~~ It has also ~~by reducing leisure time for family activities~~

~~In my opinion, these developments are in great measure responsible for the serious rise we have seen in family instiblity and unhappiness during recent years.~~

Among lower income groups, this situation is even more aggravated. The growth of government programs that promote dependency and the shrinking of real economic opportuinty

for many minority groups has created a new kind of servitutde ~~to~~ --
~~the state.~~ a servitude to the social worker, to the government bureaucrat, to the politician -- to the ~~state~~ itself.

And finally, ~~among~~ middle-class and upper income families, whose i~~nvestments and~~ willingness to risk ~~capital~~ investments on new ventures is ~~create are~~ the cutting edge of the economy, are so burdneed by taxes and inflation they seek ~~shi~~ speculative shelters like gold sivler or real estate rather than reinvestiment ~~in a dynamic~~ of their economic resources in a dynamic economy.

When the family is weakned, when too many lower income groups become ~~dependne~~ wards ts of thestate, when potential investors and entrepreneurs are discouraged and isheartened from taking risks --- ~~the very~~ a society ~~itslef is xxxxxxxxx undergoing serous disruptions.~~ this ~~weaknes~~ weakens not just the economy but our society -- our civilization -- as a whole.

History is filled -- from the Roman Empire to the Weimar Epublic -- with examples of the havoc that follows ~~and decay brought by government excess~~ the slow decay ~~high inflation burdensome taxes and toher kinds of goernment ecess.~~ of ecomic and social bonds brought on by ~~government~~ excesses of government.

These problems -- built up over a long period of time -- are grave. ~~and~~ As we have seen, they already have had serious consequences ~~on~~ for our society. Some may ask how it is possible to be optimistic -- and I am optimistic -- that we can in the forseeable future return to prosperity.

IN order to understand why there is -- despite all the bad news -- room for real hope, we have to comprehend how one of the root causes of our economic difficulties has changed for the better.

During recent decades, the increasing fascination with statistics ~~and~~ and the ability to store ~~laxxgxxxxxx~~ large amounts of information in computers, led many economists, like many other social scientists, to ~~become fascinated with the idea of stating whatxtheyxknewx their~~ state

State what they knew in terms of numbers ~~or~~ quantities. Economists regularly used statistics and aggregate numbers to measure our ;national wealth and exmaine how it ~~si distri~~ is distributed throughout our society, This emphasis on goods and services ~~we ac~~ that the public ~~as a people~~ "demands" and ~~consumes~~ then consumes is known as "dmeand--side economics." ~~This~~

You can see ~~x~~ how this emphasis on ~~walth that is already accumulated~~ present goods and services -- on measuring wealth already accumulated and achieved -- led many economists to take this wealth for granted -- even to begin ~~and to being~~ prescribing ways in which the government might -- through spending and taxes -- resitrbute that welath more equlally.

However, this focus on ~~the~~ a large ~~alrges~~ statistical ~~tatitical~~ pciture ~~actually~~ also obscured reality another way. We all know that no mathematical or statistical model can ever truly represent the complexity and interplay of millions of economic transactions that take place everyday between individuals and between businesses. Yet it is in these trasactions -- the worker who earns a pay raise for working ~~wax~~ harder than his colleagues, or the businessman who develops a better ~~new way to make a~~ product or cheaper way to ~~develop~~ deliver a serivce than his comeptitors -- these activities "actually supply" the wealth in our economy.

This is called "supply-side" economics -- economics that

That appreciates ~~that~~ the obvious! welath is created ~~xxx~~ for all of us only when those who ~~xxx~~ work harder or take more risks in the marketplace receive greater rewards.

This is the geni#us of our economic system -- fo~~r the first~~ as Wa-lter Lippman observed more than 40 years ago, ~~"Oewe produced in thi~~s country a saystme ~~capitalism~~ for the first time in history ~~the~~ an ecomic ~~capitalistic~~ system gave men a "way of producing wealth in which the good fortune of others multiplied their own."

What is encouraging is that for the first time in a long while ~~while economists have begun to recognize that goernment when it overspends and oever taxes only consumes wealth and sicouc disocurages the kind of risk-taking supply side xxxxxxxxxx economics that produces welath.~~

economists have stopped recommending that government overspend and overtax -- ~~xxxxxxxxxxxxxxxx~~ aga, they are realizing -- what the Aermican people today fully understand -- that government ~~only consumrs~~ spending only consumes welath and by doing so discourages the hard work, ~~and risk taking per-~~ personal intiatives and risk taking that ~~pr~~ "supplys" welath to our economy.

One economist at harvard, for example, has recently noted that a buinsess, ~~instituions~~, like an army or even a football team, can have roughly the same resources as a competitor and yet ~~one~~ constantly outperforms that competitor. ~~another~~r. The economist asttributes this higher perofrmance to an indefinable x factor -- a spirit ~~an indefinable spiritual quality~~ that motivates and achieves ~~[illegible] belongs to the institution~~.

Well our economy has a similar x factor -- an x factor that economists have ignored and government has been ~~very bus~~y attempting to stilfe in recent years. That x factor is the spirit of creativity and personal initiative among workers and businessmen that creates our national wealth.

That is why we must seek again to increase our national wealth ~~by agains re~~ by rewarding hard work and rsik taking. By ~~offering not baking to more people a larger share of~~ making a larger economic pie so we can offer more people a larger share of that pie.

3

To odo this we cannnot hestiate ordally. We must end ~~government i~~nxxxxxxxxxx excessive government spending, taxation, xxxxxxxxxxxxxxxx and regulation. We must reduce spending and cut taxes simultaneously.

To put it simply: our program is ~~very simple~~ INSERT ~~WIDENBAUM?~~. WIDENBAUM.

Add Paragraph on how e must also stop ~~stopp~~ trying to kid the public ---- temproary versus permanet debt ceiling.

~~we must move to cut federal~~

~~But we must not only~~

those of us in public life must ~~those of us in politics must~~

We must enegage then in some plain talk-- this means ~~taking~~ take political xxx risks inxxxxxx just as an entrepenuer takes business risks. We must work with hope, ~~and~~ We must thrive on our fiath in the future. ~~As~~ Geroge Gilder, one of the new supply side eonomists who has developed many of the conepts I hve idscussed tonight, ~~has~~ has said in his recent Wealth and Poverty "The venturer who awaits ~~the~~ emergence of a safe market, the tax-cutter who demands full assurance of new revenue, the leader who seeks a settled public opinion, all will always act too timidly and too late."

I do not intend to act timidly or too late. I ask you tongight for your support ~~in these~~ for a new econmic program for America. A program that will return ~~America~~ our country to prsoerptiy, ~~and~~ recapture ~~the~~ our spirit of enterprise ~~and~~ restore our fiath in the future.

For it This faith in the future ~~I~~ that s not just the foundation of our econmic system but of our society and of our civilizaton.

Let it be clear ~~And~~ we do not seek to ~~extned~~ extend economic freedom s~~imply becausse it increase~~ simply for purposes of greed or because it ~~increases~~ adds to our material wealth . We seek to ~~ented this freedom~~ extend our ecomic rights because ~~it is~~ they comprise one of our most important freedoms. Most of us ~~vote once perhpas twi~~ exercise our right to vote perhpas once or twice a year -- but each day, inmany diffent ways, ~~we~~ all of us exerices our economic freeedom.

or civilization

And we must never forget -- ~~no society that has ever discouraged~~ the societies ~~that have no~~ respected the rights of property and societi~~es and vilizatons that had no respect~~ for the right of proerpty ~~andeconmic freedom~~ there has never been a ~~truly a~~ free society or civilization that did not ~~have~~ rspect the rights of ~~for property and~~ prviate property and ~~thexxrewards~~ and the rewardsof hard work and personal initiative.

All of this, of course, is merely to restate a ~~xexyxxeal~~ wisdom well known to the Americans who formed ~~began~~ this nation ~~country~~ -- a wisdom that has been lost -- but a wsdom that (today the believe we are) is quicly being recovered today,

AS Thomas Jefferson worte :

goernment that leaves men free to determine theri own etc. and does not take away from labor the furits of its labors -- this is the sum of good government.

MEMORANDUM

Cut

Missy — 9th

Chuck Tyson
4-1776

Meese

Mike Deaver
Last night

TO: Chuck Tyson

FROM: Richard S. Beal and Rich Williamson

DATE: January 14, 1981

SUBJECT: GOP Leadership Meeting with President-Elect Reagan

Ed Meese and Jim Baker approved last Friday the general concept of the national audit. This idea is a series of activities for the pre-inaugural and first few days of the Administration to define the legacy the new Administration is inheriting especially in economic terms.

One of these activities is to have the new GOP leadership (especially on the relevant economic committees) meet with President-Elect Reagan and give him their assessment of the country's economic condition and the federal government's budget. After the meeting the congressional leaders would issue a statement on what they reported to the President-Elect.

We had originally wanted to request a breakfast session on Thursday or Friday (January 15 or 16) for an hour. Time may not be available for the breakfast, but an hour on either one of those two days is requested. Max Friedersdorf will generate the list of who is attending as soon as the meeting is approved for the schedule.

M E M O R A N D U M

TO: Max Friedersdorf

FROM: Richard S. Beal

DATE: Janaury 13, 1981

SUBJECT: Strategy of the National Audit and GOP Leadership

The national audit concept is a sequence of activities in the pre-inaugural period and in the first few weeks of the new Administration designed to (a) define the legacy, primarily in economic terms, that President Reagan is inheriting, (b) establish for the public more realistic parameters and limitations the Reagan Administration will be constricted by upon taking office, (c) attune the public's expectation to the current realities of the economic, budgetary, domestic, and foreign challenges, and (d) prepare the people for the shared burden all Americans will have to assume if the economy is going to recover and the size of government is going to be reduced. The national audit is part of the new leadership style of the Reagan Administration which views leaders as "accountable stewards."

A critical activity in the audit concept is for the new Republican leadership to meet with the President-Elect to inform him of the condition of the economy they are both inheriting. The objective of a meeting between the GOP leadership and Mr. Reagan is to appraise the President of the sad conditions of the economy from their perspective, especially in their roles as chairmen and ranking minority members of key Congressional economic committees.

The critical audit objectives for this meeting between the GOP leadership and President-Elect Reagan are:

- Give the President-Elect an opportunity to be briefed on the economy by the Congressional leadership;

- Continue the consultive relationship between the President and Congress; and

- Have the leadership issue a brief audit statement which:

  (a) Emphasizes the seriousness of the budgetary and economic problems facing the country;

  (b) Cautions against quick fix public expectations, or government solutions;

  (c) Recognizes the degree to which these problems have been developing over a fifteen year period, and hence will require a bold and consistant effort to reduce the size and spending levels of the federal government;

  (d) Requires the attitude that all Americans will have to share in bearing the burden of an economic retrenchment program; and

  (e) Requires joint, persistent and accountable leadership from the President and the Congress if the economic problems are to be arrested and brought under control.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 31, 1981

Note to Rich Williamson

Attached are the back-up text and charts for the President's speech on the economy. Murray Weidenbaum has not reviewed them in their final form. They should not be distributed until you hear from him.

S. Sprinkel
x5084

Attachments

THE WHITE HOUSE
Office of the Press Secretary

FACTS AND FIGURES ON

ECONOMIC PROBLEMS FACING

THE UNITED STATES

February 5, 1981

Table of Contents

Highlights

The American economy is not performing well and surely not as well as it could. The basic economic strength of this nation has been drained by rising tax burdens, expanding Federal Government deficit spending, and increasingly burdensome rules and restrictions that weigh on every business firm, farm, and professional person. The results are higher levels of unemployment simultaneous with high rates of inflation.

It is convenient to blame these economic failings on factors beyond our control -- world oil price increases, poor harvests. But the fact of the matter is that the basic source of most of the economic distress is in the past economic policies of government itself.

Inflation, unemployment, interest rates, taxes, and the Federal deficit -- all of which are higher than they were four years ago -- are the legacy of a discredited notion: that the government is the basic source of economic well-being. The facts and figures in the following pages illustrate that sad but clear lesson of recent American economic history. Yet, nevertheless, the fundamental and durable nature of the private enterprise system still shows through the dismal statistics of our current economic performance. Americans, for example, continue to be the world's most productive workers -- 20 percent more than their counterparts in West Germany and 50 percent greater than in Japan. Furthermore, the recent sustained strengthening of the dollar in world currency markets, business analysts generally agree, in large part reflects rising confidence at home and abroad that the Federal Government is embarking on a new direction in economic policy.

It is becoming increasingly clear that the creativity of individuals and the free exchange of the market place is now, as it always has been, the overriding source of our Nation's wealth and progress.

Heavier Tax Burdens

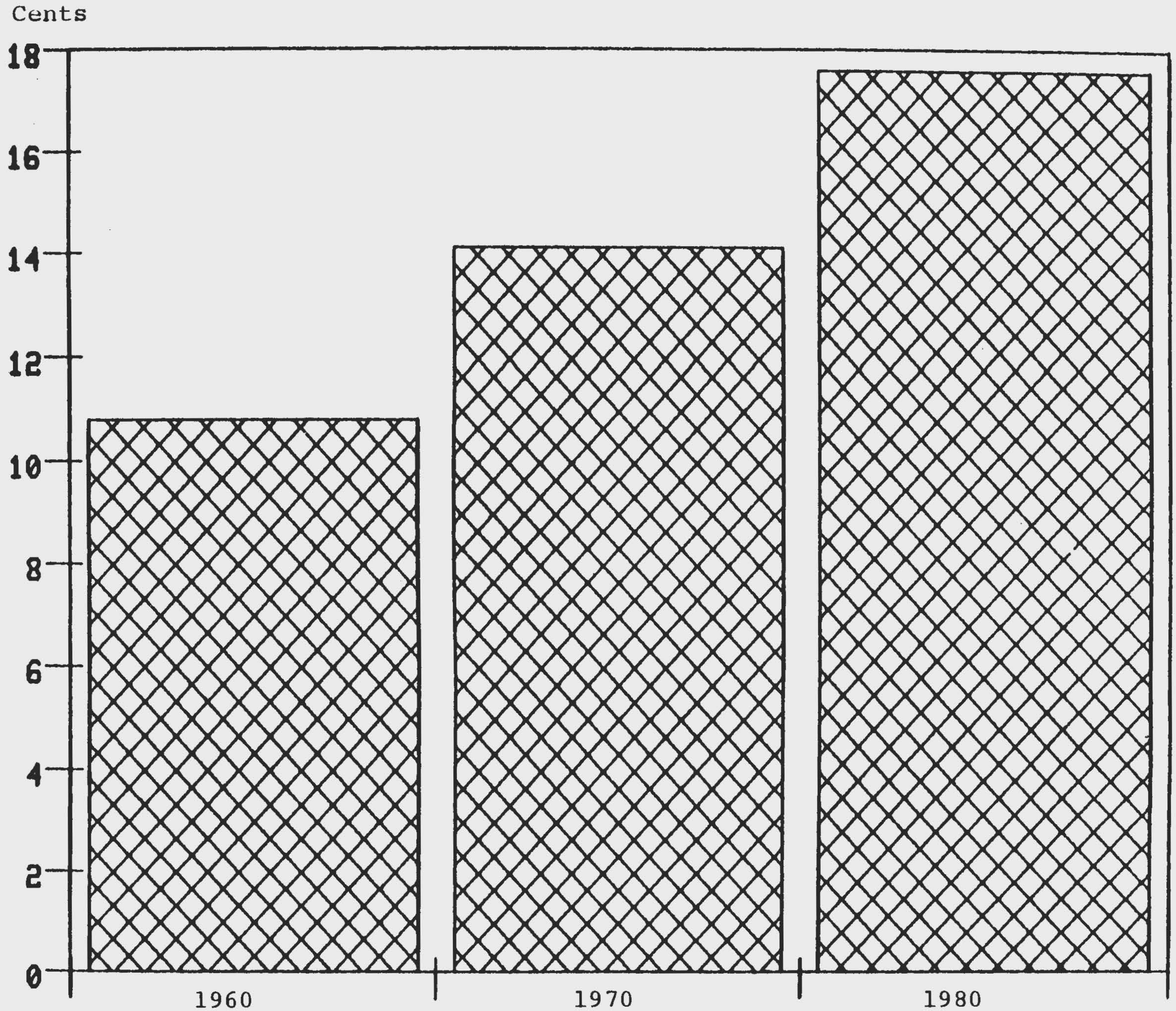
Taxes are the life blood of governments. The weight of taxation to support the growth of government has become excessive. For individuals, the continuation of inflation and the progressive income tax has pushed taxpayers into ever-higher brackets, even when their real incomes have not increased at all. For example, the fraction of taxpayers paying more than 25 cents to the Federal Government from each additional dollar they earned has quadrupled in the last fifteen years.

Another way of looking at the rising burden by the typical taxpayer is to consider that, in 1960, the average family of four earned enough income by February 8 to pay its total federal tax bill for the year. By 1980, however, the average family had to work nearly an additional month -- until March 5 -- to earn enough income to pay the taxes it owed to the Federal Government.

For businesses, the tax burden has also grown very substantially. Companies are taxed on "nominal" or "book" profits which are artificially distorted by inflation. As a result, many businesses have neither the incentive nor the after-tax real income required to invest in exceedingly costly but necessary new productive technologies and expanded facilities.

CHART 1

THE RISE IN AVERAGE FEDERAL TAXES PER DOLLAR OF INCOME

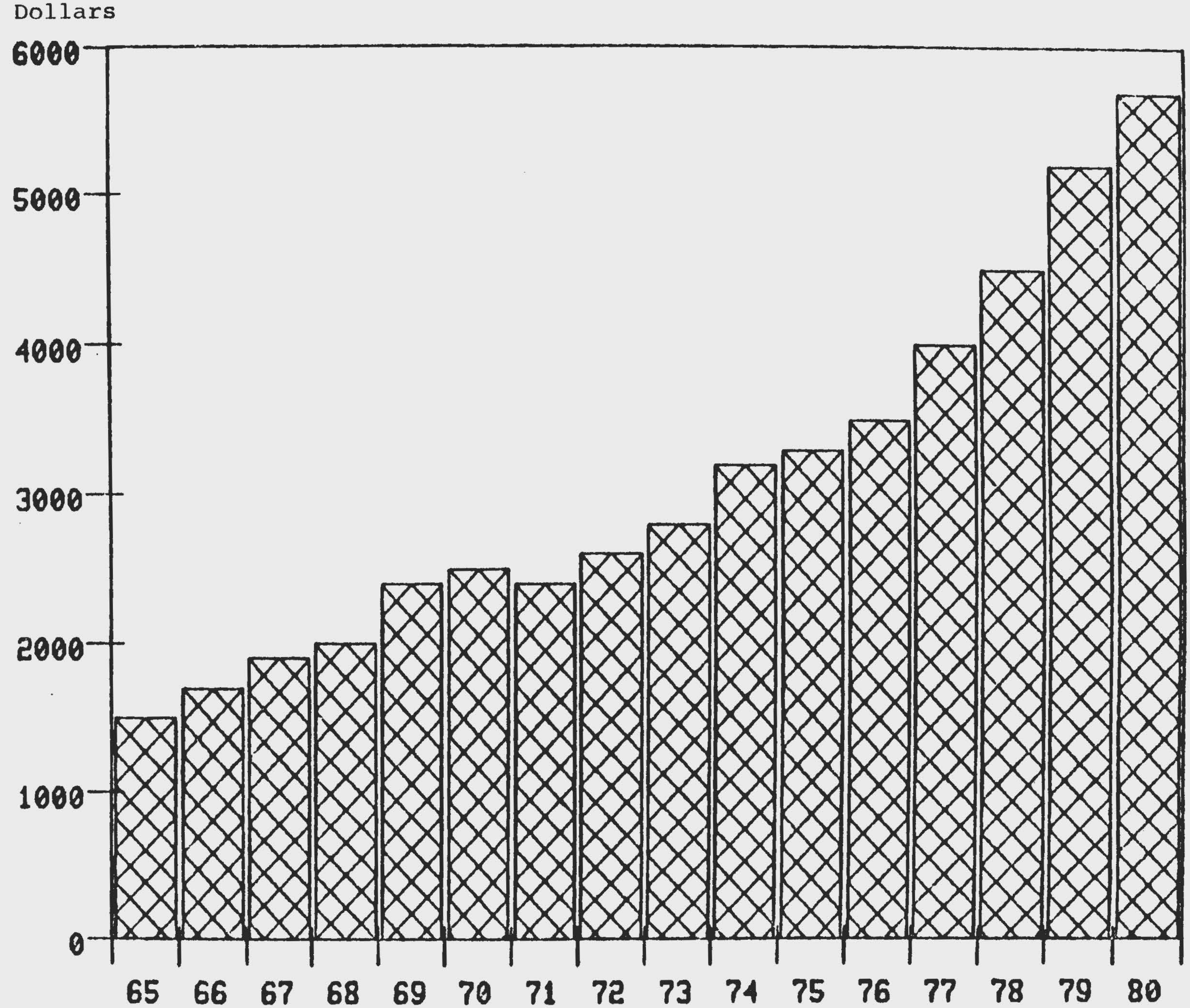


Note:-- Federal personal income and social security taxes per dollar of personal income plus employee social security contributions.

Source: Department of the Treasury.

CHART 2

GROWTH IN PERSONAL FEDERAL TAXES PER FAMILY

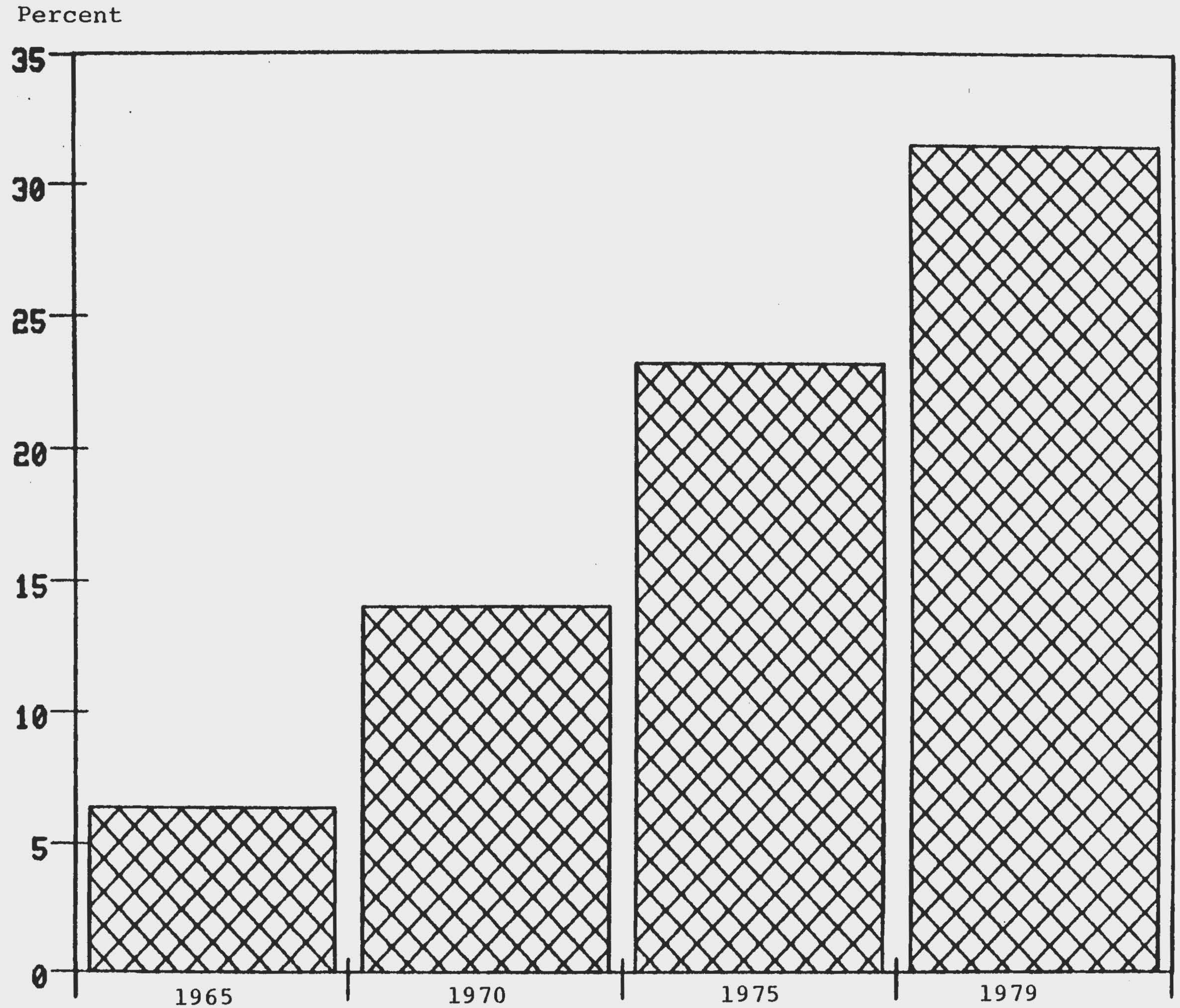


Note.- Federal personal taxes include individual income taxes, employee share of social insurance contributions, and other Federal personal taxes.

Sources: Department of Commerce and Department of the Treasury

CHART 3

RISING PORTION OF TAXPAYERS PAYING MARGINAL TAX RATES OF 25% OR MORE



Note.-- Marginal tax rate is the highest rate at which a taxpayer's income is taxed.

Source: Department of the Treasury.

The Growth of Government

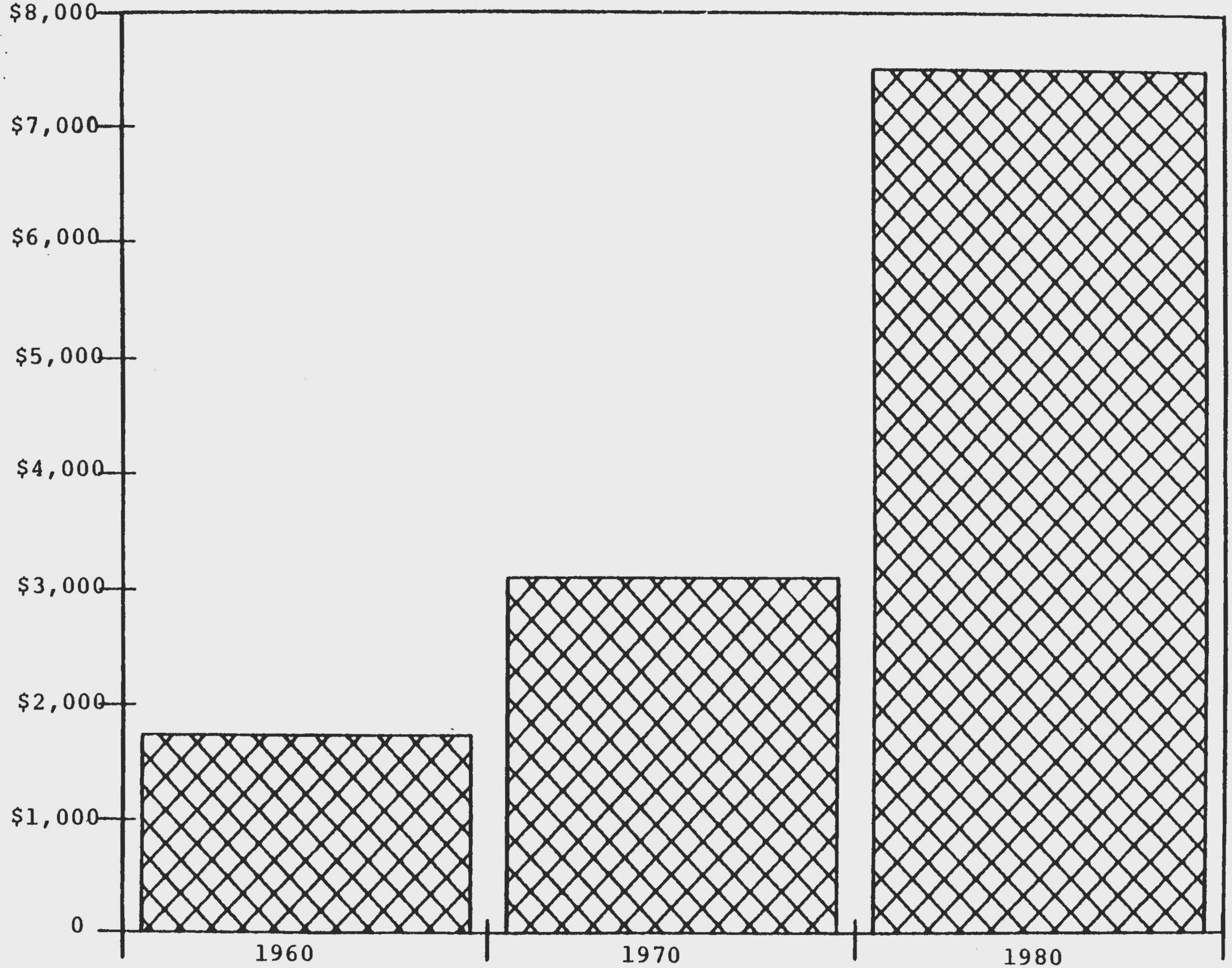
Despite record-high tax burdens on the American people, the Federal Government is unable to live within its means. Huge budget deficits follow year after year and the burden of the public debt rises year after year. In the last fiscal year, the deficit was $60 billion, the second highest on record. The previous administration's budget for this fiscal year is almost as high.

Twenty years ago, the Federal Government took for itself only 18½ percent of our national output (the "Gross National Product"). Last year, it took 23 percent.

And even these numbers understate the costs the government has imposed. Regulations have proliferated, requiring businesses to spend enormous amounts to satisfy the commands of obscure agencies far removed from those who are regulated. The costs of compliance with government directives are a form of "hidden" tax which ultimately is paid by the consumer in the form of higher prices.

CHART 4

THE EXPANDING FEDERAL PRESENCE
(TOTAL FEDERAL EXPENDITURES PER HOUSEHOLD)



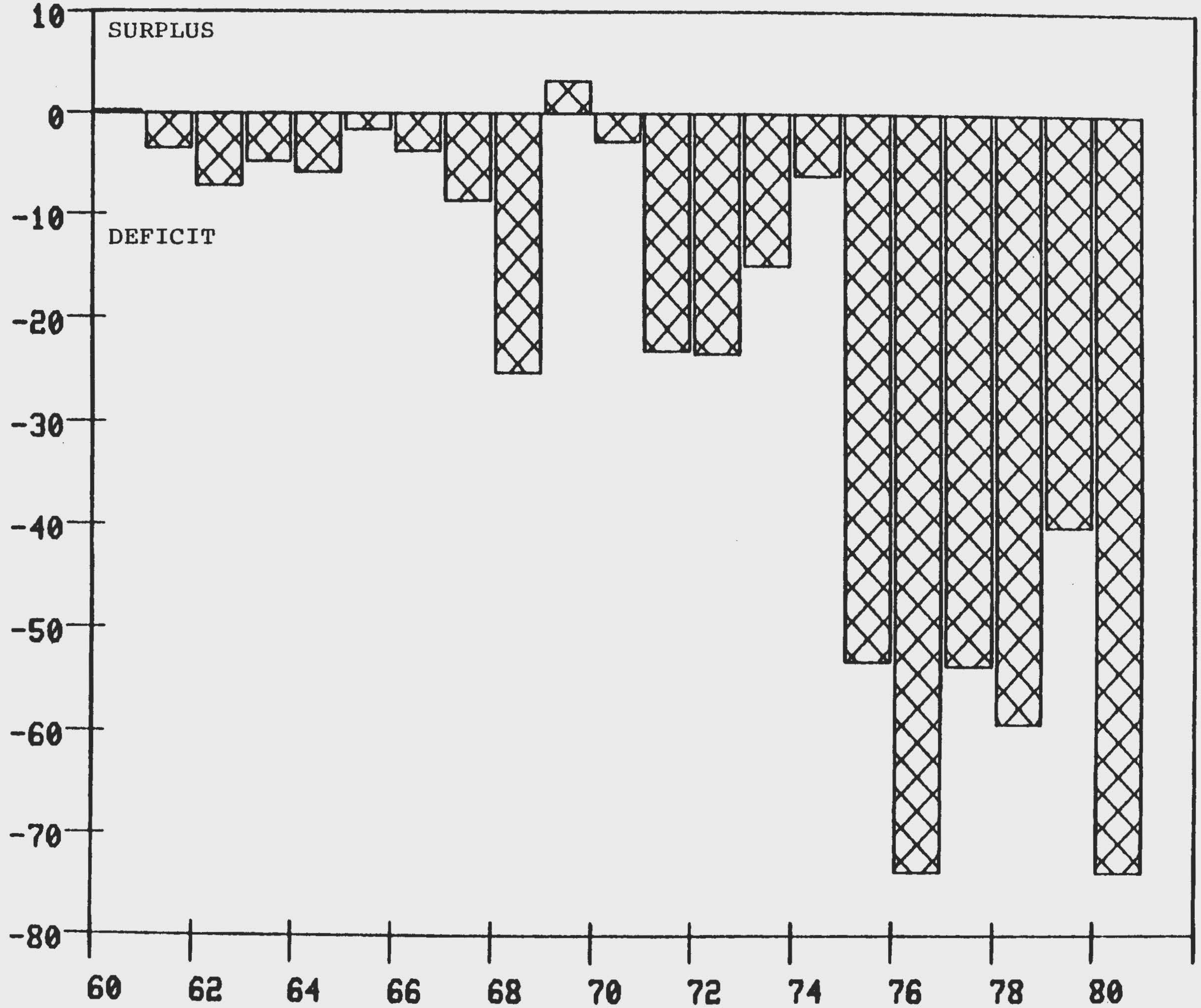
Note.--Includes on-budget outlays plus so-called "off-budget" outlays of the Federal Government.

Source: Office of Management and Budget

CHART 5

TWENTY YEARS OF INCREASING FEDERAL DEFICITS

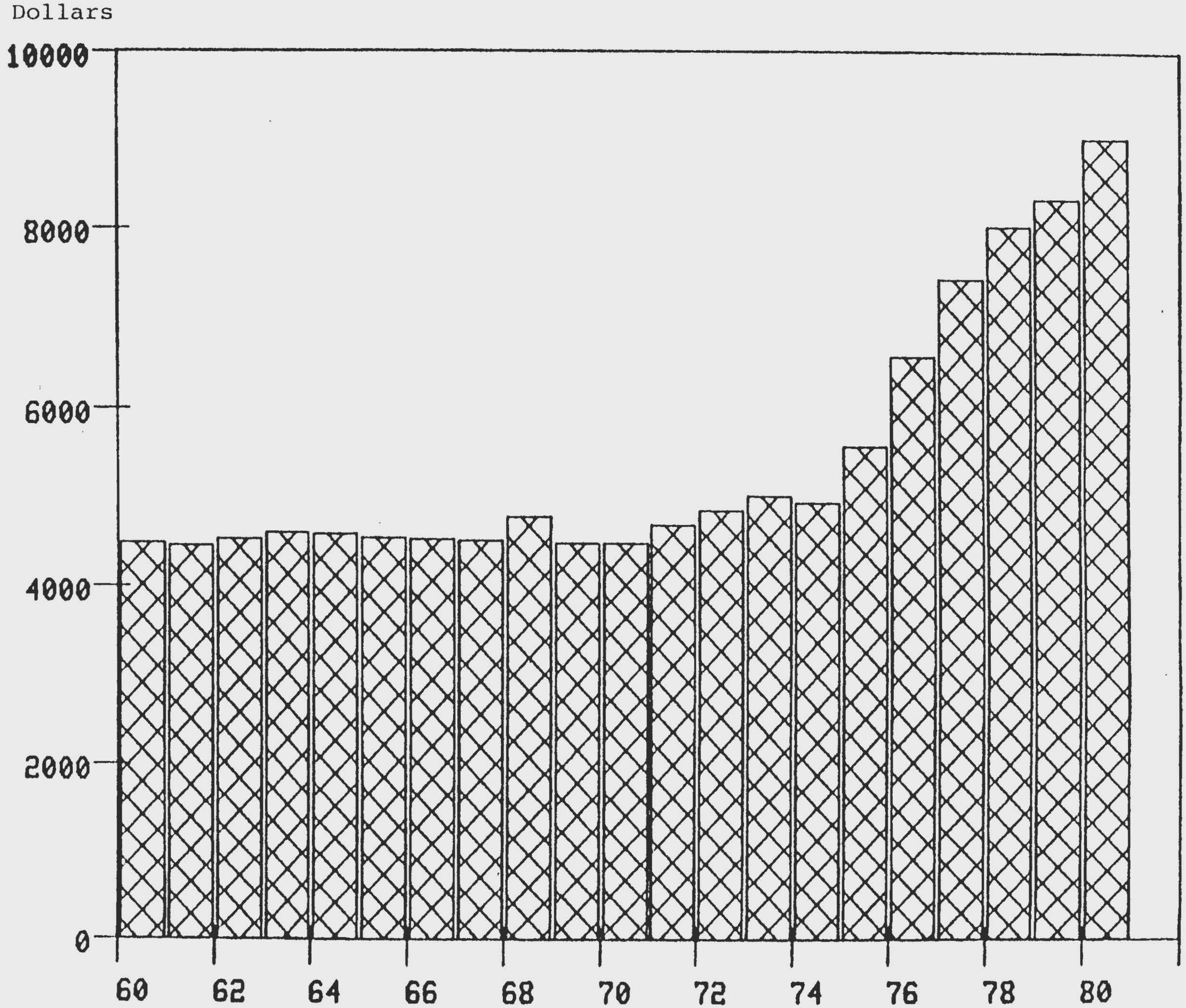
(Fiscal years, billions of dollars)



Note.--The difference between total Federal receipts and total Federal outlays including off-budget outlays.

SOURCES: Department of the Treasury and Office of Management and Budget.

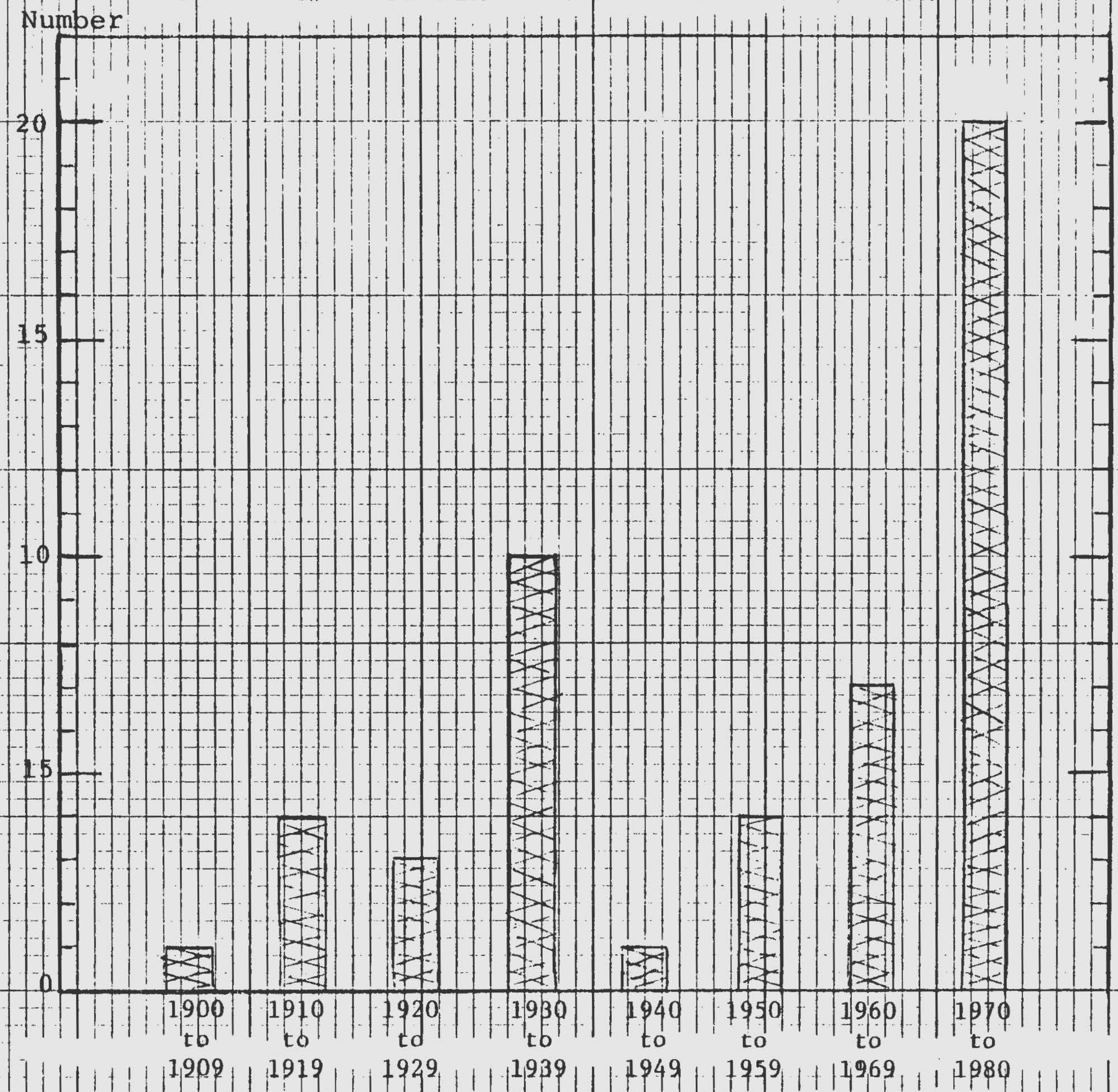
CHART 6 THE GROWING BURDEN OF FEDERAL DEBT ON THE AVERAGE FAMILY



Note.--Federal debt held by the public at the end of each fiscal year divided by the number of households. Adjusted for price increases, the average debt burden per household declines steadily until 1973. Between 1973 and 1980 this inflation-adjusted series grows very rapidly.

CHART 7

THE RECENT ACCELERATION OF REGULATORY GROWTH

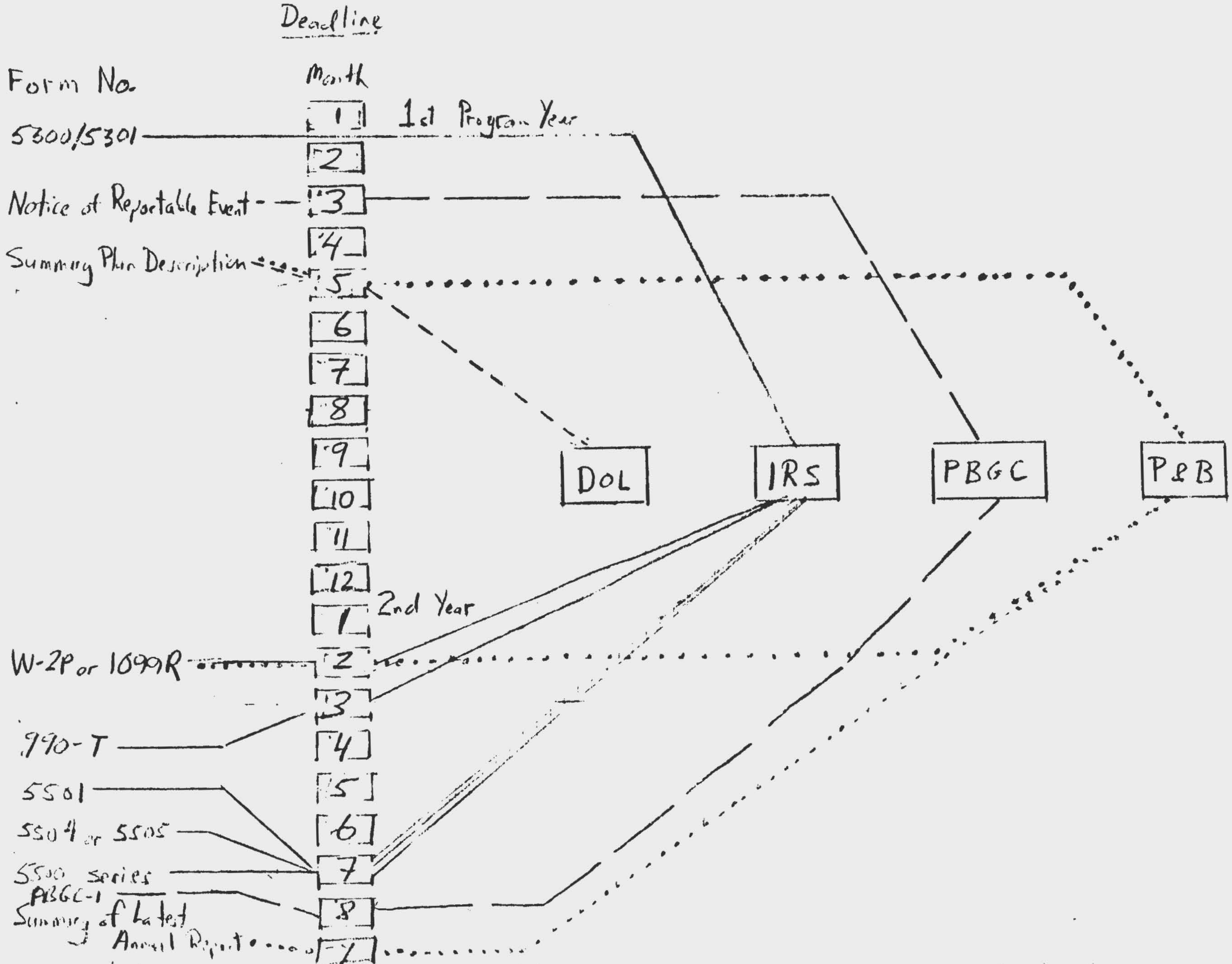


Note.--Data are the number of new Federal regulatory agencies.

Source: Center for the Study of American Business, Washington University of St. Louis.

CHART 8

THE PAPERWORK BURDEN IMPOSED ON A NEW PENSION PLAN



Note.--Forms which a plan is required by ERISA (Employment Retirement Income Security Act of 1974) to file. DOL, Department of Labor; IRS, Internal Revenue Service; PBGC, Pension Benefit Guaranty Corporation; P&B, participants and beneficiaries.

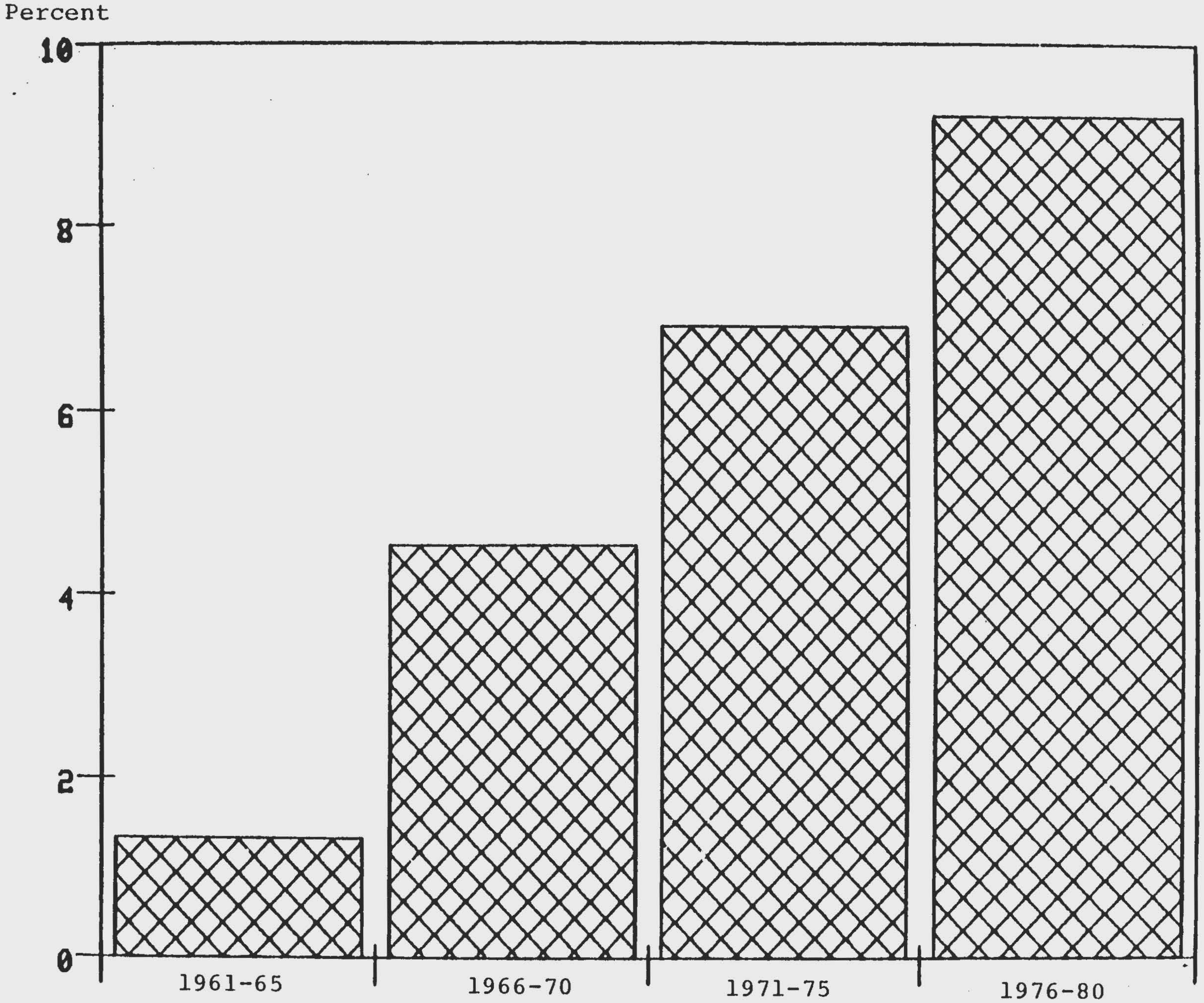
Rising Inflation

Inflation, which averaged near 1 percent in the early 1960s, has risen with few interruptions to over 10 percent at the end of 1980. The costs of this inflation are enormous.

- Uncertainty and risk have increased.
- The purchasing power of those on fixed incomes, typically the elderly and the poor has eroded.
- The basic attractiveness of investment in new productive capital has fallen.
- The cost of buying a home has gone beyond the reach of many Americans.
- The purchase of a new automobile has become more difficult.
- The average consumer has become a speculative borrower who buys now hoping to pay later with inflation-cheapened dollars.

CHART 9

INCREASING CONSUMER PRICE INFLATION, 1960-1980

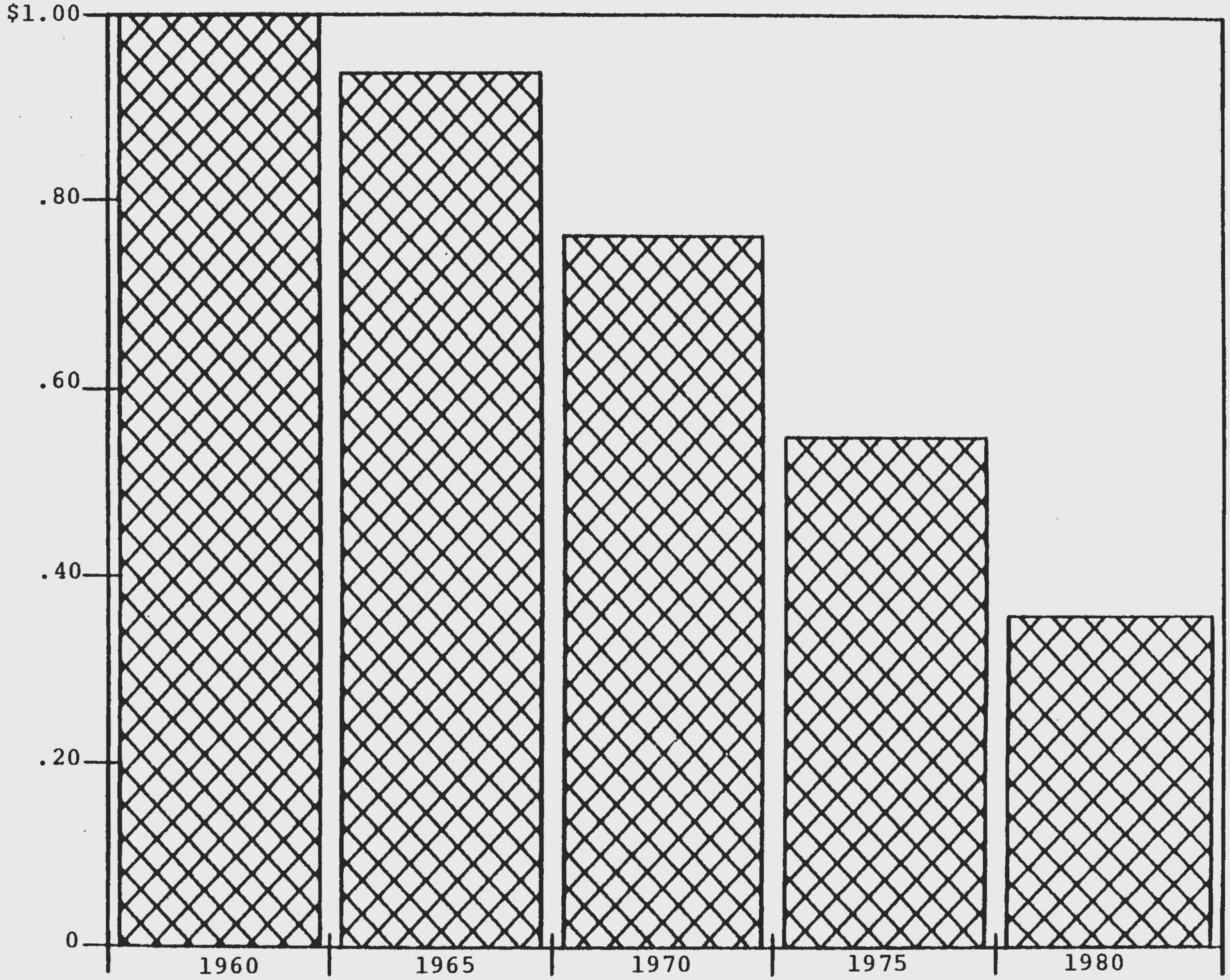


Note.--Average year-to-year change in the consumer price index, all urban consumers.

SOURCE: Department of Labor.

CHART 10

THE DECLINING PURCHASING POWER OF THE DOLLAR (1960=$1.00)



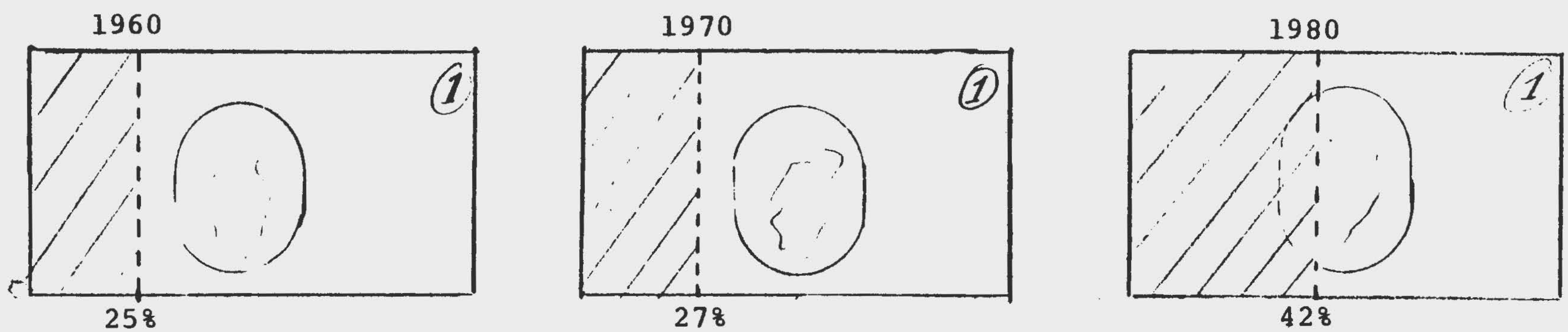
Note.--Inverse of average level of consumer price index, all urban consumers.

Source: Department of Labor

CHART 11

THE RISING COST OF OWNING A NEW HOME

(Portion of Typical Family Income Devoted to Monthly Home Payments)

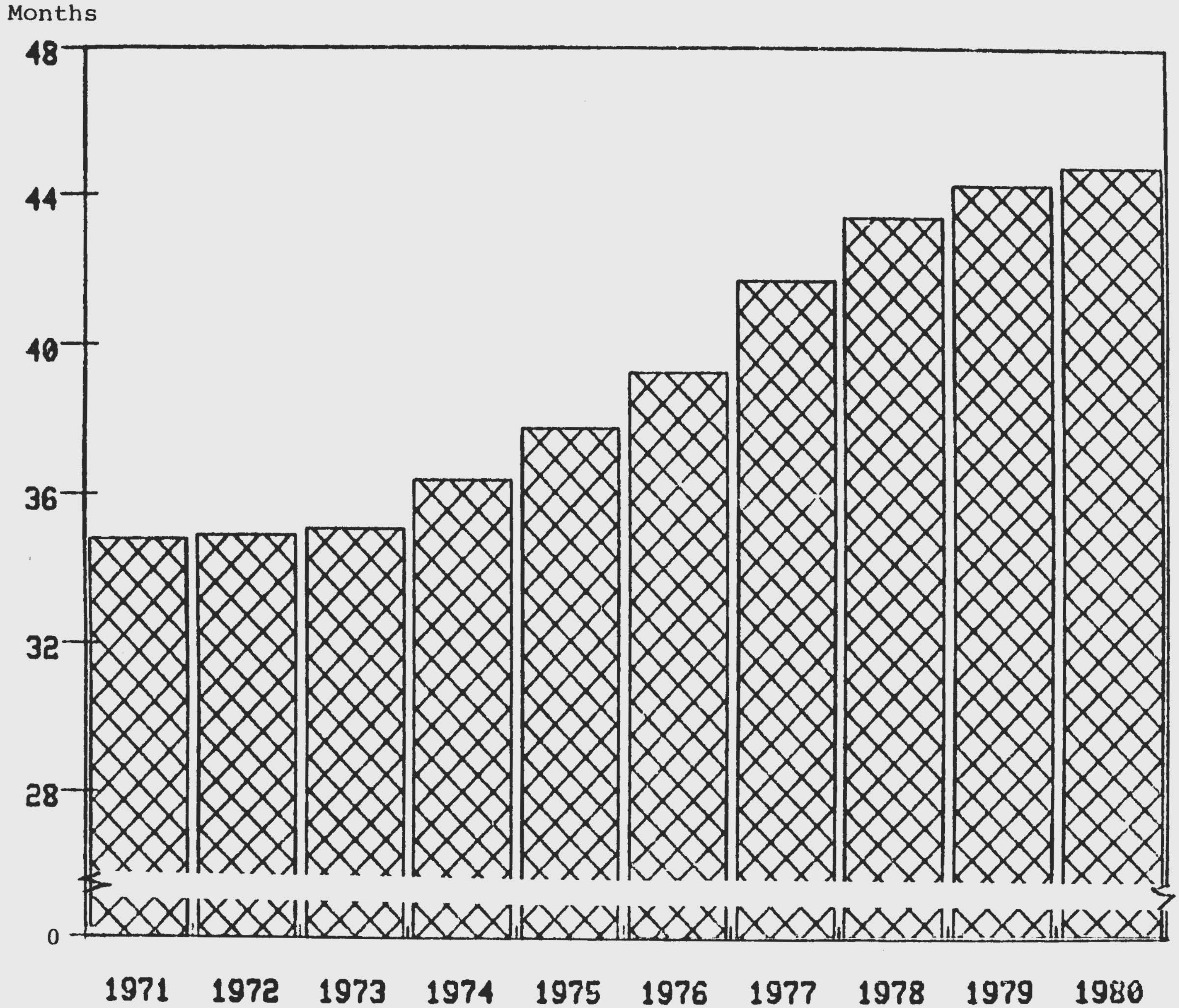


Note.--Annual data. Home payments include principal, interest, taxes, and insurance for the median-priced new home.

Source: Department of Housing and Urban Development.

CHART 12

NUMBER OF MONTHS NEEDED TO PAY OFF A CAR LOAN



Note.--End-of-year data for the average length of car loans made by major automobile finance companies.

SOURCE: Board of Governors of the Federal Reserve System.

Escalating Interest Rates and Other Effects

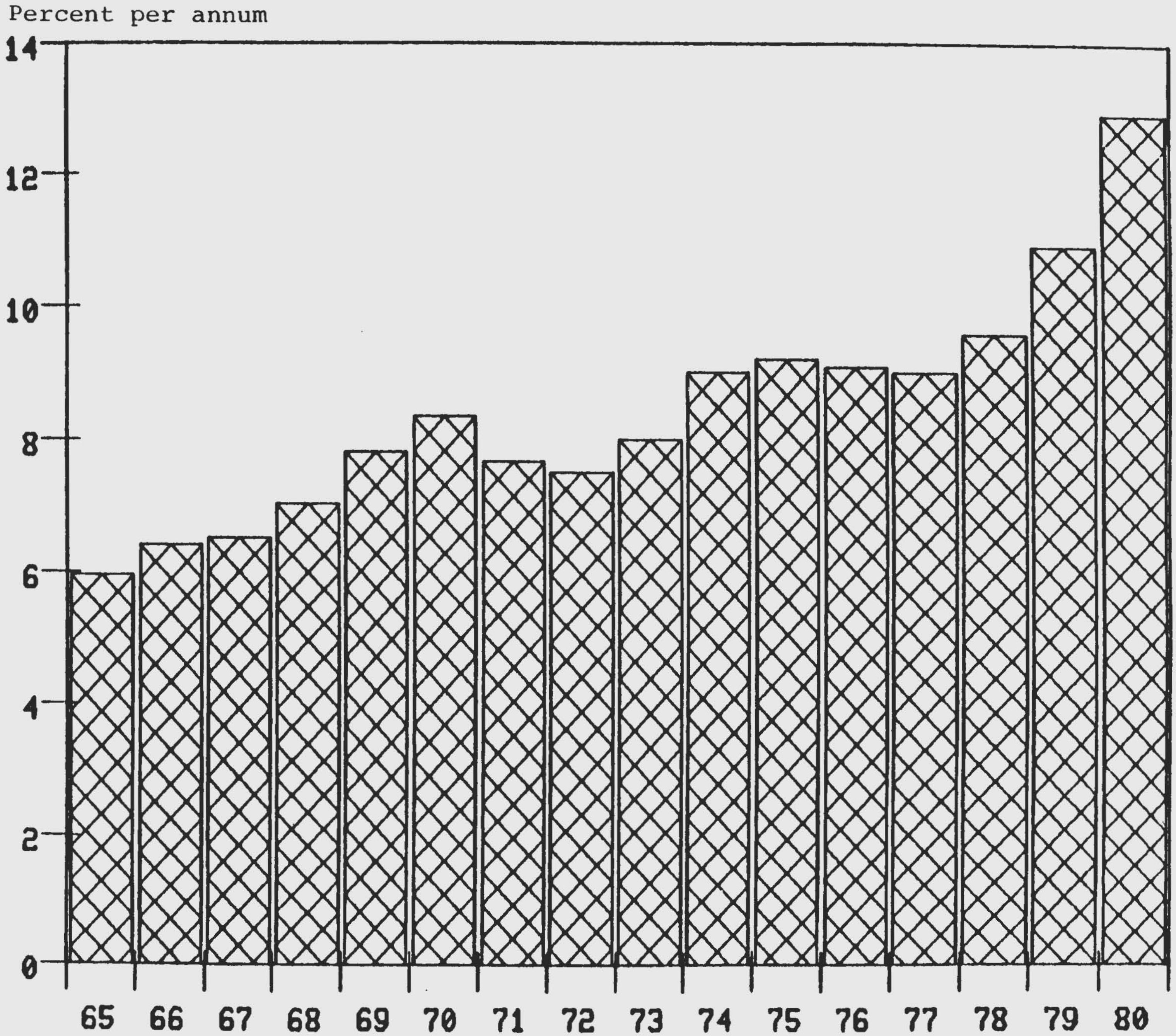
One of the most direct and dramatic ways in which many citizens feel the effects of inflation is in the rising costs of the money they borrow. Higher interest rates on home mortgages, for example, are a major cause of the slowdown in new home building throughout most of the nation.

For many businesses, especially smaller companies, higher costs of financing are compounded by taxes, regulatory compliance, and other burdens imposed by government. The result frequently is inadequate capital for expansion and often bankruptcy or otherwise going out of business.

There is of course an important international dimension to all this. The sharp deterioration in the foreign trade balance of the United States is the most dramatic evidence of the current weakness of our economy.

CHART 1[illegible]

MORTGAGE INTEREST RATES REACH RECORD HIGH

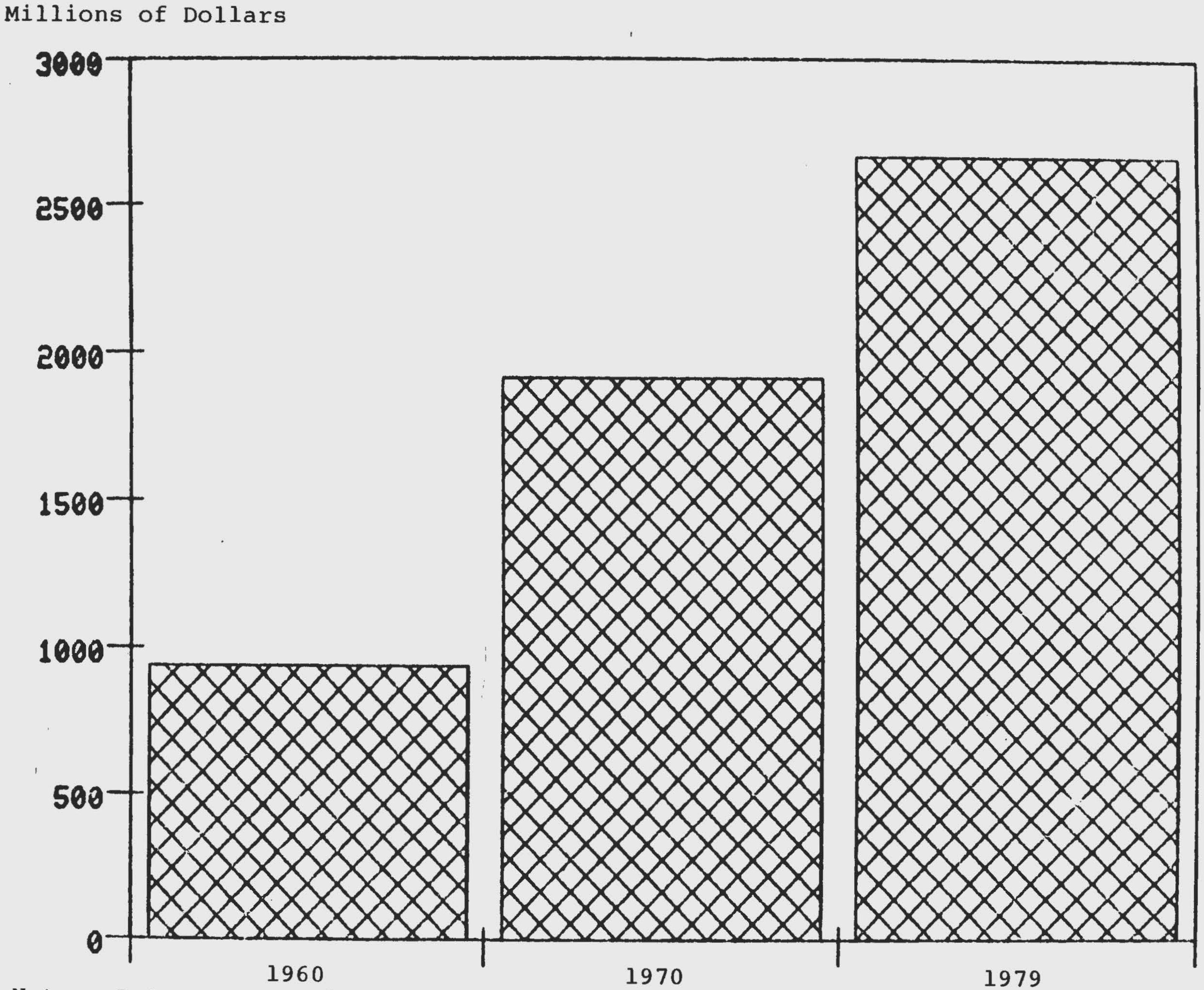


Note.--New home mortgage rate is effective rate on conventional mortgage in the primary market.

Source: Federal Home Loan Bank Board

CHART 14

THE UPWARD TREND OF BUSINESS FAILURES

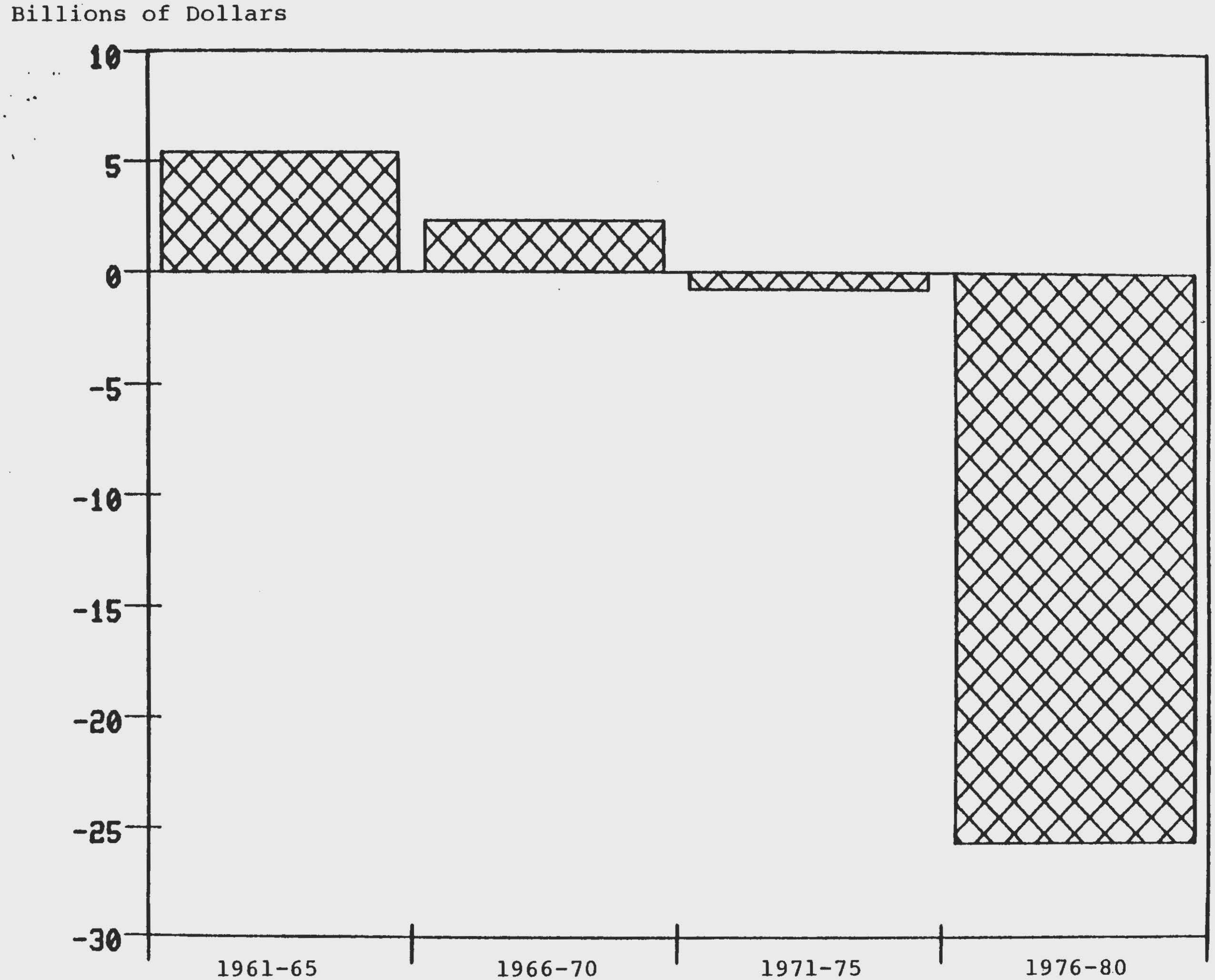


Note.--Data are annual averages for current liabilities of businesses that failed.

Source: Dun and Bradstreet, Inc.

CHART 15

U.S. MERCHANDISE TRADE BALANCE TURNS DOWN



Note.--International payments basis, average of annual figures, 1980 estimated.

Sources: Department of Commerce and Council of Economic Advisers.

Measures of Family Hardship

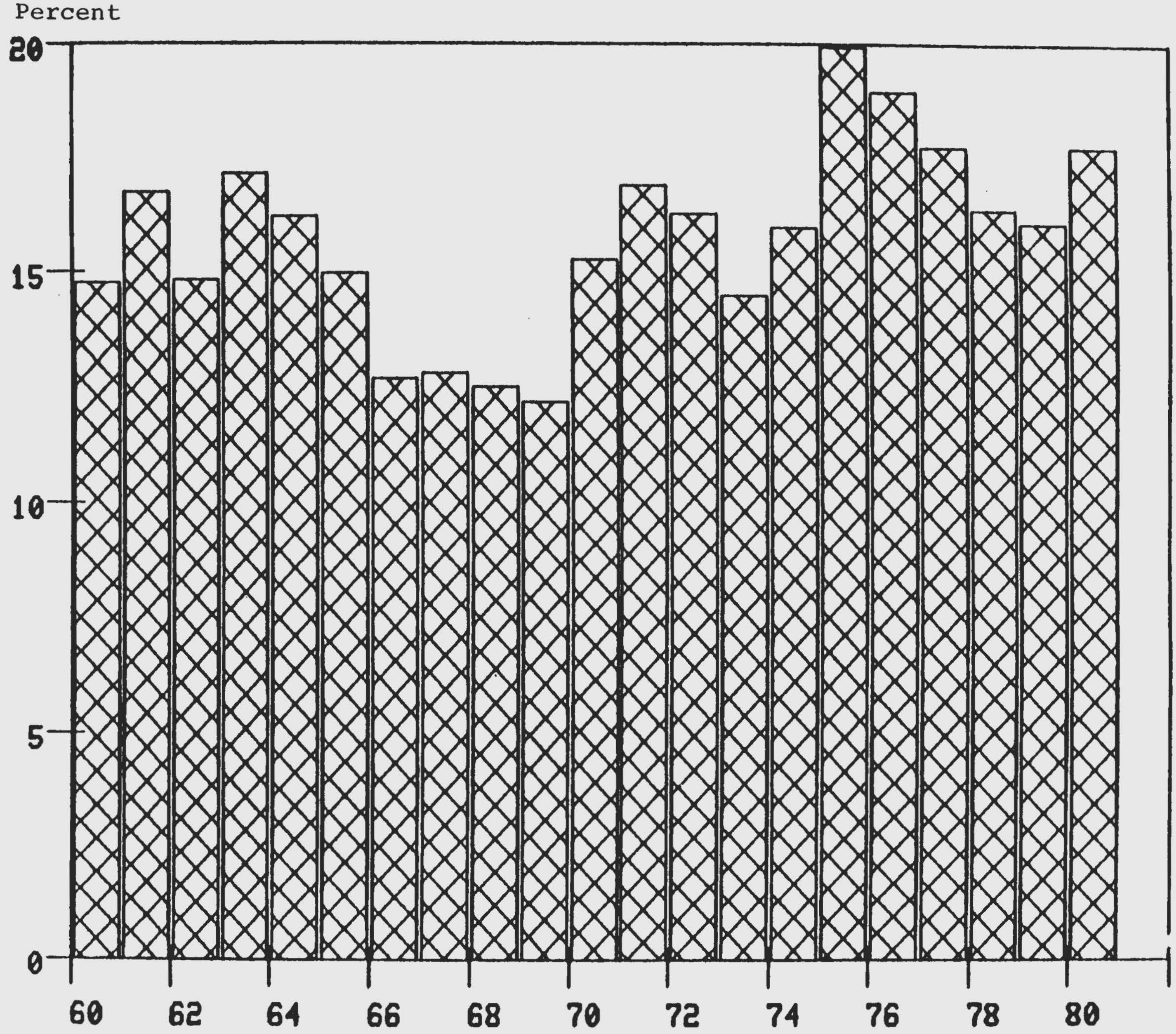
The cold statistics on economics do not adequately describe the hardships and deprivation that a weak economy has brought to so many American families. Yet some key economic indicators are revealing on that score.

For example, the unemployment rate among our youth has fluctuated between 15 and 20 percent for a decade. The rate of joblessness among minority youngsters is almost twice that. And, moreover, many of these sad statistics reflect not neglect by government but rather misguided and counterproductive intervention such as statutory minimum wage laws.

For American families as a whole, the traditional expectation of rising living standards has at least temporarily halted. It has been replaced by weekly take-home pay which is stagnating at best and actually declining at times, such as the past two years.

And even those families who are fortunate enough to make ends meet and save something for the proverbial "rainy day" find that inflation has eaten up much of the value of their assets. Economic hardship has not been limited to few sectors of the economy or regions of the country. For example, total real farm income was 9 percent lower in the past 5 years than in the early sixties.

CHART 16 THE PERSISTENTLY HIGH RATE OF UNEMPLOYMENT FOR YOUTH

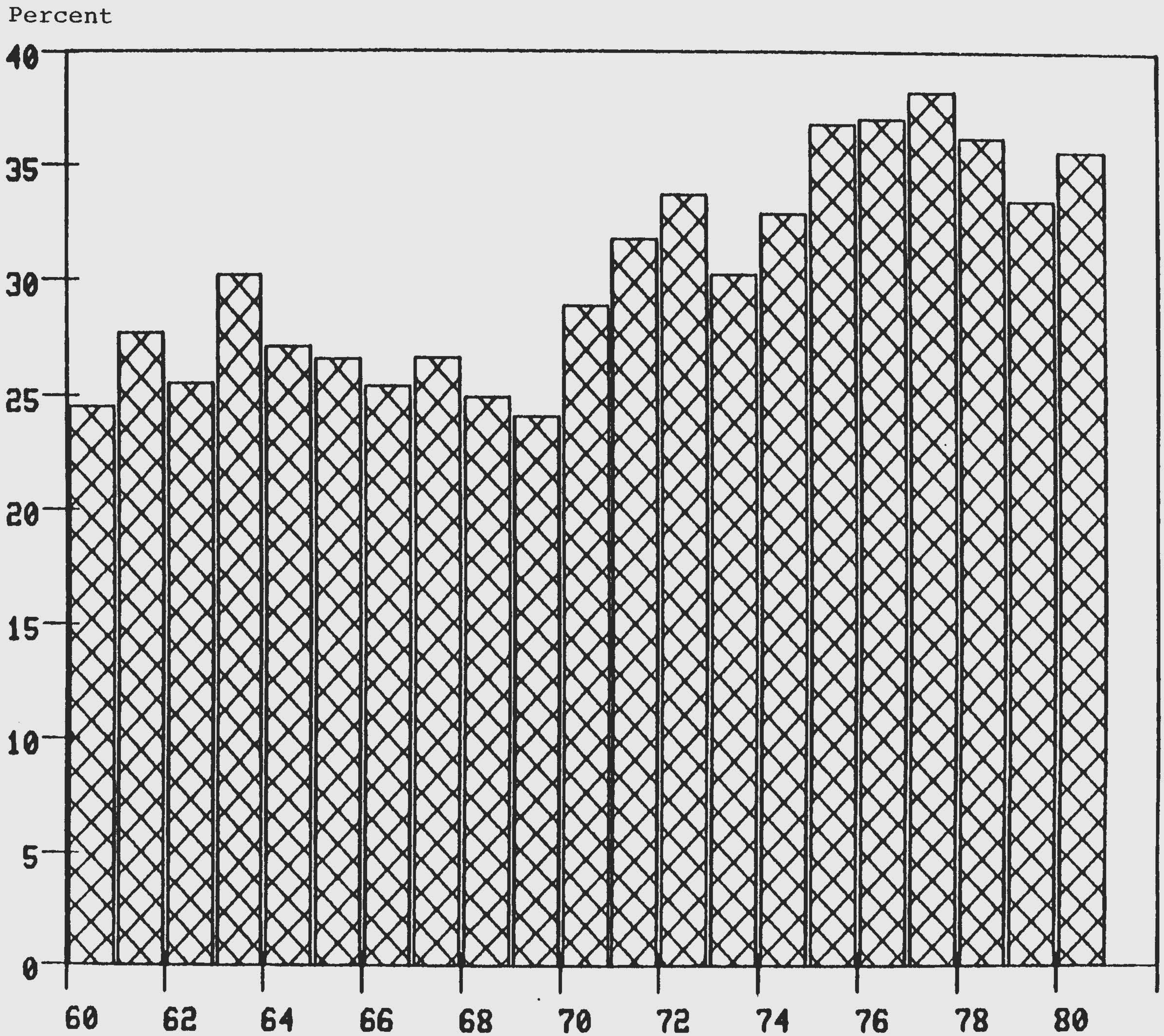


Note.--Unemployment rate, 16-19 years of age.

Source: Department of Labor.

CHART 17

UNEMPLOYMENT FOR MINORITY TEENAGERS

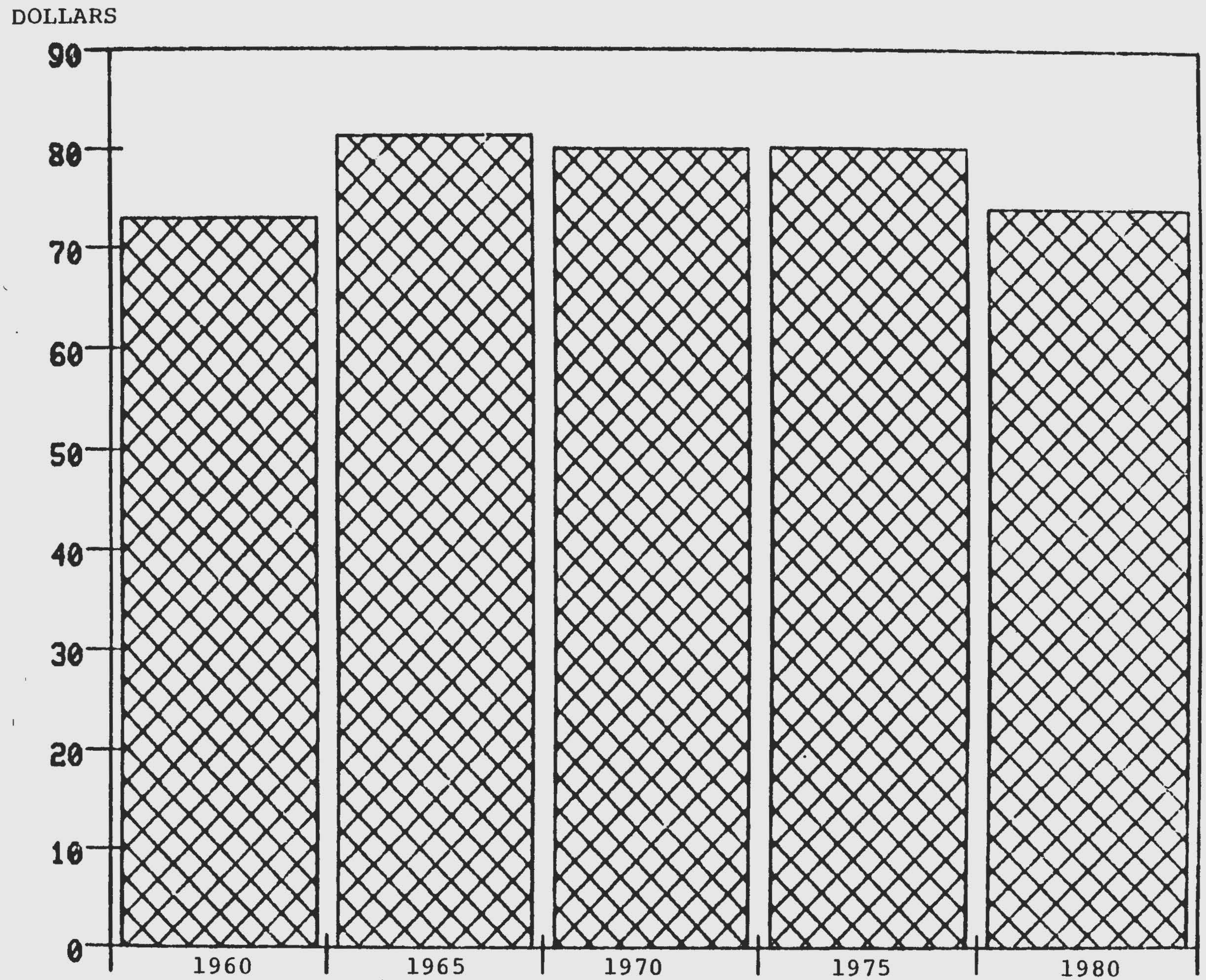


Note.--Unemployment rate, black and other, 16-19 years of age.

Source: Department of Labor.

CHART 18

AVERAGE WEEKLY TAKE-HOME PAY ADJUSTED FOR INFLATION IN 1960 DOLLARS



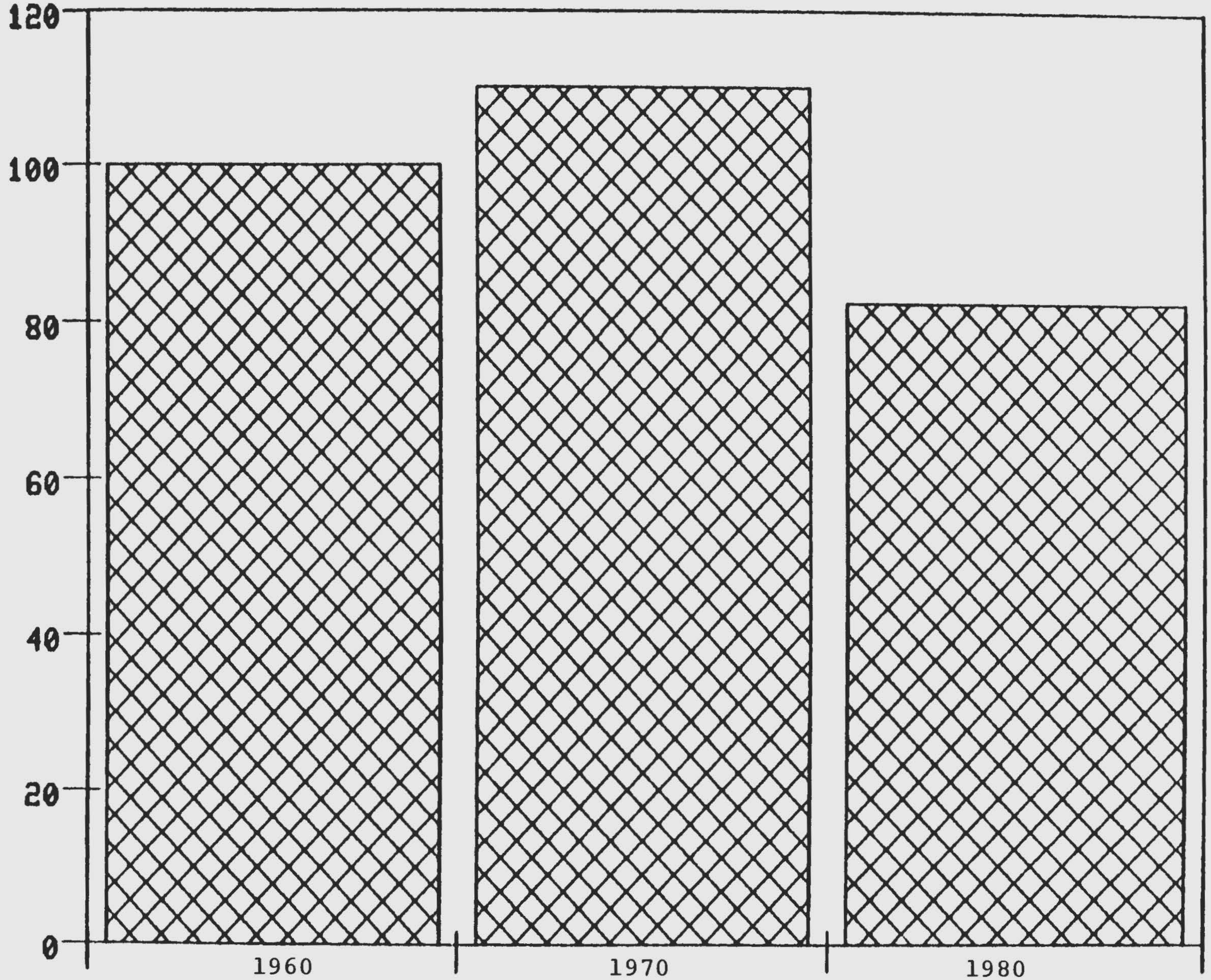
Note.--Real spendable earnings; i.e., average weekly earnings reduced by social security and Federal income taxes applicable to a married worker with 3 dependents deflated by CPI for urban wage and clerical workers.

SOURCE: Department of Labor.

CHART 19

BUYING POWER OF SAVINGS

DOLLARS (Value of a $100 "Savings" Deposit Made in 1960, in 1960 Dollars)



Note.--End of year figures. Savings deposit at a commercial bank earns interest at the highest rate allowed by law, compounded daily. Buying power based on consumer price index.

SOURCES: Board of Governors of the Federal Reserve System and the Department of Labor.

PROPOSED STATEMENT ON THE ECONOMY

(To be released by the Congressional Leaders after the GOP Leadership Meeting with President-Elect Reagan)

1980 may well have been the most serious year for the American economy in half a century. The persistence of double-digit inflation has convinced many that such rates are now a permanent part of the American economic landscape. Moreover, the pattern of government expenditures and revenues during the last half of the year illuminated more dramatically than ever before the extent to which the federal budget is out of control. No American president since Franklin Roosevelt has inherited a more difficult economic situation.

The pattern of increasing federal budget deficits is incompatible with a stable and prosperous economy. Decisive actions are needed to reverse the current economic trends. A bold, comprehensive economic program should be President-Elect Reagan's first legislative priority. We pledged that we would work with the President in developing and enacting such a program.

Our current economic difficulties are the product of an accumulation of events and decisions over the last decade and a half. There are no easy or quick solutions. Making fundamental changes in our spending patterns will require sacrifice, persistent effort, and political courage. We are prepared to join with the President in taking the steps necessary to restore a stable and prosperous economy.

In doing so we are anxious that whatever sacrifices are necessary be shared by all our citizens. No group or part of our population should bear a disproportionate burden. All will benefit from a prosperous economy. All should do their part in achieving this important objective.

CHART 9

INCREASING CONSUMER PRICE INFLATION, 1960-1980

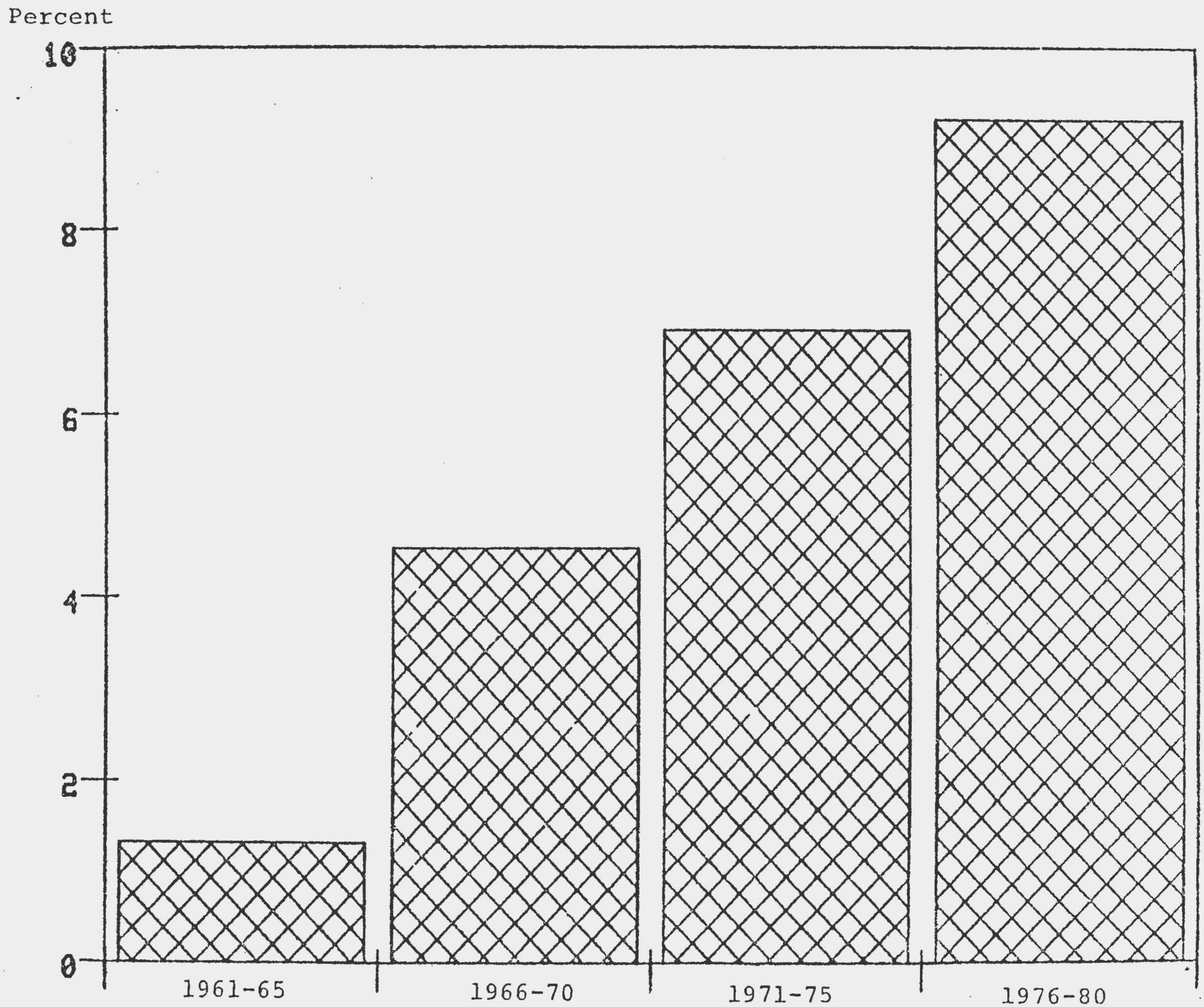


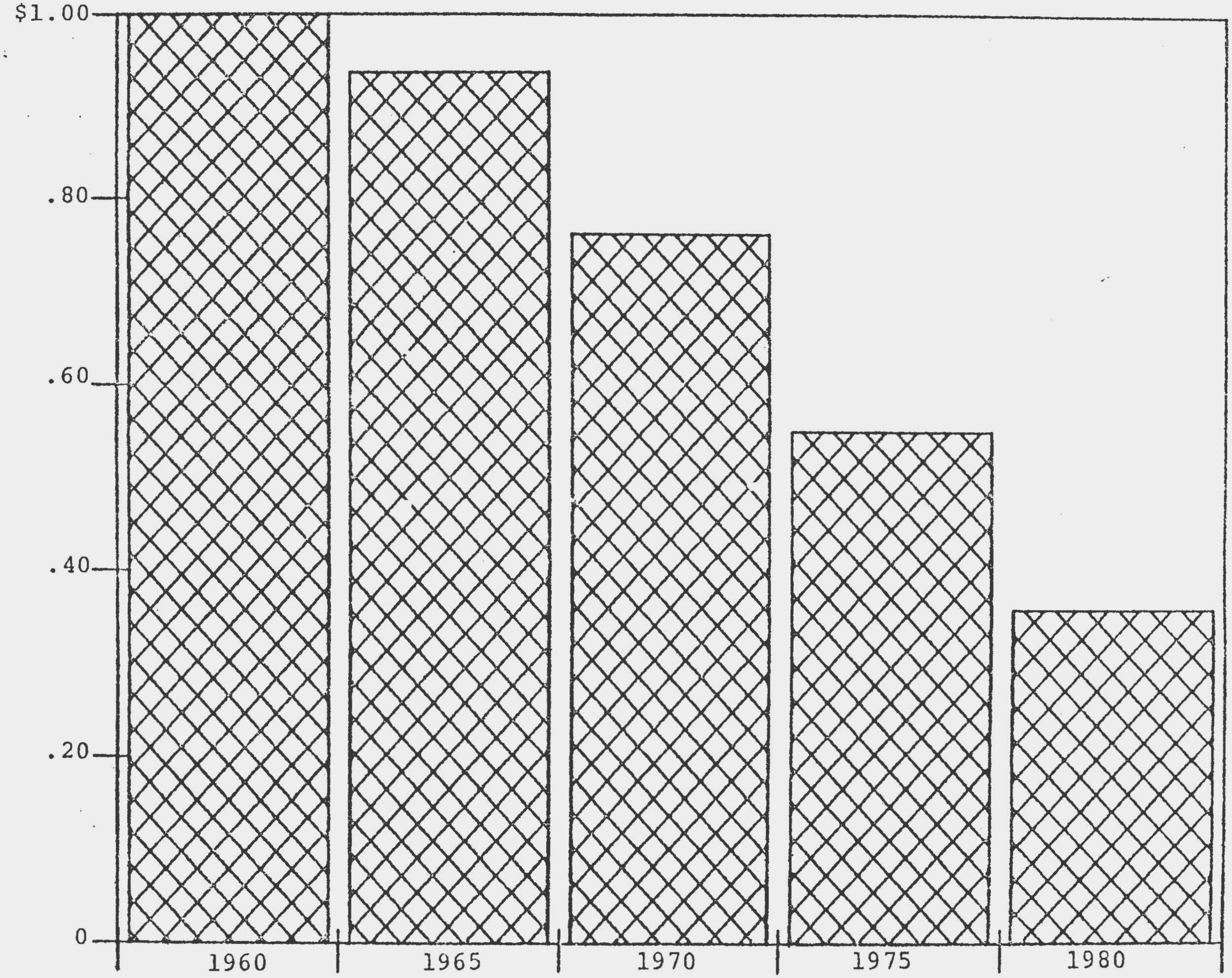
Chart I

Note.--Average year-to-year change in the consumer price index, all urban consumers.

SOURCE:

CHART 10

THE DECLINING PURCHASING POWER OF THE DOLLAR (1960=$1.00)



Note.--Inverse of average level of consumer price index, all urban consumers.

Source: Department of Labor

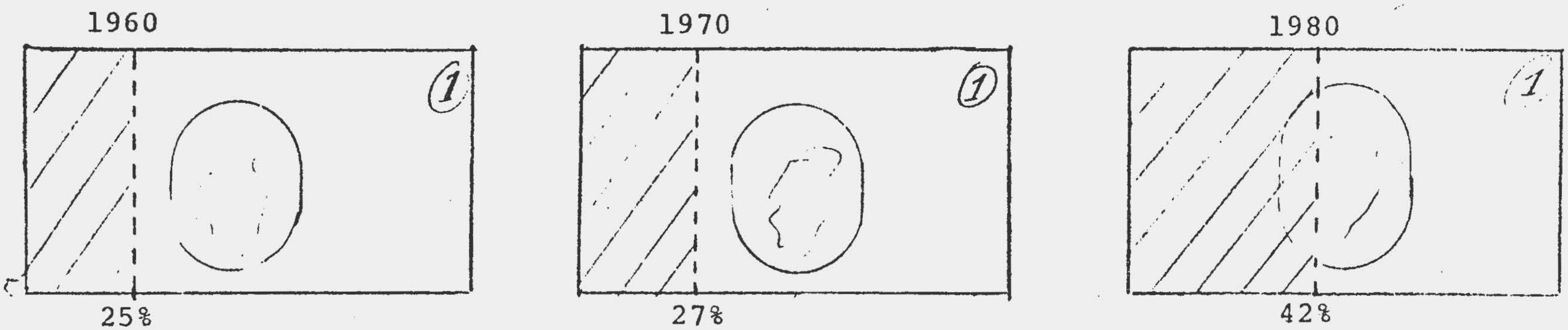
Chart II

CHART 11

Chart III

THE RISING COST OF OWNING A NEW HOME

(Portion of Typical Family Income Devoted to Monthly Home Payments)

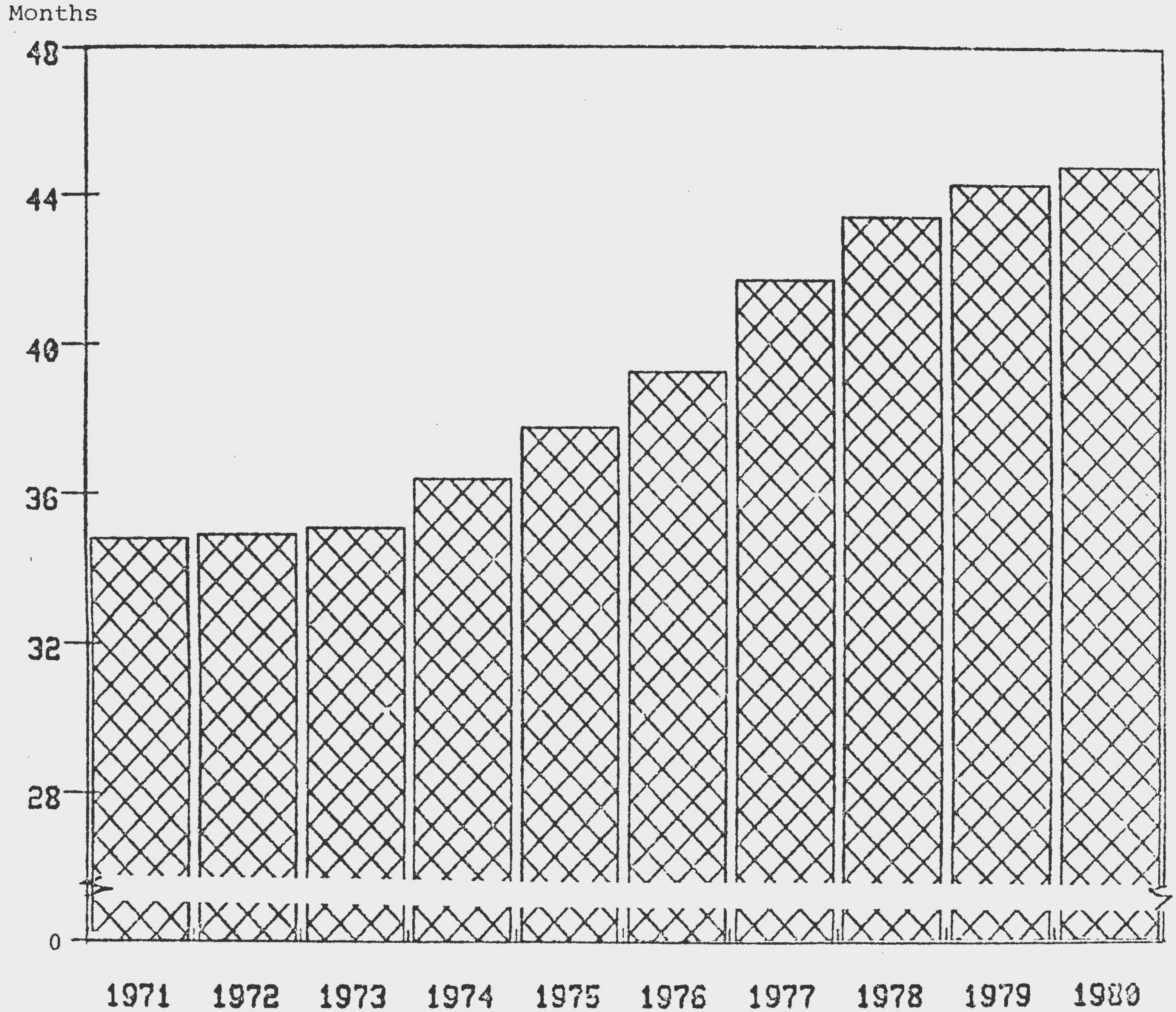


Note.--Annual data. Home payments include principal, interest, taxes, and insurance for the median-priced new home.

Source: Department of Housing and Urban Development.

CHART 12

NUMBER OF MONTHS NEEDED TO PAY OFF A CAR LOAN



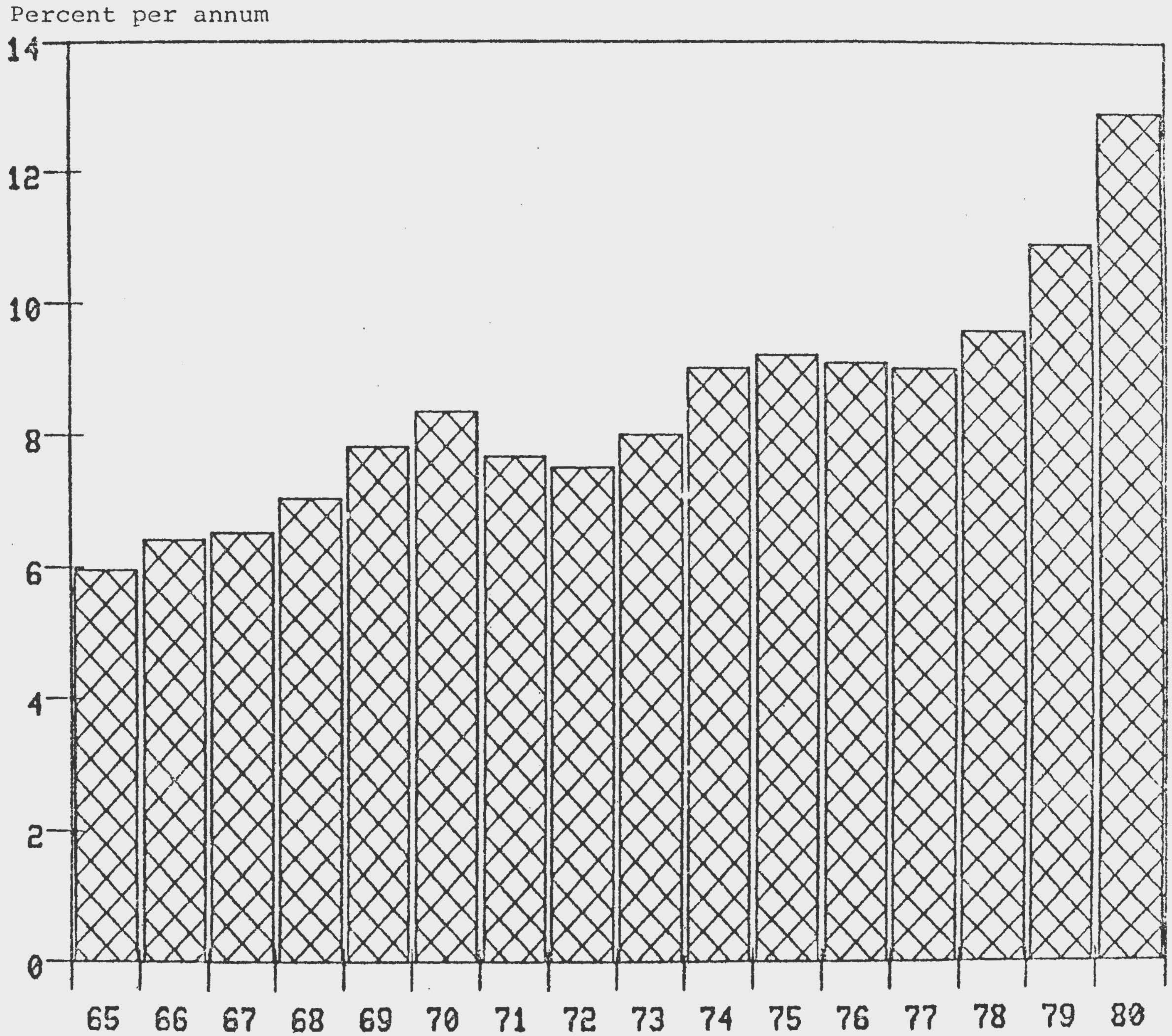
Note.--End-of-year data for the average length of car loans made by major automobile finance companies.

SOURCE: Board of Governors of the Federal Reserve System

Chart IV

CHART 1[illegible]

MORTGAGE INTEREST RATES REACH RECORD HIGH



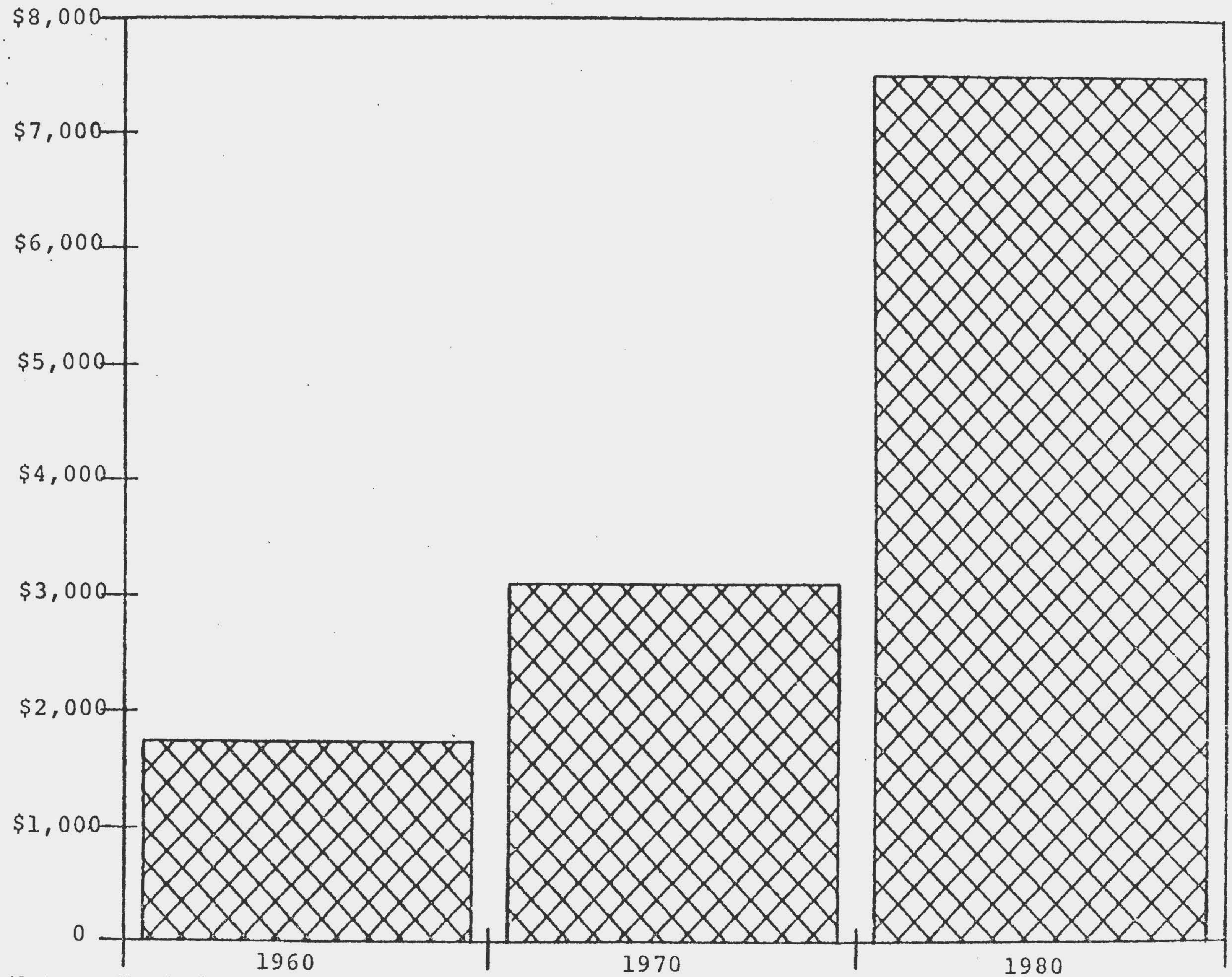
Note.--New home mortgage rate is effective rate on conventional mortgage in the primary market.

Chart I

CHART 4

THE EXPANDING FEDERAL PRESENCE
(TOTAL FEDERAL EXPENDITURES PER HOUSEHOLD)

Chart VI



Note.--Includes on-budget outlays plus so-called "off-budget" outlays of the Federal Government.

Source: Office of Management and Budget

CHART 14

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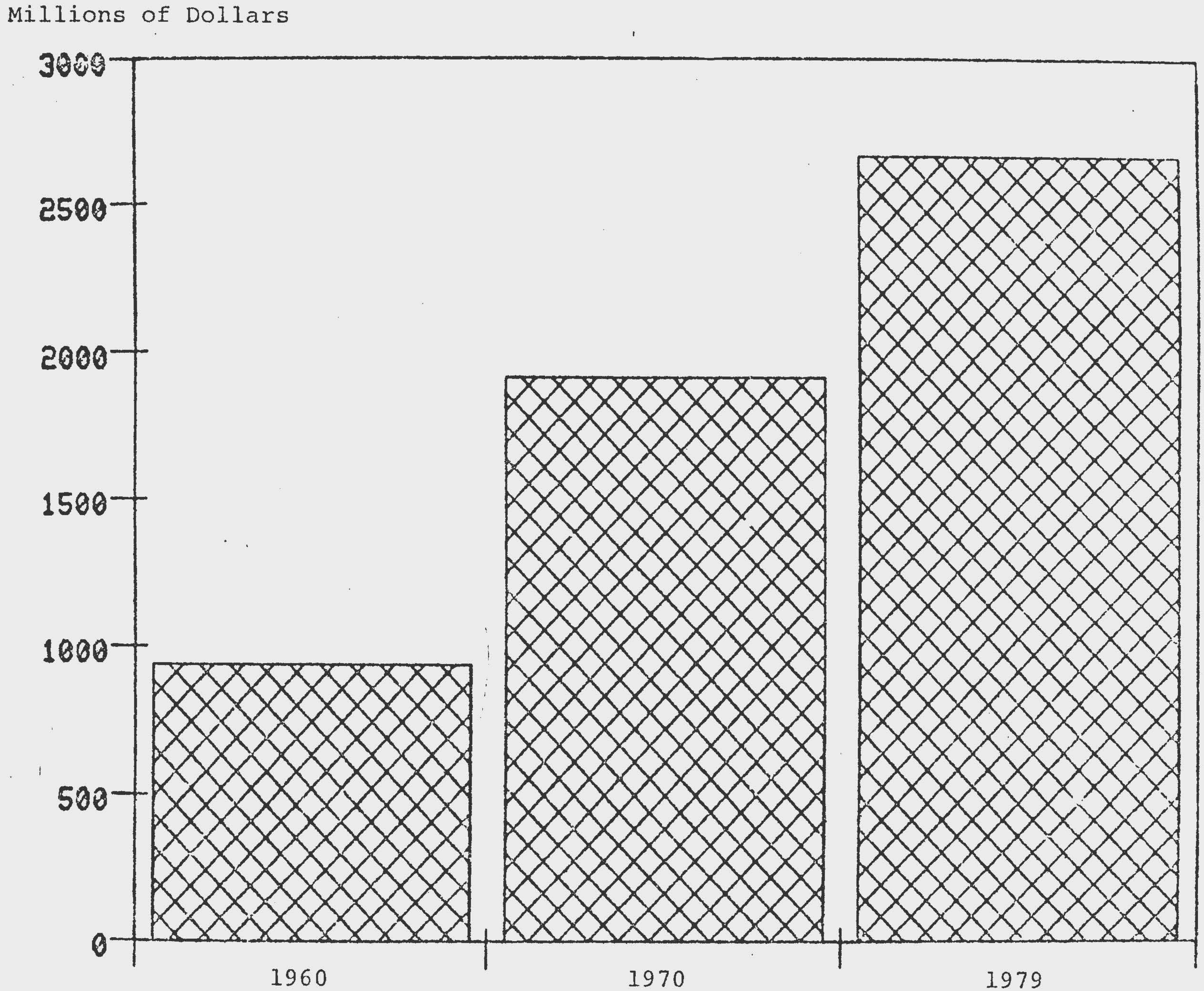


Note.--Data are annual averages for current liabilities of businesses that failed.

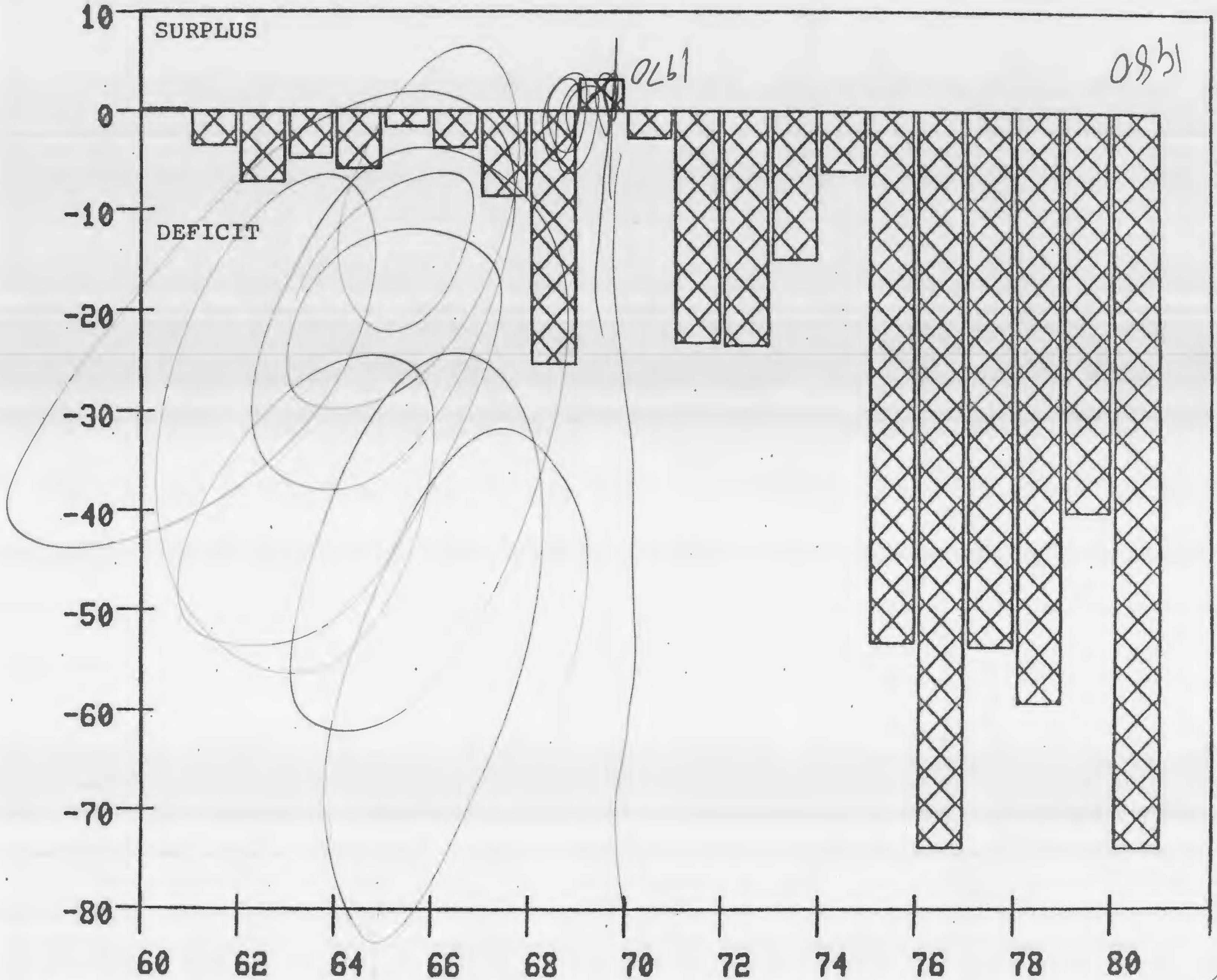
Source: Dun and Bradstreet, Inc.

Chart VI

CHART 5

TWENTY YEARS OF INCREASING FEDERAL DEFICITS

(Fiscal years, billions of dollars)

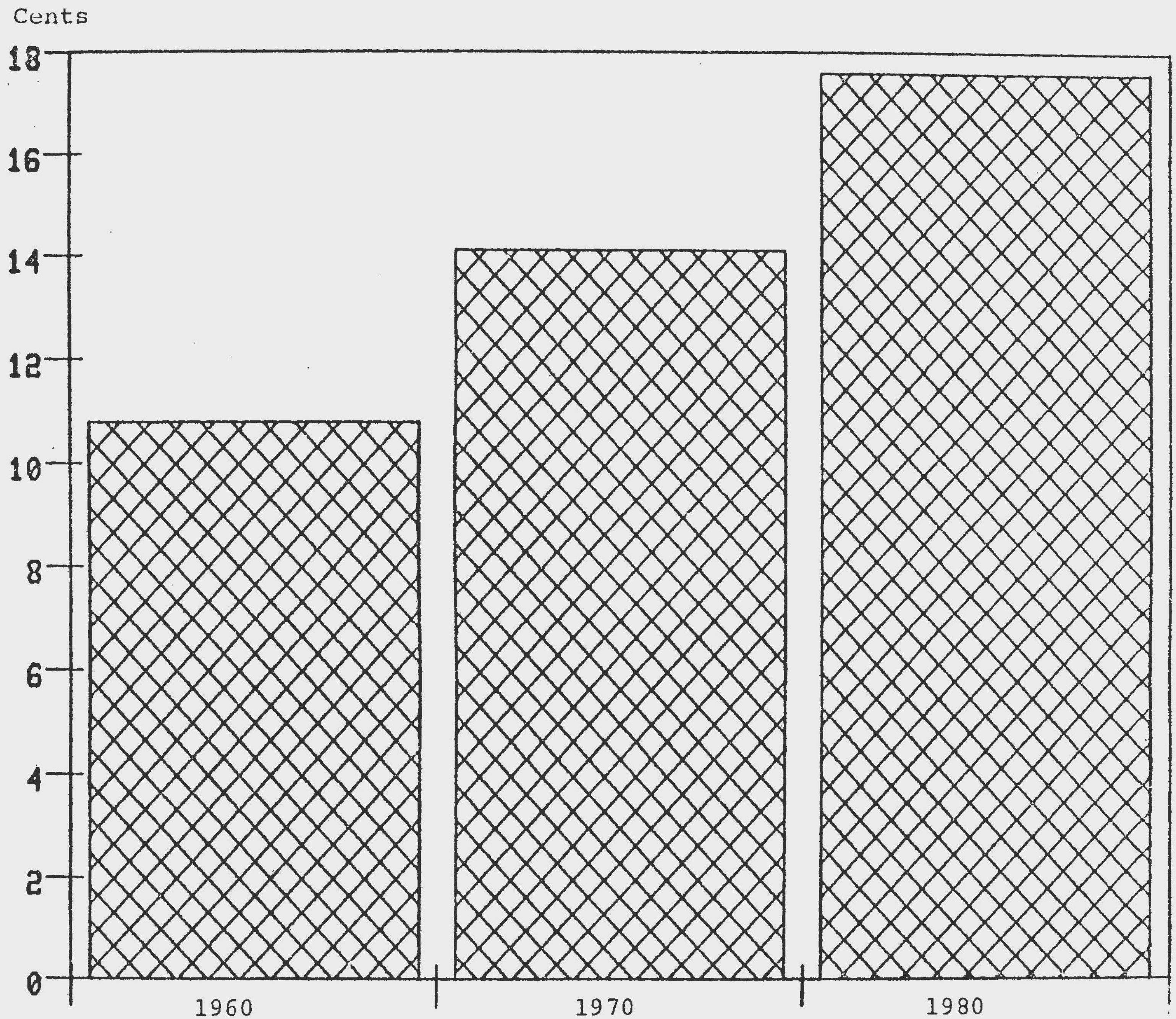


Note.--The difference between total Federal receipts and total Federal outlays including off-budget outlays.

SOURCES: Department of the Treasury and Office of Management and Budget.

CHART 1

THE RISE IN AVERAGE FEDERAL TAXES PER DOLLAR OF INCOME



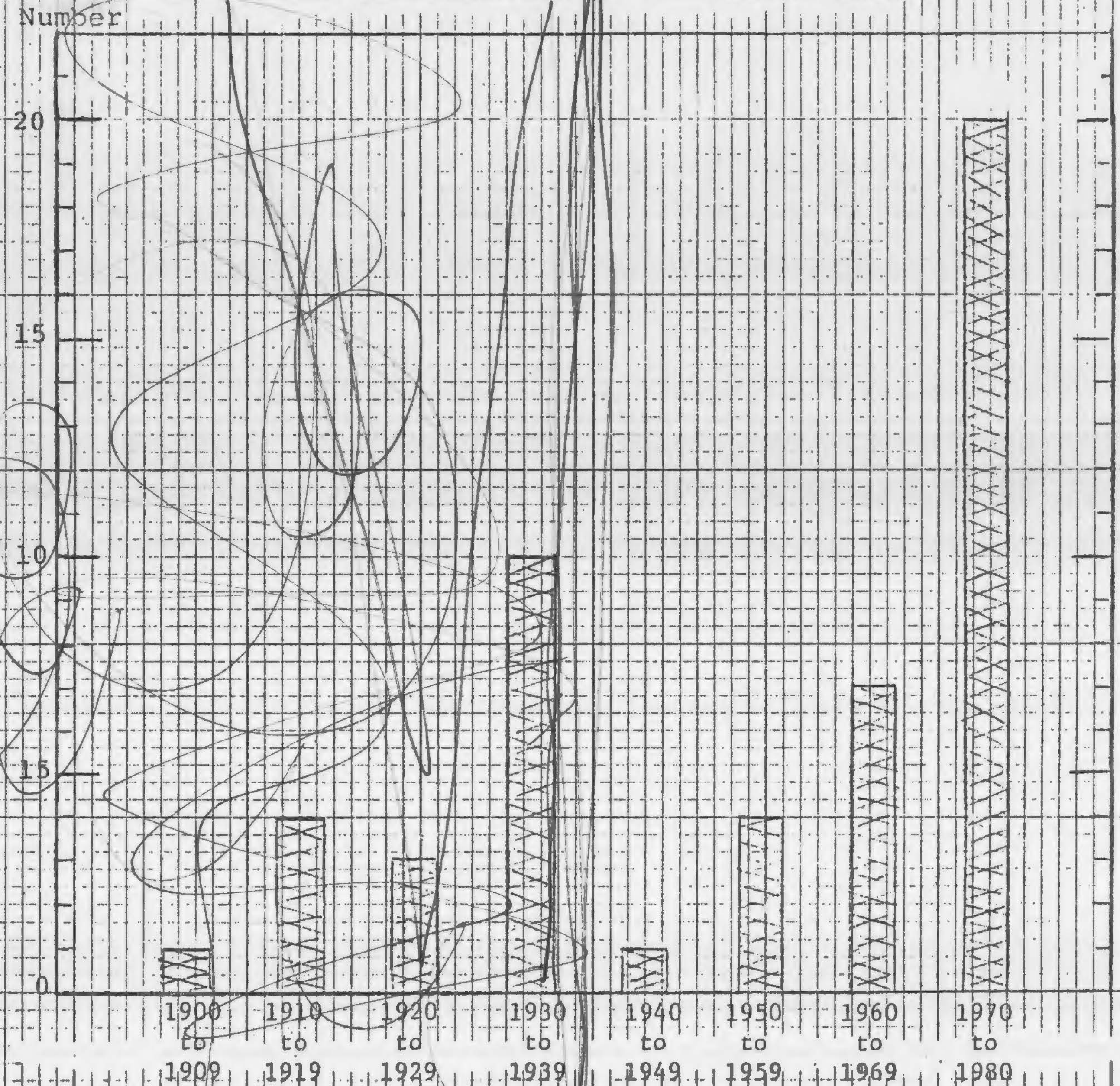
XI

Note:-- Federal personal income and social security taxes per dollar of personal income plus employee social security contributions.

Source: Department of the Treasury.

CHART 7

THE RECENT ACCELERATION OF REGULATORY GROWTH

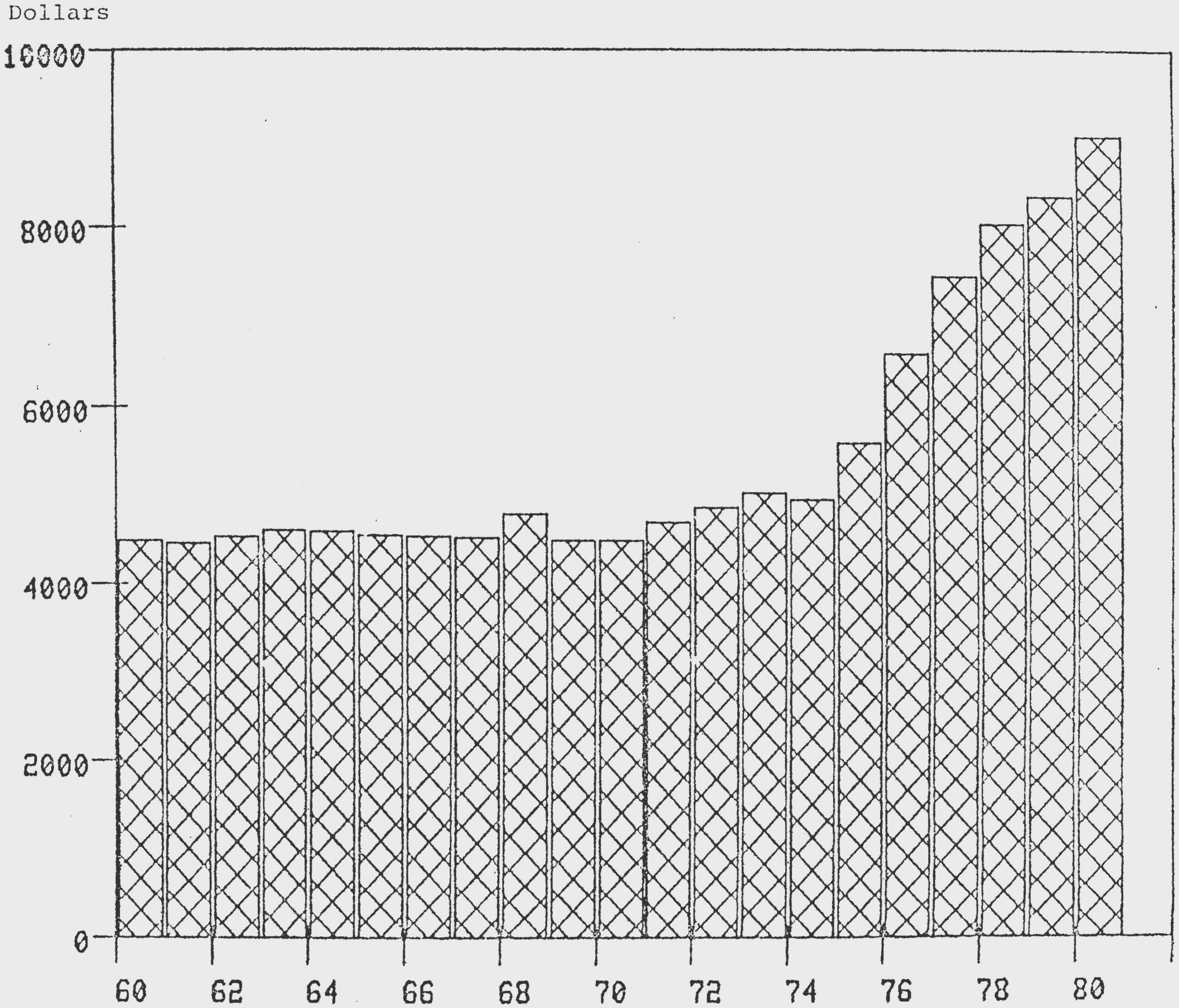


Note.--Data are the number of new Federal regulatory agencies.

Source: Center for the Study of American Business, Washington University of St. Louis.

Chart A

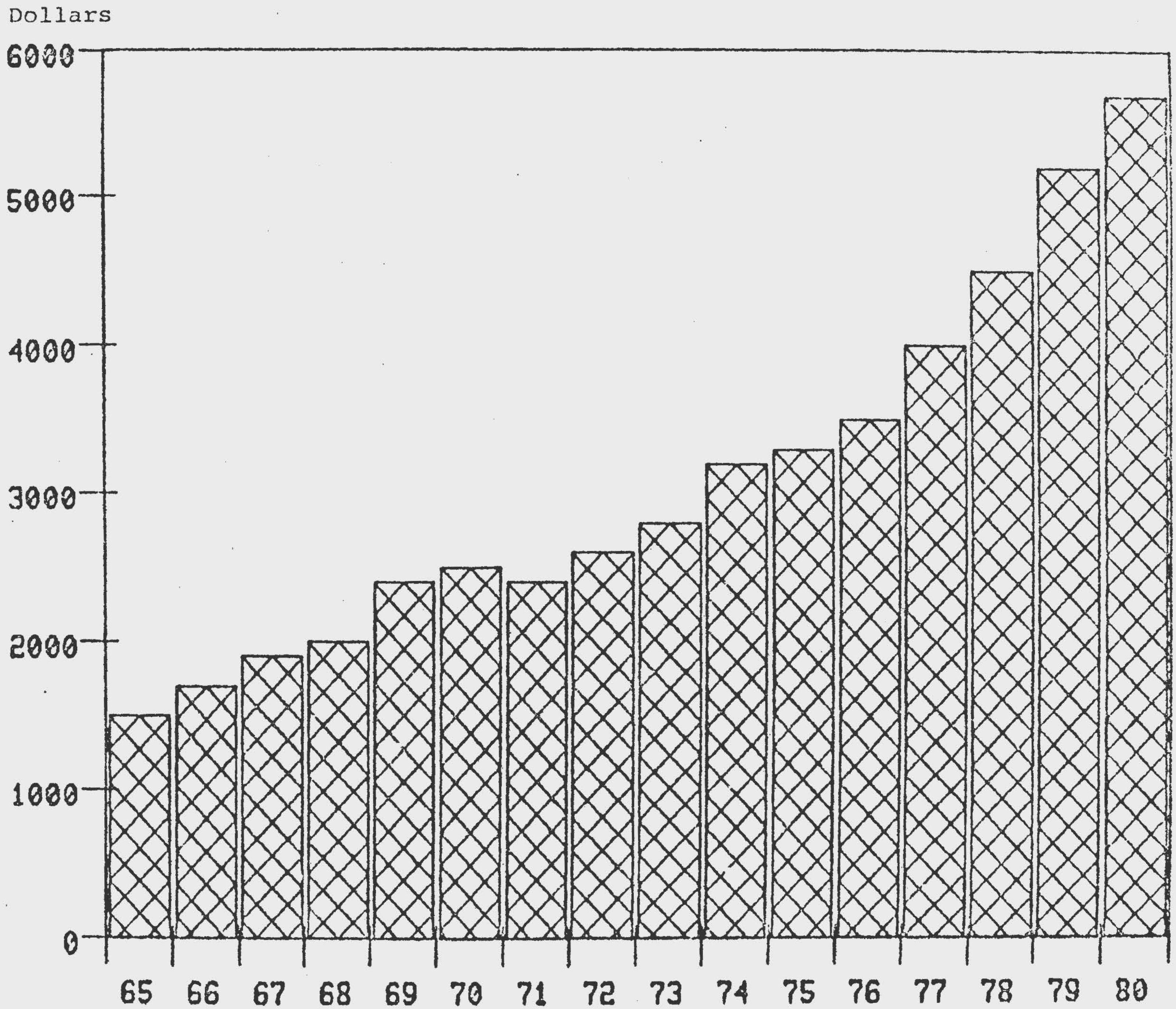
CHART 6 THE GROWING BURDEN OF FEDERAL DEBT ON THE AVERAGE FAMILY



Note.--Federal debt held by the public at the end of each fiscal year divided by the number of households. Adjusted for price increases, the average debt burden per household declines steadily until 1973. Between 1973 and 1980 this inflation-adjusted series grows very rapidly.

CHART 2

GROWTH IN PERSONAL FEDERAL TAXES PER FAMILY



Note.- Federal personal taxes include individual income taxes, employee share of social insurance contributions, and other Federal personal taxes.

BUSINESS

--Failure rates of business as a whole increased by 36% from 1976 to late 1980.

--Failures of small businesses (under $100,000 liabilities) were up 51% in late 1980 over 1979.

--Chrysler and Ford each lost more than $1.5 billion in 1980.

--Total auto industry earnings fell from $4.3 billion in 1976 to a loss of about $4 billion in 1980.

TAXES AND SAVINGS

--A family of four that earned $20,000 in 1972 was in the 25% tax bracket (assuming it took the standard deduction). In 1980, due to inflation that family earned $36,000, but found itself in the 37% tax bracket despite the tax cuts of the past nine years. By 1986 if inflation continues, it will be in the 50% (highest) tax bracket.

--If inflation and taxes are not controlled, within twenty years every family of four now paying any income tax will be in the 50% tax bracket, even those barely earning enough now to pay any tax at all.

--Inflation and taxes drive down personal savings. From 1965-75 Americans saved 7.6% of their disposable income. In the past few years, they saved only about 5.5%, only 1/5 to 1/3 the rate in Japan, Germany, France, Italy. Low savings rates

- --Help raise interest rates
- --Make it harder for young people to buy homes
- --Make it harder for older people to retire
- --Mean less money to expand and modernize America's businesses, which means fewer jobs, lower productivity, and lower real wages.

--A four-person family earning $20,000 in 1980 will see its income and social security taxes increase $291 in 1981 due to inflation and tax increases. For a family earning $30,000, the increase is $539 in one year due to inflation and tax increases.

--Per capita personal income and social security taxes (Federal, State and local) increased from $1,172 in 1976 to $1,915 in 1980. (Up 63%, or $743). Even after adjustment for inflation, per capita taxes increased 20% in just those four years.

NATIONAL DEBT

--National debt now exceeds $900 billion.

--Federal debt increased $282 billion between 1976 and 1980.

--Under the Carter budget, the national debt would grow to $1 trillion by the end of 1981 -- almost $4,500 for every man, woman, and child. The debt likely will get that high despite our best efforts to curb spending and stimulate growth.

Inflation

- The consumer price index rose by 12.4% during 1980 (measured December to December), on top of a 13.3% increase in 1979. These compare with increases of 4.8% in 1976 and 6.8% in 1977. During the first half of the 1960s, the consumer price index rose on average by about 1-1/4% per year.

  The tabulation shows various measures of aggregate inflation:

	Percent change, yearly rate				
	1976	1977	1978	1979	1980
CPI (Dec. to Dec.)	4.8	6.8	9.0	13.3	12.4
GNP deflator (Q-IV to Q-IV)	4.7	6.0	8.4	8.1	9.9
Deflator for personal consumption exp. (Q-IV to Q-IV)	5.0	5.9	7.8	9.5	10.1

Standards of Living

- One measure of standards of living is real after-tax personal income per person employed. This series rose by 2-1/2% per year during the 1970, by 1.4% per year from 1970 to 1976, but was virtually unchanged from 1976 to 1978, rising by only 0.2%. (Deflator used for this series is the personal consumption expenditure deflator, not the CPI.)

- Corresponding figures for growth of real disposable personal income excluding government and other transfers on a per person employed basis are:

	Percent change year rate
1960 to 1970	2.2
1970 to 1976	0.4
1976 to 1980	0.3
1979 to 1980	-0.8

  The peak for this series was 1973. From 1973 to 1980, the series declined by 0.2% per year.

Effect of inflation on a savings account

Corrected info

- o If $5,000 had been invested in a passbook savings account in late 1976, by the end of 1980, compound interest would have raised that to about $6,200. Assuming even the minimal tax rate, taxes on that would have been $165. However, during that period, the CPI increased by 39%, so that the savings account would be worth only about $4,300.

- o If someone retired on a fixed income of $10,000 at the end of 1976, that retirement would now be worth only about $7,200.

Unemployment rates, December 1980

	Percent
Total	7.4
Teenagers	17.8
White	15.4
Black & other minorities	37.5
Construction workers	13.8
Manufacturing	8.8
Durable	9.0
Nondurable	8.5
Michigan	12.8
Ohio	9.3
Illinois	9.4

Employment in autos and steel

	Motor vehicles & equip. (thous.)	Steel (thous.)
1965	842.7	657.3
1970	799.0	627.0
1976	881.0	549.4
1977	947.3	554.3
1978	1004.9	560.5
1979	994.6	569.1
1980 (p)	776.8	508.1
1980 - Nov. (p)	783.3	495.4

Business failures

Failure rate (per thousand)

1976	34.8
1979 - yr.	27.8
1980 - III	47.5

Failures of small business (under $100,000 liabilities)

	Number
1979	3,930
1980-III, annual rate	5,928

Housing

- The average monthly payment of principal and interest on a mortgage to buy the typical new single-family home rose by 140.3% between the end of 1976 and the end of 1980. Increased costs of upkeep -- heating, cooling, taxes, etc. -- would raise that increase further.

- Disposable personal income and disposable per capita personal income rose by 52.6% and 47.4%, respectively, between 1976 and 1980.

	Disposable personal income (bil. $)	Per capital disposable incomes ($)	Average payment on mortgage (end of year,$)
1976	1,194.4	5,550	306.2
1979	1,641.7	7,441	563.2
1980	1,822.2	8,178	735.7
% change 1976 to 1980	52.6	47.4	140.3

Inflation is rapidly pushing up tax rates. If current inflation rates of 12% and more are not brought down, the impact will be devastating.

A family of four which was earning $20,000 in 1972 was in the 25 % tax bracket. Today, just to keep up with inflation, that family would need to earn $36,000. But if it did, it would be in the 37% tax bracket, in spite of all the tax cuts we have had in the last nine years, tax cuts which paid no attention to these damaging marginal tax rates. By 1986, a family still earning exactly the same real income, after inflation will be in the 50% top tax bracket for wages and salaries.

The same sort of increases face all taxpayers. For some, it just takes longer. But by 1999, if nothing is done, every taxpaying family of four now paying income tax will end up in the 50% top tax bracket on its wages and salaries, even those who are now barely earning enough to pay any income tax at all!

For individuals, inflation and the progressive tax code combine to push taxpayers into higher tax brackets, even when they have received no increase in real income. Over the last decade the percentage of tax returns that fell into or above the 25 percent, 30 percent, 36 percent, 40 percent, and 50 percent brackets at least tripled. The result is a reduced after-tax reward for additional effort. This is particularly true for saving, since today marginal tax rates on interest and dividend income reach the prohibitive levels of 50 to 70 percent.

The result of this inflation and these tax increases has been a sharp drop in how much Americans are willing to save. From 1965-1975, Americans on average saved between 7 and 8% of their after tax personal income (7.6%). In the last 5 years, they were only able to save on average between 5 and 6% (5.7%, or 5.5% if we take the 4 years 1977-1980). That means that saving fell 25% from normal levels. We cannot afford that. We are saving only 1/3 to 1/5 as much as people in Japan, Germany, France and Italy. Our low savings rates help raise interest rates. Low savings rates make it harder for young families to buy a home, and for older couples to retire. Low savings rates mean less money to expand and modernize America's businesses, which means fewer jobs, lower productivity, and lower real wages.

A prime example of the problem is the situation in the auto industry. Over the last four years, auto prices have been driven up by inflation and government regulation by 37%, or $2,060 for the average car. Yet, inflation, high interest rates, and government regulations have pushed profits down to where Chrysler and Ford have been losing more than $1.5 billion each per year on their U.S. operations. Profits for the industry as a whole are down from $4.3 B in 1976 to $(4 B) in 1980. Thousands of auto workers are losing their jobs, thousands more are taking pay cuts, and even those who are still on the job and are not taking pay cuts are paying higher taxes.

Personal and Social Security Taxes

o The following tabulation presents the total (both Federal and State and local) of personal income taxes and employee social security taxes on per capita and per employee bases. Figures are for calendar years and are from national income and product accounts. (They are not quite comparable to unified budget concepts.)

	1965	1970	1976	1977	1978	1979	1980
Current dollars							
Taxes per capita	402	701	1,172	1,326	1,502	1,734	1,915
per employee	1,100	1,827	2,884	3,176	3,480	3,947	4,386
Constant (1972) dollars							
Taxes per capita	521	758	891	950	1,007	1,069	1,070
per employee	1,425	1,975	2,192	2,277	2,334	2,432	2,451
Taxes as a percent of taxable personal income*	15.8	19.8	21.4	22.1	22.4	23.1	23.5

* Personal income plus contributions for social insurance minus the total of other labor income (contributions to retirement funds, etc.) and transfer payments.

o The figures in constant dollars show that the tax burden on the typical worker has been rising faster than prices generally. The following tabulation presents percent changes for these series. (Note that the deflator used here is the deflator for personal consumption expenditures, not the CPI.)

	percent change, yearly rate	
	1965 to 1976	1976 to 1980
Current dollars		
Taxes per capita	10.2	13.1
per employee	9.2	11.0
Constant dollars		
Taxes per capita	5.0	4.7
per employee	4.0	2.8
Deflator for personal consumption exp.	5.0	8.0

1/28/81

Income Tax and Social Security Tax Burdens for 1980 and 1981

Four Person - One-earner Families

(dollars)

1980 Income level	1980				1981 1/				Change in tax due to change in effective tax rate		
	Income tax 2/	Social security tax 3/	Total tax	Effective tax rate	Income tax 2/	Social security tax 3/	Total tax	Effective tax rate	Income tax	Social security tax	Total tax
				(percent)				(percent)			
$20,000	$2,013	$1,226	$3,239	16.2%	$2,439	$1,496	$3,935	17.5%	$174	$117	$291
25,000	2,901	1,532	4,433	17.7	3,513	1,870	5,383	19.1	249	146	396
30,000	3,917	1,588	5,505	18.4	4,757	1,975	6,732	19.9	350	188	539

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1981

Note: Details may not produce totals due to rounding.

1/ Calculated under 12.5 percent inflation.
2/ Assumes deductible expenses equal to 23 percent of gross income.
3/ Employee share of FICA tax.

UNEMPLOYMENT

--Unemployment rate is 7.4%.

--7.8 million people were out of work at the end of 1980.

--38% of black and other minority teenagers are unemployed.

--14% of construction workers are unemployed.

--220,000 fewer auto workers today (November, 1980) than in 1978.

--65,000 fewer steel workers today (November, 1980) than in 1978.

ECONOMIC "HORROR STORIES"

INFLATION

Inflation is out of control and impacts every American.

--The inflation rate has nearly tripled since 1976, and was 12.4% (CPI) last year.

--The inflation rate today is ten times that of the early 1960's (CPI).

--Real after-tax personal income per worker was virtually flat from 1976 to 1980 (up 0.3% per year).

--A retired family living on $10,000 fixed income in 1976, has only the equivalent of $7,200 today.

--The average monthly payment on a mortgage to buy a new home has more than doubled (up 137%) since 1976, from $310 to $736 per month (December, 1980).

--$5,000 invested in a passbook savings account in 1976 would be worth $4,300 today after adjusting for inflation -- even including all the interest that would have been earned ($1,200, less taxes at the minimum 14% rate).

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OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

January 31, 1981

MEMORANDUM FOR KEN KHACHIGIAN

FROM: David L. Chew
Executive Assistant
to the Secretary

SUBJECT: Items for the President's TV Address

We have been asked to provide some descriptive material on the state of the economy and government spending for possible use by the President.

Attached are our suggestions. If you need additional information or clarification on any of these points, please feel free to give me a call on 566-5901.

Attachments

cc: Craig Fuller

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--National debt now exceeds $900 billion.

--Federal debt increased $282 billion between 1976 and 1980.

--Under the Carter budget, the national debt would grow to $1 trillion by the end of 1981 -- almost $4,500 for every man, woman, and child. The debt likely will get that high despite our best efforts to curb spending and stimulate growth.

APPENDIX A

Inflation

- The consumer price index rose by 12.4% during 1980 (measured December to December), on top of a 13.3% increase in 1979. These compare with increases of 4.8% in 1976 and 6.8% in 1977. During the first half of the 1960s, the consumer price index rose on average by about 1-1/4% per year.

  The tabulation shows various measures of aggregate inflation:

	Percent change, yearly rate				
	1976	1977	1978	1979	1980
CPI (Dec. to Dec.)	4.8	6.8	9.0	13.3	12.4
GNP deflator (Q-IV to Q-IV)	4.7	6.0	8.4	8.1	9.9
Deflator for personal consumption exp. (Q-IV to Q-IV)	5.0	5.9	7.8	9.5	10.1

Standards of Living

- One measure of standards of living is real after-tax personal income per person employed. This series rose by 2-1/2% per year during the 1970, by 1.4% per year from 1970 to 1976, but was virtually unchanged from 1976 to 1978, rising by only 0.2%. (Deflator used for this series is the personal consumption expenditure deflator, not the CPI.)

- Corresponding figures for growth of real disposable personal income excluding government and other transfers on a per person employed basis are:

	Percent change year rate
1960 to 1970	2.2
1970 to 1976	0.4
1976 to 1980	0.3
1979 to 1980	-0.8

  The peak for this series was 1973. From 1973 to 1980, the series declined by 0.2% per year.

Effect of inflation on a savings account

Corrected info

- If $5,000 had been invested in a passbook savings account in late 1976, by the end of 1980, compound interest would have raised that to about $6,200. Assuming even the minimal tax rate, taxes on that would have been $165. However, during that period, the CPI increased by 39%, so that the savings account would be worth only about $4,300.

- If someone retired on a fixed income of $10,000 at the end of 1976, that retirement would now be worth only about $7,200.

Unemployment rates, December 1980

	Percent
Total	7.4
Teenagers	17.8
White	15.4
Black & other minorities	37.5
Construction workers	13.8
Manufacturing	8.8
Durable	9.0
Nondurable	8.5
Michigan	12.8
Ohio	9.3
Illinois	9.4

Employment in autos and steel

	Motor vehicles & equip. (thous.)	Steel (thous.)
1965	842.7	657.3
1970	799.0	627.0
1976	881.0	549.4
1977	947.3	554.3
1978	1004.9	560.5
1979	994.6	569.1
1980 (p)	776.8	508.1
1980 - Nov. (p)	783.3	495.4

Business failures

Failure rate (per thousand)

1976	34.8
1979 - yr.	27.8
1980 - III	47.5

Failures of small business (under $100,000 liabilities)

	Number
1979	3,930
1980-III, annual rate	5,928

Housing

- The average monthly payment of principal and interest on a mortgage to buy the typical new single-family home rose by 140.3% between the end of 1976 and the end of 1980. Increased costs of upkeep -- heating, cooling, taxes, etc. -- would raise that increase further.

- Disposable personal income and disposable per capita personal income rose by 52.6% and 47.4%, respectively, between 1976 and 1980.

	Disposable personal income (bil. $)	Per capital disposable incomes ($)	Average payment on mortgage (end of year,$)
1976	1,194.4	5,550	306.2
1979	1,641.7	7,441	563.2
1980	1,822.2	8,178	735.7
% change 1976 to 1980	52.6	47.4	140.3

Inflation is rapidly pushing up tax rates. If current inflation rates of 12% and more are not brought down, the impact will be devastating.

A family of four which was earning $20,000 in 1972 was in the 25 % tax bracket. Today, just to keep up with inflation, that family would need to earn $36,000. But if it did, it would be in the 37% tax bracket, in spite of all the tax cuts we have had in the last nine years, tax cuts which paid no attention to these damaging marginal tax rates. By 1986, a family still earning exactly the same real income, after inflation will be in the 50% top tax bracket for wages and salaries.

The same sort of increases face all taxpayers. For some, it just takes longer. But by 1999, if nothing is done, every taxpaying family of four now paying income tax will end up in the 50% top tax bracket on its wages and salaries, even those who are now barely earning enough to pay any income tax at all!

For individuals, inflation and the progressive tax code combine to push taxpayers into higher tax brackets, even when they have received no increase in real income. Over the last decade the percentage of tax returns that fell into or above the 25 percent, 30 percent, 36 percent, 40 percent, and 50 percent brackets at least tripled. The result is a reduced after-tax reward for additional effort. This is particularly true for saving, since today marginal tax rates on interest and dividend income reach the prohibitive levels of 50 to 70 percent.

The result of this inflation and these tax increases has been a sharp drop in how much Americans are willing to save. From 1965-1975, Americans on average saved between 7 and 8% of their after tax personal income (7.6%). In the last 5 years, they were only able to save on average between 5 and 6% (5.7%, or 5.5% if we take the 4 years 1977-1980). That means that saving fell 25% from normal levels. We cannot afford that. We are saving only 1/3 to 1/5 as much as people in Japan, Germany, France and Italy. Our low savings rates help raise interest rates. Low savings rates make it harder for young families to buy a home, and for older couples to retire. Low savings rates mean less money to expand and modernize America's businesses, which means fewer jobs, lower productivity, and lower real wages.

A prime example of the problem is the situation in the auto industry. Over the last four years, auto prices have been driven up by inflation and government regulation by 37%, or $2,060 for the average car. Yet, inflation, high interest rates, and government regulations have pushed profits down to where Chrysler and Ford have been losing more than $1.5 billion each per year on their U.S. operations. Profits for the industry as a whole are down from $4.3 B in 1976 to $(4 B) in 1980. Thousands of auto workers are losing their jobs, thousands more are taking pay cuts, and even those who are still on the job and are not taking pay cuts are paying higher taxes.

Personal and Social Security Taxes

o The following tabulation presents the total (both Federal and State and local) of personal income taxes and employee social security taxes on per capita and per employee bases. Figures are for calendar years and are from national income and product accounts. (They are not quite comparable to unified budget concepts.)

	1965	1970	1976	1977	1978	1979	1980
Current dollars							
Taxes per capita	402	701	1,172	1,326	1,502	1,734	1,915
per employee	1,100	1,827	2,884	3,176	3,480	3,947	4,386
Constant (1972) dollars							
Taxes per capita	521	758	891	950	1,007	1,069	1,070
per employee	1,425	1,975	2,192	2,277	2,334	2,432	2,451
Taxes as a percent of taxable personal income*	15.8	19.8	21.4	22.1	22.4	23.1	23.5

* Personal income plus contributions for social insurance minus the total of other labor income (contributions to retirement funds, etc.) and transfer payments.

o The figures in constant dollars show that the tax burden on the typical worker has been rising faster than prices generally. The following tabulation presents percent changes for these series. (Note that the deflator used here is the deflator for personal consumption expenditures, not the CPI.)

	percent change, yearly rate	
	1965 to 1976	1976 to 1980
Current dollars		
Taxes per capita	10.2	13.1
per employee	9.2	11.0
Constant dollars		
Taxes per capita	5.0	4.7
per employee	4.0	2.8
Deflator for personal consumption exp.	5.0	8.0

1/28/81

Income Tax and Social Security Tax Burdens for 1980 and 1981

Four Person - One-earner Families

(dollars)

1980 Income level	1980				1981 1/				Change in tax due to change in effective tax rate		
	Income tax 2/	Social security tax 3/	Total tax	Effective tax rate	Income tax 2/	Social security tax 3/	Total tax	Effective tax rate	Income tax	Social security tax	Total tax
				(percent)				(percent)			
$20,000	$2,013	$1,226	$3,239	16.2%	$2,439	$1,496	$3,935	17.5%	$174	$117	$291
25,000	2,901	1,532	4,433	17.7	3,513	1,870	5,383	19.1	249	146	396
30,000	3,917	1,588	5,505	18.4	4,757	1,975	6,732	19.9	350	188	539

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1981

Note: Details may not produce totals due to rounding.

1/ Calculated under 12.5 percent inflation.
2/ Assumes deductible expenses equal to 23 percent of gross income.
3/ Employee share of FICA tax.

MEMORANDUM

file

THE WHITE HOUSE

WASHINGTON

TO: Kenneth Khachigian

FROM: Robert M. Garrick

DATE: February 3, 1981

RE: Gerald J. Lynch

Jerry Lynch is an old friend, as well as being a fellow Past-President of the Los Angeles Society of the Friendly Sons of St. Patrick.

Enclosed is a copy of a speech he presented to the Economic Roundtable of Los Angeles. I am passing it on to you for any use you might be able to make of it.

Colt Industries

Menasco Inc
805 South San Fernando Blvd.
Burbank, California 91510
213/843-2272

Gerald J. Lynch
Chairman

Group Vice President
Colt Industries Inc

January 30, 1981

The Honorable Robert Garrick
Deputy Counselor to the President
The White House
Washington, D.C. 20500

Dear Bob:

I am pleased to enclose a copy of a talk I gave yesterday to the Economic Round Table of Los Angeles. The Economic Round Table, which has been meeting since 1932, is composed of approximately 60 people, who purportedly have distinguished themselves in some line of work. Among others on the Round Table, I am sure you know Bob Finch, Mory Stans, and Ed Clark, the recent candidate for President on the Libertarian ticket.

Based on the reaction of the members yesterday, I thought that this speech might be of some help to the Reagan Administration in formulating its economic policy and tax proposals. I shall also send copies of this talk to Donald Regan, Murray Weidenbaum, and David Stockman. If you deem it appropriate, you might share your copy with Ed Meese.

Congratulations on your appointment. I know that you will do a bang-up job for the President, provided, of course, that you can insulate yourself from the influence of Hamilton Gordan whose private office you now occupy.

As we discussed, I shall call on you Wednesday morning to set up a time to see you and hopefully some of your associates at a time that meets your convenience.

Sincerely,

Gerry

Gerald J. Lynch

Enclosure

"Capital Formation -- Are We Eating Up Our Seed Corn?"

Remarks

by

GERALD J. LYNCH
Chairman
Menasco Inc
A Wholly-Owned Subsidiary of Colt Industries Inc

and

Director of Colt Industries Inc

to the

ECONOMIC ROUND TABLE OF LOS ANGELES
California Club
Los Angeles, California

January 29, 1981

"Capital Formation -- Are We Eating Up Our Seed Corn?"

Shortly before Christmas Day, Henry Keck, our well-organized Program Chairman, called and asked what I was going to talk about today. I told him -- and this was the fact -- that I hadn't thought about it yet.

Henry suggested that, considering the sad state of the economy -- I think he said, "an economic Dunkirk" -- I address one of the more vital economic issues now facing the nation. After some gentle persuasion, I selected the topic which our eloquent President, Coleman Morton, has announced, "Capital Formation -- Are We Eating Up Our Seed Corn?"

Now, even though we are the Economic Round Table, I have the feeling that any subject which connotes economics seems to generate a mild ennui in this distinguished group, particularly at 7:30 in the morning. And so, mindful of this risk, I shall avoid economic buzz words and attempt to make this rather complicated matter interesting and meaningful with some suggestions which should warm the cockles of your capitalistic hearts.

I shall not hold you in suspense. The subject has been billed in the form of a question, "Capital Formation -- Are We Eating Up Our Seed Corn?"

The answer to the question is unequivocally "yes". In the matter of capital formation, we <u>are</u> eating up our seed corn -- or to mix my metaphors, as an English teacher once told me never to do -- we are killing the goose that lays the golden egg.

Just a word about capital and its significance to each of us. Capital constitutes the productive wealth of society. It represents the resources required to produce goods and services -- plant, equipment, tooling and other tangible assets used to create wealth and to satisfy our requirements for food, shelter and everything else that comes with the good life that we enjoy.

We are wont to take capital for granted because it has been available in some form or other since before recorded time. However, unaided by capital, we would revert -- perish the thought -- to the Stone Age and beyond. To dramatize the significance of capital, I would invite each of you to consider how long -- days or weeks -- it would take you to cut your front lawn on your knees with a simple capitalistic device such as a pair of garden shears and contrast that with the 10 minutes or so it would take with a power mower. Capital at work!

The only source of capital is the excess of national or personal income over that which is consumed. Nations with high savings rates invariably generate a high level of capital formation. Nations with nonexistent savings rates -- who consume all they produce --

generate no capital and with the passage of time and deterioration of their plant and equipment, begin to take the first steps to revert to the Stone Age.

Capital may be owned and deployed by individuals catering to a free market in a capitalistic society, or it may be owned and deployed by the State in a socialistic society, or the systems can be compromised -- as in Great Britain with its usually disastrous effects.

We like to believe that we live in a capitalistic society. But that's not the only system going. We could opt for communism. Let me see if I can pinpoint the difference.

In a capitalistic society, an individual accumulates capital and produces goods and services in a free market economy which could produce for the individual a profit or a loss. In a communistic society, the State owns the productive capital and deploys it, not in relation to consumer choices in a free market society, but in relation to its own social and political goals. The Government makes all the economic decisions and can tilt the bias towards consumer goods or towards capital formation. Profit and loss statements are provided at the national and not at the individual level.

However, the distinction between the two systems is not all that clear in practice. Our capitalistic system, as conditioned by our Government during the last 50 years, is shot through with compromise. For example, the income tax, which started out solely as a source of revenue, over time has become a tool in the hands of Government by which Government can control the free choices we think we enjoy -- a means by which Government can redistribute income, can tilt the bias towards consumerism and against capital formation and in most respects, can do by indirection -- by tax inducement or penalty -- that which a communistic society does by decree.

Most of us are not even aware of how Government can and does effect these choices in a capitalistic society, principally through its power to tax. It can so define and manipulate income so as to effect a redistribution of income among the classes. It can materially influence and even control the economic decisions by those who would acquire capital and those who would deploy capital already acquired. It can tilt the bias towards consumerism, which it has done, or towards capital formation, which it has not done. Using its' power to tax, the Government can and does by indirection divert resources to uneconomic uses. How often have you said, "This makes no economic sense, but tax-wise, I am better off"? Who among us today hasn't succumbed to this siren song of the tax Lorelei?

Government can exclude interest on personal savings from its tax on income, which it has not, except to a minuscule extent. It can eliminate the distinction between "earned" income from so-called "unearned" income, which it hasn't. It can protect stockholders from double taxation of dividends, which it doesn't. It can allow a realistic depreciation to business as a deduction from income, which it doesn't and, in failing so to do, not only increases the effective tax rate on business, but dries up the most important single source of new capital formation.

Our Tax Code has a pro-consumption bias so deeply ingrained that no one seems to notice it any more. Incentives in the Code allow, for example, people to deduct from total income every dollar of interest paid -- subject to a high limitation -- regardless of whether to buy a house, an automobile, a tax shelter, an antique, to incur any kind of consumer debt, or even to use an American Express card to finance a weekend trip to Acapulco. No other country in the free world subsidizes consumer borrowing as do we and, as a result, as I shall point out later, all of their savings' rates materially exceed ours.

The anti-capital bias in our Tax Code reflects popular prejudices rather than objective economic analysis. The Code reflects the social and economic bias of the public and members of Congress.

You may recall the indignation a number of years ago when it was disclosed by the IRS and the Congress that some 154 tax-payers, having adjusted gross incomes in excess of $200,000 paid no federal income tax. Several years later, the full data was disclosed by the Treasury Department which noted that there were 15,200 other individuals at the same level of income -- 100 times as many -- who paid taxes at an effective rate of 44% of adjusted income and 56% of taxable income. I don't recall the Congress or the IRS, or the media ever published this rebuttal. So much for openers.

This morning, I would like to consider with you trends in the United States which for a number of years have progressively discouraged the formation of capital with the result that we have experienced a net loss in our relative rate of capital formation vis-a-vis all of our trading partners in the free world. I will offer you a snapshot of where we now stand, as some believe, on the threshold of "an economic Dunkirk". Thereafter, I will discuss demand side economics versus supply side economics. Then I will consider with you areas of so-called personal savings which, from a national rather than an individual perspective, aren't really savings at all. Then I would like to consider with you the trends in real personal and business savings and the effects of these trends on capital formation which have resulted in what one observer notes is "the progressive decapitalization of America" or a "showdown at capital gap". Finally, I shall present some suggestions as to how we, as a people, might deal with this "showdown at capital gap".

Before I get too deep into the subject, let me offer, as the lawyers would say, a disclaimer. I am not an economist or an accountant, a political scientist or a tax lawyer. As a matter of fact, I can see 4 or 5 people in this room who are more able to address this subject than I. However, I do have one credential.

In my younger days, I participated, as a junior executive with several very large corporations, in the analysis of capital formation proposals which aggregated billions of dollars. In more recent years, I have reviewed and approved or rejected capital proposals in the tens of millions and, accordingly, I have a reasonably good grasp on the criteria used by business in committing its resources to the formation of capital. More importantly and more germane to my subject today, I can recall a large number of capital projects which I did not undertake because of the inadequacy of the cash flow from depreciating capital which, theoretically, should have been generated under our tax law as depreciation.

Besides making this disclaimer, I would make another point -- lest any of you have been unduly influenced by the liberal thinking of the last 50 years which, in my opinion, has tended in a subtle way to divide society between the "have's" and the "have not's", with the implication that the "have not's" are the righteous and the "have's" are the knaves.

I must emphasize that the question before the house today is not one of morality -- the "good guys" versus the "bad guys". The question is not one of long-term economic goals. Almost everyone agrees on these goals -- better economic lives for all. The question really is one of methods, i.e., how best these goals can be attained by (a) continuing our emphasis on consumerism, the Great Society and redistribution, which most now agree has proven to be short-range and ineffective; or (b) by placing much greater emphasis on capital formation which most responsible economists now agree will increase wealth, increase productivity, decrease inflation, provide opportunities for employment and provide the greatest good for the greatest number of our people.

Let's look at where we now stand. Government expenditures are at an all-time high -- and counting and mounting. Conversely, our rate of capital formation as a percentage of GNP and our rate of productivity improvement are now the lowest of any of our trading partners in the free world. Our national debt is approaching $1 trillion. In 1980, non-defense spending rose 18%, while all the economy could produce, even with the hump of inflation was an 8% increase in GNP. Almost half of the national budget is for so-called "entitlements" which 50 years ago would have been considered outright gifts from the Government to the disadvantaged.

Just since last March, transfer payments alone have climbed at an annual rate of 25%. Federal outlays in the third quarter of 1980, when Jimmy Carter was making his last-ditch appeals in the form of handouts to his constituencies, was 28% higher than a year ago. Estimates of the 1981 budget deficit now range between $75 and $100 billion -- all of which must be funded by borrowing from the capital markets in competition with legitimate proposals by business for capital formation either in the nature of replacement or expansion of capacity. In this connection, the Federal Government in 1980 tapped the credit markets for $80 billion, or 36% of our total national debt offerings -- with an effect on the cost of money which is now apparent for all to behold.

On January 20, Ronald Reagan inherited not only the Presidency but a veritable economic minefield. I felt this very acutely. I was personally there at the moment of the transfer of power.

But all is not lost. The political mandate given by the people in November represents, in my opinion, the most abrupt shift in national mood since 1933 when FDR was elected President. This mood swept into office a sizable majority in the Senate and substantially increased Republicans in the House to a degree where, with the probable collaboration of Democratic conservatives, President Reagan should have the political muscle to effect substantial reductions in expenditures and to redirect the economy with emphasis on capital formation and output in the private sector in the expectation that over time our economic problems will be resolved. There is every indication so far that the new Administration will take measures to bring spending under control and to establish a climate which will encourage capital formation and thus address the root causes and not the symptoms of what ails us.

Furthermore, there are encouraging signs that economists of almost every persuasion have converted to supply side economics as opposed to demand side economics. Some of us are old enough to remember the Great Depression and the conventional economic wisdom of the 30's. The problem, said the demand side economists was not one of productive capacity. The problem was one of buying power to tap this capacity.

This thesis was propounded by John Maynard Keynes, the British economist, and embraced by FDR and countless others -- a philosophy of consumerism; of spend and spend, and borrow and borrow, on the general thesis that an increase in consumption would somehow generate the productive capacity to meet this artificially-supported demand. Keynes contemplated interim pump priming as contrasted with a permanent spending program which, as we now know, some of his disciples want to extend ad infinitum. As opposed to the demand side remedy, supply side economics relies on the growth of incentives to increase output rather than on the growth of the national budget to stimulate the economy. By almost any test, demand side economics has now come a cropper. Supply side economics should now have its chance.

Why did the demand side pendulum swing so far? This would be the subject of an entire presentation. Let me say just this. In a democracy, the responsibility for national policy rests ultimately with the electorate to whom the Government is supposed to respond. However, I must observe that Government, with its overemphasis on getting re-elected -- often by margins of 1, 2 or 5% -- and in attempting to be all things to its many constituencies, has refused to exercise responsible leadership, and in the tradition of the Roman emperors, has fed the populace with more bread and circuses. A handout today, a transfer payment today, a people-mover today is more attractive, politically, than facing up to the longer-term economic reality that as a nation and as individuals we must create productive wealth by spending less than we produce.

There is even a more subtle explanation. Our Christian-Judeo ethics stress compassion for the disadvantaged. Our culture reaches out to those in need. Witness the generous support we give private charities on the individual level -- which support is given, however, in relation to the resources available to each individual.

Conversely, on the political level, the public seems to assume that resources are inexhaustible with the result that federal assistance to the needy has increased during the last 13 years from $42 billion to $365 billion. Without discussing the merits of the individual programs, it occurs to me there must be -- and is -- a better way to show this compassion -- i.e., by providing incentives so that the nation can capture its full potential in the interest of all sectors and begin to refrain from giving away a larger and larger percentage of less and less.

But to get back to the subject at hand -- capital formation. I must emphatically remind you that the <u>only</u> source of capital is savings. But before discussing personal savings which generate real capital, let me explode several myths with respect to personal savings which appear to be savings as to individuals, but add not one whit to savings which can be tapped for the formation of capital.

Let's look at housing. There are about 50 million owner-occupied homes in the United States. Most are mortgaged. If we assume that they are worth an average of only $40,000, the total value is about $2 trillion. Subtract the standard mortgage debt of $800 billion and we are left with $1.2 trillion of homeowner equity.

This $1.2 trillion in equity exceeds by a wide margin the individual bank accounts and security holdings of all these homeowners. The key to understanding how Americans can generate wealth that isn't capital is that housing equity is an economically sterile investment for society.

Four-bedroom, 2-bath houses are a pleasant part of the American lifestyle, but once built, they do nothing to keep America competitive.

To the homeowner, $50,000 in home equity is the same as $50,000 in the bank, but the money is in his house and the bank can't lend it to U.S. Steel to modernize its steel-making capacity, or to General Motors to robotize its plants and remain competitive with the Japanese.

Now let's look at Social Security, which the wage earner, and some of us, regard as savings. Our Social Security system diverts more money from savings into consumption than even our lavish housing standards. Individual Americans paid about $90 billion in Social Security taxes in 1980, vastly more than all their real personal savings combined. That money was put up by workers in exchange for the prospect of Social Security retirement payments at some time in the future. As to each individual, that constitutes savings -- a diversion of money from current consumption in return for a future stream of income -- but in practice, it is a transfer payment for society as a whole.

Social Security payments are now roughly equal to revenues, so no capital is being accumulated in the system. The capitalized value of Social Security obligations -- the fund you'd need today to meet future claims, assuming no one paid contributions any more -- is $850 billion. Had Social Security been run prudently, it would have a balance in the till and would become fully funded by the year 2000. Its income would exceed payments, producing a resource which could be invested in some way in the re-capitalization of America.

But, as you well know, an irresponsible Government has turned Social Security into a system in which current workers pay their parents' pensions, hoping that their children will pay for them when the time comes. So, just as the nation's largest piece of single wealth is sterile capital tied up in homes, what should be its largest single pension pool has been looted by the Government to pay current bills. No productive assets are being created that would help in the future to support the growing army of retirees.

Now let's look at real personal savings which account for about 25% of the national savings which support capital formation.

Americans are saving a smaller portion of disposable income than are the citizens of the 5 other major industrialized nations. Moreover, the rate for the United States has declined over the past decade, while the rates for the other countries have increased.

In 1970, for example, our personal savings as a percentage of disposable income was 8%, while the savings rate in Japan that year was 17%. However, in 1977, our rate declined to 6%, compared to Japan's increase to 21%. All of our trading partners, West Germany, France, Canada and even Great Britain, had savings rates at least twice ours. The trend since then has been worse. In 1978, our savings rates declined to 5.3%, in 1979 to 4.5% and in the fourth quarter of 1979, to 3.3% -- which is probably about one-fifth of the current personal savings rate in Japan.

Japan, West Germany, France, Canada and the United Kingdom all have tax policies which provide significant encouragement for private savings. The fact that the United States does not have such incentives and the result that we rank last in personal savings explains, in part, our dismal performance with respect to capital investment.

Individuals find themselves forced for tax purposes to invest in tax-free bonds or other sheltered tax investments, or they place their savings in tangible, nonfinancial investments such as gold, real estate, antiques, silver, art, rare stamps and other assets which appreciate rapidly in value, but on which taxes can be deferred.

Savings are taxed at a maximum rate of 70% as "unearned" income. As you know, the Tax Code prescribes a higher maximum tax on "unearned" income than on "earned" income. This has the effect, for example, of taxing after-tax income which was earned in 1979 -- which presumably ended up as real savings for capital formation -- at a higher rate than income that was "earned" in 1980.

I don't know about you, but all of my "unearned" income had its origin in "earned" income on which I had previously paid taxes. The maximum rate of 70% on unearned income, as opposed to a 50% tax on earned income -- a 40% increase in rate -- has the effect of penalizing the individual who has deferred some of life's comforts and has placed his previously earned after-tax income at risk in capital formation.

One of the more effective means of increasing savings and investment would be to eliminate, in whole or in part, interest and dividend income from taxation beyond the modest $400 currently allowed. The result of this on capital formation would be obvious. Another means would be the elimination of double taxation on dividends. Our present tax system provides for a dual tax on corporate income at both the corporate and individual shareholder levels. This dual tax is not only grossly inequitable, but positively discourages capital formation. A corporation pays a tax of 46% on its income. When the shareholder receives his dividend, he is subject to a maximum tax of 70%. His effective tax rate on his shareholder interest could reach an aggregate of 84%.

Some years ago, the New York Stock Exchange engaged in a campaign of vigorously promoting investor interest in the stock market. After giving due consideration to the tax treatment of dividends, is it any wonder that the average investor has become progressively disenchanted with "buying a piece of America"?

Now let's look at business savings. Business savings are composed of after-tax earnings which are retained and the recovery of capital costs through depreciation. Business savings account for 75% of all national savings. 88% of this 75% is represented by capital cost recovery allowances under our current but, as I shall point out, inadequate and obsolete depreciation guidelines. And so, if we are losing ground vis-a-vis our trading partners in the matter of capital formation -- and we are -- the major culprit is the treatment given in our Tax Code to depreciation.

Our tax policy obstructs capital formation by limiting depreciation recovery on the historical cost basis, rather than on a realistic replacement cost basis -- as was originally intended. The income tax is supposed to be a tax only on income -- not on capital. Ever since 1913 when the Federal Income Tax was first imposed, the law recognized that business income could not be generated without the use of assets which, by virtue of age, usage, or obsolescence, would lose their value over time and would ultimately be replaced. Accordingly, the law permitted the taxpayer to deduct from his gross income that portion of the value which was presumably lost during each taxable year.

This allowance for capital cost recovery was called depreciation. In short, this permitted the businessman to deduct that amount from his gross income and establish a depreciation reserve for the replacement of the assets when the assets lost their value through usage, the passage of time, or obsolescence.

The law recognized, by clear implication, that if depreciation allowances for tax purposes were inadequate, two results would follow:

(a) some portion of the tax would be computed on illusory or phony profits; and (b) that business could not establish in its depreciation reserves amounts adequate to replace its plant and equipment.

During the last 15 years particularly, we have experienced virulent inflation, with the result that the cost of plant and equipment has doubled, tripled and even quadrupled. During this entire period, Congress has made only very minor revisions in its depreciation policy and its guidelines, with the result that business has paid taxes at an effective rate well beyond the statutory rate and has been unable to recover its true cost of replacement.

In 1979, Professor Martin Feldstein published a paper, "Inflation and the Taxation of Capital Income in the Corporate Sector". In this paper, he examined the effect of inflation on the taxation of capital used in the nonfinancial sector of the United States economy. He concluded that,

> "The effect of inflation with the existing tax laws was to raise the 1977 tax burden on the corporate sector capital income by more than $32 billion, an amount equal to 65% of the real after-tax income on the nonfinancial corporate sector."

He also said that the principal reason for the increase in this effective tax rate on capital to 65% as opposed to the corporate tax of 46% was that the historical cost method of depreciation caused a major overstatement of taxable profits. He also noted that during the same year, inflation had the effect of reducing depreciation allowances on existing plant and equipment by some $40 billion below what it should have been had a realistic depreciation tax policy been followed. That represented $40 billion in cash flow which was not available for new capital formation.

So, it must be obvious that business is being subjected to a double whammy in that (a) it is being taxed on nonexistent profits, and (b) it is being denied the opportunity to recover the capital costs required to replace its plant and equipment. As a matter of fact, as Henry Keck suggested to me, in today's world it is subjected to a triple whammy because during the last 15 years when business was denied adequate capital cost recovery, our trading partners have made major technological innovations which American business must now match if we are to compete in world markets.

When business savings are added to personal savings, the U.S. ranks far behind its trading partners. Total national savings as a percent of gross national product in 1978 were only 6%, as compared to Japan (17%), West Germany and France (12%), Canada (9%) and even Great Britain (7%). All of these countries have tax policies which provide adequate incentives for the encouragement of capital formation.

Many believe that Japan, West Germany and even France have relatively more modern plants and equipment than do we. One of the principal reasons is that for years they provided capital cost recovery allowances which were far more realistic than ours.

The United Kingdom and Canada have recently liberalized their depreciation systems and are now far more effective in providing for adequate capital formation than is the United States. Canada now permits machinery and equipment to be written off over a two-year period. Even the United Kingdom, which for over 50 years has been notorious in allowing its industrial plant to deteriorate, now permits 100% of the cost of machinery to be written off in the year purchased. Some observers believe that this recent overture is too late and that the British industrial establishment is now beyond redemption. If so, this would be an object lesson for us and incite us to take timely and decisive action to reverse our own national trend.

Our relatively low rates of investment have many effects on productivity, national income, wages, prices, inflation, balance of payments, and others. I will comment briefly only on the effects on productivity and national income.

A low rate of capital formation leads inevitably to low rates of productivity growth. The United States ranks last among its major trading partners in this respect. A good measure of productivity growth is output per manufacturing hour. The average annual increases experienced by our trading partners in the period 1960-79 were: Japan 8.3%, France 5.6%, Germany 5.4%, Canada 4.0% and even the United Kingdom 3.2%. The average annual increase in the United States was 2.5%, about a quarter that of Japan and one half that of West Germany and France.

So much for the entire 1960-1979 period. Let's look at the trends during that period. They are truly ominous. From 1965-73, the growth rate fell to 2.3%; from 1973-79 it fell to 1.2% and during 1979, output per hour actually decreased by .9%.

This reduced rate of productivity has had many effects, the most dramatic of which has been the effect on national income.

The effect of this slowdown on productivity was to reduce total real income in 1977 alone by 19% -- the equivalent of $280 billion -- compared to what would have been achieved by a sustained growth in productivity at the rate of growth experienced in the pre-1960 period. Extend this loss of $280 billion over only 1978/1979/1980 and you develop a loss in national income of $1 trillion -- about equal to our national debt.

For years we have been losing to our trading partners our relative position in the matter of capital formation with all of its associated effects on productivity, prices, wages, national income, inflation and the rest. In absolute terms, we are still the most powerful industrial nation on earth. However, unless the trends of the last 20 years are reversed, we could lose this absolute position if we continue to drift downward in the matter of capital formation.

What do we do about it? I am always suspicious of nostrums or cure-alls. However, to me the solution is pretty obvious, namely, to develop and administer a national tax policy which encourages and stimulates capital formation and, in this connection, I believe consideration should be given to (1) eliminating the distinction between "earned" and "unearned" income; (2) materially raising the exclusions from income of dividends and interest; (3) eliminating double taxation of dividends; (4) eliminating or materially reducing the capital gains tax; (5) allowing business to exclude from income realistic depreciation and thus refrain from taxing business on illusory profits and also provide business with the cash flow required for the re-industrialization of America.

If all these were accepted forthwith, it would represent a substantial tax reduction. Each proposal must be responsibly considered in relation to the requirements of the Federal Government for revenue and the need for a balanced budget and the feedback each would provide for the economy as a whole. What I am proposing is that the Government now recognize in its tax policy the acute problem of capital formation and address it in rational sequence over the next 4 years while we have an Administration which understands the relationship between capital formation and the national well being.

But we must start somewhere. The area which represents the "biggest bang for the buck" in terms of feedback into the economy is that of accelerated depreciation on plant and equipment. In reality this would not constitute a tax reduction over time, but merely a deferral of taxes to future years as new depreciation cycles come into play. After all, you can depreciate assets only once, regardless of the time span over which it is spread. Over time, no revenue is lost. However, business would be given a powerful incentive to restore its industrial plant to optimum efficiency -- not just once, but as often as technology permits and competition requires.

The proposal which appears to be the most practical and most effective approach to accelerated depreciation is known as the 10-5-3 proposal which would reduce the period over which capital outlays would be expensed as follows: (1) industrial buildings, 10 years from the current 23-year average; (2) 5 years for machinery and equipment from the current 16.5 year average; and (3) 3 years on autos and light trucks. Because of the initial potential large revenue loss from 10-5-3, the proposal includes a transition period which would phase in the program over 10 years for industrial buildings and 5 years for equipment.

The expected revenue loss would range from $6.3 billion in 1981 to $22.2 billion in 1986. However, the net cost would be considerably less after taking into account the full feedback effects from the stimulus on the economy. Economists have estimated that 41% of the revenue loss during the first 5 years of 10-5-3 would be recaptured as feedback in the economy and that, longer range, the program would more than pay its way.

During the last several years, there has developed an amazing consensus of American business which is represented by a national organization which is called the Committee for Effective Capital Cost Recovery. This is a voluntary coalition of 556 corporations and 54 business associations which represent thousands of business firms. It is representative of virtually all segments of business and industry, including manufacturing, minerals, retail, transportation and utilities.

This Committee, which is chaired by George A. Strichman, Chairman of Colt Industries, has vigorously promoted the enactment of H.R. 4646, known as the Capital Cost Recovery Act of 1979, as the Jones-Conable Bill, or simply as 10-5-3, which was co-sponsored by a majority of the members of the House of Representatives and the Senate.

It is the conviction of this Committee that 10-5-3 represents the simplest, fastest, most practical and most effective approach to improving capital cost recovery in the tax system.

This Bill died in the last session of Congress principally because Al Ullman, Chairman of the House Ways and Means Committee -- in keeping with the position of Jimmy Carter not to accept tax reductions of any kind -- elected not to report out the Bill and thus submit the Bill to the full House of Representatives for a vote.

The identical Bill has been reintroduced in the 97th Congress. The climate for acceptance of this proposal, or some reasonable facsimilie thereof, has never been better. The Reagan Administration has declared itself in favor of accelerated depreciation. During the last session of Congress, the Senate Finance Committee declared itself overwhelmingly in favor of some form of accelerated depreciation.

I have a high degree of confidence that during 1981 our Government will remove the major deterrent to capital formation by enacting tax legislation which will permit business to accelerate depreciation on plant and equipment. This would provide a major resource required to meet the "showdown at capital gap".

Thereafter, the Government can deal methodically, responsibly and in proper sequence with the other deterrents to capital formation which I have identified; such as, the distinction between "earned" and "unearned" income, more equitable treatment of dividends and interest, elimination of double taxation of dividends, and changes in the capital gains tax.

I must emphasize the consummation of this program would not represent a transfer of the tax burden from the rich to the poor. If the anticipated scenario unfolds with respect to the effects of accelerated capital formation, we can confidently expect an increasing yield in terms of national wealth, increased productivity, lower costs and prices, higher employment, higher national income, reductions in inflation, and improved balance of payments -- the results of again re-harnessing the productive potential of this nation, which is immense.

As I said in the beginning, we have opted for a capitalistic society. However, we have done a pretty good job in recent years of restraining its effectiveness. Most of us here today have been conditioned in our youth by educational institutions and, in recent years, by the media and sometimes even by the clergy -- in their overemphasis on the excesses of capitalism, all of which are remediable -- to feel a trifle guilty about advertising the virtues of capitalism.

I must forcefully remind you that during the last 200 years, capitalism has demonstrated an extraordinary capacity to meet the economic needs of society -- vis-a-vis any competitive economic system, whether it be in Russia, Chile, China, or Iran.

Sometimes I think that the major philosophic battle the Administration and business must now win is to establish in the public mind the effectiveness and the morality of the free enterprise system. In his recent book, "Wealth and Poverty", George Gilder notes that:

> "The most important event in the recent history of ideas is the demise of the socialist dream and that the second most important event is the failure of capitalism to win a corresponding ideological triumph over socialism."

And in this connection, I would like to quote an excerpt from an article carried in the Wall Street Journal seven days ago by Paul Johnson, a British journalist and former editor of the New Statesman:

> "The truth is, capitalism has nothing to fear but its own timidity. It has allowed itself to be saddled with a moral inferiority complex which is wholly unjustified by the record. I believe we are on the eve of a great surge of capitalistic achievement. All that is needed to launch it is that businessmen find the courage of their own conviction and to re-acquire a forgotten taste for self-advertisement."

In conclusion, all of us -- rich and poor, Democrats, Republicans and Libertarians, employers and employees, minority and mainstream -- must honestly acknowledge to ourselves that there is no such thing as a "free lunch"; that as a nation we can't spend more than we produce; that we must stop trying to shift the burdens of life by Government decree as if our resources were inexhaustible; and finally, that we must attempt to exhaust the potential of the capitalistic economy to which we as a nation are still committed. There is no more effective way of accomplishing this than by re-creating an investment climate which will encourage the formation of productive capital. Absent this, we will be in grave danger of literally eating up all of our seed corn and -- God forbid -- reverting to the status of a second or third-class industrial power.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

February 4, 1981

MEMORANDUM FOR: Those concerned

FROM: Mark Goode

SUBJECT: Details for Oval Office Address

Following are details concerned with the President's address to the nation tomorrow evening (February 5. 1981):

1. GSA should supply a crew to move furniture in the Oval Office at 1:15 PM. Drop cloths should be supplied for placement on the floor in areas where cables will be in use.

2. At 1:30 PM two CBS mobile television vans and one equipment van will arrive at the SW gate. These vehicles should be directed to the C-9 area, near the Oval Office. A list of CBS personnel will follow.

3. Trucks will unload on arrival and begin to set up in the Oval Office. A White House electrician should be present at this time.

4. Set up will continue in the Oval Office until the crew meal period at 6:00 PM. The crew will return at 7:00 PM to complete set up and rehearsal.

5. The live broadcast will begin at 9:00 PM and run for approximately 1/2 hour.

6. Television equipment will be removed immediately upon completion of the broadcast. GSA crews should be standing by to restore the Oval Office to it's normal condition as soon as the crews have vacated.

CC: Jim Baker
Mike Deaver
Jim Brady
Dave Gergen
Joe Canzeri
Ken Khachigian
Dave Fisher
Helene Von Damm
Larry Speakes
Dave Prosperi
Control Center
Appointments Center
White House Communications Agency
GSA
White House Electrician's office

PRE-WORLD WAR II VS. TODAY LENGTH OF TIME TO PAY TAXES

Taxes/ Wages and Salaries		(Department of Treasury)
1939	11 weeks	
1978	21 weeks	
Total Personal Income		(Department of Treasury)
1939	7 weeks	
1978	14 weeks	
Net National Product		(Tax Foundation)
1929	6.3 weeks	
1932	8.2 weeks	
1936	7.3 weeks	
1980	18.6 weeks	
Gross National Product		(Department of Treasury)
1929	5.2 weeks	
1930	6.2 weeks	
1980	15.8 weeks	
Government receipts vs. GNP		(CEA)
1929	5.8 weeks	
1940	9 weeks	
1980	16.5 weeks	

— For entire 8 years of Ike admin — inflation at ______ ?

— other 1960 figures

— Get main elements of plan + give rationale for them

— Appreciation etc.

put in plain language

Address various constituencies:

-- Cong. --coopeartation - join together

-- Exec. branch -- we will do our best

-- employees of the Fed. Govt. - we havea mission; we should do our best -- you do good work.

-- People of America; let us join

-- great institutions of Amxx America -- a time to do the right thing -- work with eachother

I'm not asking for patience — I'm asking all Americans to make their impatience work.

We've looked at many external reasons for the cause of our problems --but the key now is to quit fixing blame and to start fixing the economy.

KK discussion w/ Dave Stockman
Ed Harper
2-1-81

1.) 30% reduction of personal income tax & depreciation acceleration in order to restore incentives, savings, investment & growth in economy.

– jobs

2.) Spending

The largest reduction in fed. spending ever proposed by ~~President~~ an American President.

To order to break cycle of inflating expectations

Stop the growth in fed. debt & achieve balanced budget at earliest feasible date

caveat: Essential needs of our society will be met & claiming fed. benefits will be supported

(But: phrase needed – describes people at fed. trough who are marginally needy.

p. 2

non-needy participants –
will aim at all who are non-needy – with as much even-handedness as possible.

include waste fraud & inefficiency

cut grants that benefit the grantsmen rather than the cities

subsidies that benefit big business rather than the American people

Entitlements

categorical programs that have more overhead than local community benefits.

gov't shouldn't ~~its~~ subsidize big business

Our policy will be to encourage business to earn profits in

p. 3

multiplane + not ~~at~~ Federal trough.

Cuts will affect everybody but the truly needy

Everybody will benefit from the program including the truly needy

3) Regulatory relief —
Review all old regs. + ~~elimi~~ eliminate
- Have Fed regs. only when they are absolutely essential
- And look at alternative ways of achieving regulatory objectives
- assessment made on costs + benefits received
- Screen all new regs.

As we reduce Fed. spending, unnecessary programs + inefficient categorical grants we will steadily reduce Fed. employment

p. 4

+ employee costs –
Fed. employees cost the Amer. people too much money –
Section 8

(C) Monetary Element –
By working w/ Fed. reserve + eliminating Fed. deficits, we will drive inflation down + restore purchasing power of Amer. dollar.

Deficits – new $50 billion ceiling – keeps int. rate high + hurts small business + laborers.

Trillion dollar debt structure –
I knew things were bad – but they're even worse than I thought – Put in autobiographical sequence –

P. 5

So to 1964 — I first became active in politis bec. I was concerned about Fed. spending & nat'l debt in '64 it was ______.

By end of my term in Calif. it was ______.

When I took the oath of office it was $ 30, & unless we get radical reductions in growth of Fed spending the debt will steadily climb above $ 1 trillion.

~~gov't treating like a joke —~~

~~During ~~that~~ time Cong. raised the debt ______ times.~~

During my term our goal will be to allow Cong. to reduce nat'l. debt by 1984,

p. 6

Could you have gone to your bank 19 times + gotten it raised

Cong raised the "permant" debt ceiling —

it called this a temporary rise — but you & I know it's not temporary at all — it's a permanent burden..

1957 America's entire budget was smaller than this year's budget deficit

There will be geographical ~~economic~~, ~~ag~~ + other ~~kinds~~ of balance.
Fair + balanced package.

WSJ 2-2-81

Nonfarm Productivity Fell at 1.1% Rate In 4th Period; Year's Drop Is 3rd in a Row

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – Productivity among U.S. businesses fell in the fourth quarter and all of 1980, marking the third consecutive year of declines.

Productivity among manufacturers alone showed a sharp increase in last year's final period, however.

The Labor Department said that output per hour worked at the nation's private businesses, excluding farms, decreased at a 1.1% seasonally adjusted annual rate in the fourth quarter, following a revised increase of 3.7% in the third quarter. Productivity for the nonfarm business sector was off 0.5% in all of 1980.

Overall, private-business productivity dropped at a 1.9% seasonally adjusted annual rate in the fourth quarter, compared with a revised 1.5% increase in the previous quarter. The fourth quarter decline reflected a 6.3% increase in output of goods and services and an 8.4% increase in hours of paid work. For the year, production per hour of work at private businesses fell 0.3%. These figures include farm productivity, which fluctuates widely from quarter to quarter, even after seasonal adjustments.

The continuing downward spiral worries economists because when productivity lags and wages rise, the labor cost of producing a unit of output goes up, and this puts pressure on businesses to raise prices. Unit labor costs rose at a 10.9% adjusted rate in the fourth quarter for the nonfarm business sector and were 10.3% higher in 1980 than in 1979, according to the department's productivity report.

Three successive years of productivity declines means U.S. products "aren't as competitive as they could be overseas," observes Harold Nathan, a financial economist for Chicago's Continental Illinois National Bank & Trust Co. Productivity gains are "important for real economic growth."

However, Mr. Nathan said, business productivity likely will be "up slightly" this year "because the economy is going to be generally improving throughout the year . . . and the sectors hard hit by productivity declines in 1980 should recover somewhat." He also believes that President Reagan's plans to cut taxes, accelerate depreciation and trim federal regulations will have "some effects" on productivity this year, although the full impact won't be felt at least until 1982.

The fourth quarter decline in nonfarm business productivity reflected a 6.5% increase on output of goods and services and a 7.7% rise in hours of paid work. The gains in output and hours worked were the largest since 1978's second quarter, the department said.

In manufacturing, output per hour worked leaped at a 10.6% adjusted annual rate in last year's final quarter, compared with a revised 0.7% decrease in the third quarter. The increase stemmed from a 23.8% gain in output and a 11.9% increase in paid work hours during the fourth quarter. The productivity rise was the largest since 1975's third quarter, the department reported.

"Manufacturing is a very volatile sector," said Lawrence Fulco, a Labor Department economist. "You wouldn't expect to see these kinds of huge increases sustained in manufacturing." Continental Bank's Mr. Nathan noted that improved economic conditions in the fourth quarter spurred demand for manufactured goods, but that "hiring tends to lag" increased output. Cautious employes tend to require overtime of existing employes before expanding their work forces, Mr. Nathan said.

Manufacturing productivity was flat for all of 1980, remaining at 1979's level.

RR GUIDELINES -- eoncomic speech

for Oval Office meeting 1-28-81

-- how much bigger is federal deficit than it was before

-- you've gotten raises, but they aren't real -- moved you into higher brackets

-- Women -- ~~xx~~ if you want to work, fine, but this ecoomy descriminates against you. You shouldn't be forced into workiing

-- Business taxes aren't paid by business; they are paid by ~~xjx~~ you. It's passed through to you.

-- Every few years, business must keep up with times -- just as you, for example, deduct the interst on your home payments -- and today they are larger --, well, business must improve and move up and be able to deduct these things. the more they can deduct the more they will modernize -- when they rebuild factories, buy new equipemnt -- they create jobs.

-- maybe some of you watching ~~doxx~~ don't work for a manufacturing plant; you provide a service -- the government can slow this down, too.

-- We must first bring this rolling boulder to a stop and <u>then</u> start pushing it back up ~~thxhx~~ the hill

-- "There are ways to be helpful to each other. You might be in the market for a new car -- think if your neighbor works in an auto plant; maybe you can help by buying an American car; if you <u>work</u> in an auto plant, do everything in your power to build that car to be the best so your neighbor <u>wants</u> to buy your product.

-- We think cutting and spedning go together (see Weidenbaum draft for language)

-- Govt. spending: you can lecture your child forver about extravagance. But the most effective way to get the child ~~to cut back~~ to learn the lesson is by cutting the allowance.

-- No govt in history has voluntarily reduced its size

-- Took us ~~for~~ 40 years to get here; we won't get out in 40 days.

-- 1960 -- compare: now ask, is the sum total of your life more improved by all the government; all the taxes; all ~~the~~ the spending; all the regulations; that have been piled up in thelast 20 yeras.

Brandon Butler

Oval Office — 2:37 —
1-28-81

Meeting on Economic policy
RR, V-P, Don Regan, Dave ~~S~~ Stockman, James Baker
KH, Rich Williamson, Marty Anderson, Murray
Weidenbaum.

P: Tip O'Neill ~~thinks~~ this Feb. 5
meeting is joint session —

(— No — it's on T.V. fireside chat.

Tip says he tried to get rid of
every six-month indexing + GOP
opposed him. So P. said "I'll
give you my support."

Weidenbaum:
First 2 months of '81 — CPI
might go up even faster b/c of
Mtgage rate increase.
1st 1/4 CPI up 12-15%.

Clearly in double digit range.
Unemployment 7% range — last
month 7.4%

Labor force has been growing so
rapidly that unemp. rate hasn't come
down.

14% black unemp.
18% teenagers

p. 2

Jan's figures, Don't expect improvement in 7.4%

Economy is suffering from variety of serious economic maladies of long-standing.

"Hope you don't want to shoot the messenger."

D.S.: Try to dramatize how much inflation is losing

D.R.: Savings used to be 7 1/2 % of income & now its 5% & less.

Don't infer we are in recession — bec we aren't.

MCA: "Economic Mess" — Say that it's bad now — but it will get worse!

MW: Like a car stuck in the mud. Try to move forward — you get higher unemployment; you move backward you get higher inflation

(see WSJ editorial)

P: Our nation is economically illiterate: Want to have in mind the fellow who came home from

p. 3

factory: Say it to him in the way he understands.

people relate to down to earth things

eg: Off-budget items — a gimmick used by gov't to hide the debt.
They are gov't programs & run deficits.

So you have to pay for that.

How much bigger is the nat'l debt than it was before.

Explain it in their way of their paycheck.

You've gotten raises — but those raises aren't "real." They move you into higher brackets.

~~They~~ Many women working & they suffer too.

You are being discriminated against by the income tax regulations. Some of you might not want to work — and you shouldn't be forced into working.

p. 4

Let's talk about business taxes – that lowering protecting saves your job.

Business taxes aren't paid by business, they're paid by you.

Now every few years, Business must keep up w/ times.

As an individual, you deduct things. Business is the same way.

Business has got to be able to deduct their improvements.

Try to do it in way wh/ gives ~~business~~ enough ~~money~~ to rebuild new plant.

~~And~~ We have to speed that up — so they can rebuild faster

---

Maybe some of you watching don't manufacture a product, you provide a service.

Show them where govt. fits into this.

~~We~~ We've been living on borrowed money.

p.5

Can't cure it instantly. Bring the rolling boulder to a stop & then start pushing back up the hill.

All these things gov't has been doing — some of them we simply can't afford.

No such thing as Fed. funds. Your money.

So blunt & so blame as never before. Talk about their paychecks & jobs

D.S. Families will be far better off w/ improved standard of living even if lose a few benefits.

P: Any merit here to say:
"There are ways to become helpful to one another. You might be in the mkt. for a new car — think if your neighbor works in an auto plant — maybe you can help him by buying another car.

"We think cutting spending & cutting taxes go together."

temporary discomfort — but try to end the increase in COL
[illegible]

p. 6

We think what we're suggesting is a new approach.

"You can lecture your child forever about extravagance - But the most effective way is by cutting its allowance."

They've talked for 40 years about cutting the size of the gov't. ~~but that's never~~ happened.

No gov't. in history has voluntarily reduced its size.

What we're aiming at is a little temporary discomfort - but try to end the increase in COL index so in the future your dollar would mean s/g.

Not going to cut social programs alone - some other things including Business things.

Took us 40 years to get here - can't get out in 40 days.

P: I remember one day when my daughter said: "What do you mean by capital?" Economic illiteracy

7.

MW: Regulation — $666 dollars in average cost of car – hidden costs,

Make passing reference to regulations.

MCA: Release of Economic audit on Feb. 3

Note: Take audit — use some figures & then shove it aside.

1960: Were things so bad off.

NYT 2-1-81

The Nation

In Summary

Treasury Secretary Donald T. Regan

On the Economy, Old Targets and Renewed Promises

Ronald Reagan welcomed his first Prime Minister (Edward P.G. Seaga of Jamaica), gave his first press conference and left for his first weekend at Camp David. To be fair, the big initiative — the Reagan plan for economic revitalization — remains to be detailed (D-Day is now soon after Lincoln's Birthday). But when all else was done and said — including President's promise that his will was not be a "caretaker government" — the new Administration's first full week gave a good imitation of hitting the ground running on some else's track.

Even the most apparently bold of the actions Mr. Reagan announced were more an extension or adaptation of Carter policies than a break with them. Yes, Federal controls on oil and gasoline were lifted. But they were scheduled to expire in eight months anyway. The Council on Wage and Price Stability may have been abolished; but the inflation-fighting agency was already a dead duck. And the day after Mr. Reagan announced with emphasis a 60-day freeze on pending Federal regulations (regs were also a Carter target), his aides were unsure of its effect. (In one heavy reg-producing department, Labor, implementation might wait in any case. The minority on the committee that approved Raymond J. Donovan's as Secretary last week reported to the full Senate that the Federal Bureau of Investigation had been unable to corroborate or disprove charges of links with organized crime.)

The President himself was quite clear on just how important getting down to basics will be. "We have had double-digit inflation back to back for coln's Birthday). But when all else was done and said — including President's promise that his will was not be a "caretaker government" — the new Administration's first full week gave a good imitation of hitting the ground running on some else's track.

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The President himself was quite clear on just how important getting down to basics will be. "We have had double-digit inflation back to back for two solid years now," he said. "The last time that happened was in World War I." Figures released last week showed how dismal 1980 has been; 1981 doesn't look good, either.

Last year, productivity fell by 0.3 percent, for the third straight year of decline; once adjusted for inflation, a 10 percent increase in hourly wages turned into a 3.1 percent drop. As for 1981, the Government's index of leading indicators, a predictor of future economic trends, fell 0.8 percent in December. Many forecasters have been saying that the bounceback from last spring's recession is likely to turn into this spring's slump.

In his press conference, the President went the Republicans' campaign prescription for the economy one better, rhetorically at least. Federal budget cuts, he pledged, would be larger "than anyone has ever tried." As for the mechanics of the supply-side miracle, which would turn slumpflation into noninflationary expansion through emphasizing tax cuts, Mr. Reagan stated all that is now certainly known. Retroactivity isn't, to him, "as important as getting, for individuals, the principle of a 10 percent cut over three years in place."

The supply-side chatechism got a new and important adherent when Treasury Secretary Donald T. Regan, previously a traditionalist, told a Senate committee that the "tax program cannot wait until budget outlays are reduced." Not all economic voices were singing the theory's praises. Otto Eckstein of Data Resources Inc. spoke for many of the unconverted in applying the word "gambling" to the Reagan plan. "If it works, it would be wonderful," he said; "If it doesn't we have got only one economy to sacrifice."

No Flak From Jones Over a B-1 Bomber

If Gen. David C. Jones winds up getting shot down by Reaganauts, or if he is ultimately forced to bail out, it won't be because he didn't try to appease his conservative critics or please his new bosses. In Congressional testimony last week, the Chairman of the Joint Chiefs of Staff banked sharply away from his previous position on the B-1.

When Jimmy Carter was his Commander in Chief, General Jones as-

Meeting w/ President

Baker; McA; Oergen; KK. Brady

1:35 – 4:10

Our guys are holding up things — "now we have to woo the bastards."

Paul Samuelson me wrote a text — 5 reprintings — only thing that ever changed was amount of inflation we could stand — & it kept going up.

"McClure said I made a deal w/ Dems to ask for this amount to raise debts, & I didn't."

"I was the one that thought we ought to do a trillion to shock country — But I decided ~~to~~ do 985 (debt ceiling) —

They're not used to being majority, they're not used to making decisions.

If I were campaigning I'd kick the balls of the party in power saying they caused it." But not when I'm in office.

2:12 pm. phone call

J. Baker: "Mr. President, the debt ceiling passed the House - 304-104.

3:07 passed the jelly bean

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Ladies at Pillsbury bake-off -
win $'s money + IRS would
come + tax away the one-time
windfall

Brez. joke about this
mother.

Saw his office - put in his
helio. Saw dacha - saw jet.
"She said: "Leonid -
what if the communists
find out."