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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

February 13, 1981

MEMORANDUM

TO: Ken Khachigian

FROM: David A. Stockman

SUBJECT: Outline/Argument Sequence for President's Economic Address

- I. Bridge the transition from last week's "diagnosis" to this week's "remedy" by means of an opening in which old, failed policy principles are set up in straw-man fashion: this sets the stage for a totally new framework for national economic policy:
- A) The dire state of our economy and national finances described last week -- is not due to a breakdown in the internal strengths or an erosion of the human, natural, and technological resources of the U.S. economy. Failure lies in decades of national economic policy that embodied several false premises:
- 1) That more government spending and borrowing would stimulate demand, economic growth, jobs and living standards;
 - 2) That tax and transfer payment programs designed to redistribute national income -- would improve the lot of less fortunate at no cost to the economic betterment of all Americans;
 - 3) That the Federal Reserve was obligated to "accommodate" excessive Federal spending and deficits by printing money to cover the massive borrowing demands of the U.S. Treasury;
 - 4) That the new and appropriate national agenda of environmental, health and safety protection could be pursued by full-throttle issuance of new regulatory mandates without reference to economic costs or the need to balance conflicting national goals;
 - 5) That government in Washington was a munificent, imperial court at which all politically organized claimants for aid, subsidies and benefits would be satisfied from the public treasury; where all local, regional and sectoral dislocations in the economy would be remedied; and where every social problem -- real and alleged -- would be fixed with a new Federal program or regulation.

- B) These approaches to national economic policy have proven to be dangerously erroneous. The new economic blueprint I am presenting tonight represents a clean departure. It seeks to restore sound principle of fiscal management, monetary policy, Federal-State relations, private sector incentive and efficiency, wealth creation and limited government -- to the conduct of our national economic affairs.

II. Presentation of new economic policy framework and specific program details.

- A) Proposing a 10% across-the-board cut for all individual income taxpayers beginning July 1, with additional 10% installments in each of the next two years. This proposal represents a fundamental departure from the "tax relief" bills of the last decade because:
- 1) It is designed to restore private incentives and re-awaken the dormant supply-side resources of growth in our national economy -- savings, risk-taking, work-effort, entrepreneurial energy, and technological and managerial innovation. Higher after-tax rewards will mean a greater contribution of these vital ingredients to our new national project of revived economic growth. Due to these tax rate reductions during the next 5 years, \$500 billion will be kept rather than paid-over to the Treasury by millions of American producers and workers.
 - 2) Unlike tax bills of past years aimed at shifting the existing pie of income and wealth between classes of taxpayers -- making some better off and some worse off -- my proposal for equal reduction in everyone's tax rates will expand the pie, enlarge national incomes, and increase opportunities for all Americans.

My advisors forecast that with full implementation of this tax program and other elements of our plan, by 1985 our real production of goods and services will grow by \$400 billion - nearly \$2,000 more per capital - higher than today's level, the average worker's wages will rise by _____ percent in after-inflation dollars, and the average American family will enjoy _____ more in after-tax purchasing power.

- 3) This tax proposal restores another important principle that has been lost along the way: the essential purpose of the tax code is to equitably raise the revenues necessary to finance important public purposes. But for the last 20 years, we have witnessed an unintended but destructive deviation from that principle: as inflation has pulled producers into higher and higher brackets, taxpayers have naturally sought refuge in shelters and deductions to avoid punitive tax rates. This defensive response has distorted and stunted the process of investment and growth.

In turn, faltering growth and worsening inflation have increased pressures on Congress to create even more shelters, deductions and tax incentives.

It is time to break this debilitating spiral. By lowering tax rates by one-third and cutting inflation by one-half over the next four years, we can draw our national savings out of tax shelters and into productive investment in new factories, better technologies and more jobs. From a higher base of economic activity and with less need for shelters from punitive rates, the essential revenue needs of government can be easily met.

- B) We are also proposing to reform business tax depreciation so that American industry will have the incentives to retool, expand and create eight million new jobs between now and 1985.

*Japan
West Germany
Scandinavia
etc*

The present depreciation system is obsolete, needlessly complex and economically counter-productive. It forces business to replace worn out plants and machinery at today's high prices from capital recovery allowances based on yesterday's low costs. The consequences are that many American businesses are earning and paying taxes on phantom profits -- profits that only exist by virtue of IRS accounting rules -- not real economic returns. My proposal to institute a modified 10-5-3 depreciation system will stop the liquidation of industry capital and restart the flow of after-tax profits needed for revitalization. In calendar year 1982, additional funds available for investment would exceed \$10 billion, growing to \$45 billion by 1985.

- C) When these two tax reform plans are considered together, the fundamental new direction in tax policy I am proposing is crystal clear. With existing tax law, American workers and industries would pay 22.2% of national income during FY 82 in Federal taxes -- the highest rate in our national history including during the peak of World War II. Moreover, the tax rate would steadily rise to 24% of national income after 1985 due to bracket creep and inadequate depreciation.

note (By contrast, my plan would reduce the Federal tax rate on workers and industry to 20% in 1982 and 19% by 1985. Yet with a growing economy, Federal revenues will expand by nearly \$200 billion during that period despite the reduced Federal share of national income.

III. The spending control program is the second integral component of our new economic plan.

- A) Reducing marginal tax rates and business depreciation will solve only part of our economic problem. A severe slow-down in the rate of government spending growth is equally essential. Our budget reform plan is designed to effect a sharp turn in the explosive spending growth trend of recent years.

In contrast to the 18% growth of Federal spending in FY 80, and the 14% growth rate built into the budget we inherited for this fiscal year, I will soon submit to Congress a revised FY 82 budget that will hold spending growth to 5%, the lowest rate of increase since FY 61(?).

Moreover, this recommendation does not envision a one-time crash effort, but the first stage in a multi-year effort to squeeze excess from the Federal budget, eliminate programs and activities that are unnecessary or counter-productive, and establish new priorities for targeting funds on our most important national needs and objectives. With sufficient discipline and determination, we can reduce the 12% average spending growth rate of the past four years to less than half of that during the next four years.

- B) But the difficulty of this task should not be minimized. To provide for prudent additional defense resources and to lower the deficit to less than \$40 billion in FY 82, will require a \$53 billion reduction in spending compared to what is built into Federal law and the recommendations of the previous Administration.

Moreover, to achieve a balanced budget within two subsequent years will require further savings, building to \$85 billion in FY 83 and \$115 billion in subsequent years.

To some, budget savings of these magnitudes will seem impossible to achieve or unreasonably large. But I would remind the Congress that in each of the past two fiscal years, the federal budget has experienced a \$50 billion over-run from planned levels. We must now seek even larger reductions from this built-in momentum of growth.

- C) The stark truth is that it has been this relentless spending growth and these massive budget over-runs which have shattered confidence in our nation's financial markets and among participants in our entire economy. A powerful expectation has now become deeply embedded in the nation's economic psychology: the American people expect government to fail to curtail its spending and deficits, and plan for permanent high inflation in setting prices, wages, and interest rates.

Expectations have become a self-fulfilling prophecy and a corrosive force in our economy. Faced with the prospect of permanent high and worsening inflation, businesses defer high pay-off long-term investment; savers seek hedges in unproductive intangible assets -- like precious metals, undeveloped land and antiques; debt maturities become shorter and shorter; balance sheets become burdened with short-term credit rather than long-term capital; and bond and equity markets continue to falter as financial asset prices steadily fall in real terms.

Silver,
Gold
etc.

This erosion will lead to widespread insolvency among business firms, financial institutions and households if it is not stopped soon. The way to stop this deterioration is to abruptly rein-in the growth of Federal spending in order to restore confidence in the financial policies of government and the value of the money it issues.

IV. The proposed Budget Savings Plan is based on a new set of consistent, economically sound and social compassionate principles of public finance.

- A) We will not weaken the essential social safety net needed to support the elderly, our veterans, disadvantaged young people and those who are poor for reasons beyond their own control. For that reason, we will ensure the retirement benefits of 31 million Social Security recipients, including necessary cost of living adjustments. Many analysts have pointed out that eliminating cost of living adjustment for three years could save \$30 billion per year by 1983. But it would also mean a 25% reduction in the standard of living for our senior citizens, many of whom live on the margin of poverty already and who collectively suffer the loss of billions each year in the value of accumulated savings, life insurance and private pensions due to the inflation caused by government. It would be wrong to ask those who can least afford it to bear such a heavy burden of sacrifice.

Likewise, I have not proposed reductions in medicare, aid to the blind and disabled, school lunches for low-income children, Headstart, or job training programs for the disadvantaged. In total, more than \$216 billion in safety net benefits provided in more than a dozen programs have been maintained at present funding levels in the new budget I am proposing.

- B) At the same time, my fiscal reform plan asks more affluent Americans to accept a bargain. In return for lower taxes, higher living standards and improved economic opportunities, it will be necessary to reduce or eliminate unessential benefits provided to better off Americans by many Federal programs.

note.

Thus, our budget plan would require all families with incomes above \$16,000 per year to pay an additional \$50 per child for school lunches. It would eliminate the privilege of many higher income families to borrow money at zero percent interest in order to pay higher education costs. It would limit the ability of better-off farmers to borrow at below market interest rates from the Farmers Home Administration. It would require new suburban areas desiring a sewer system to pay for collector lines with local taxes rather than Federal subsidies. Similarly, airline travelers and recreational boaters would be asked to pay the cost of air traffic control and navigation services now provided free by government and financed by all taxpayers. These charges would save _____ billion per year. While the direct sacrifices would be real, the reduction in inflation and revival of economic growth our plan will bring would more than compensate.

- C) While I am determined to protect the needy, this Administration will be equally committed to reforming and tightening the vast structure of entitlements and automatic spending created by government over the last decade. These entitlements to cash assistance, retirement benefits, housing, medical, and food aid now consume nearly 50 percent of total government outlays - \$350 billion this year.

In all too many case benefits are dispensed without regard to genuine need, original program intent, or disincentives for work and self support. These excesses and abuses must be stopped.

I am therefore proposing thorough revision of more than a dozen entitlement programs with a view to putting government back in control of the uncontrollables and saving \$ _____ billion in 1982 and \$ _____ billion by 1985.

These entitlement revisions include:

- retargeting Federal extended unemployment assistance to areas of high unemployment only, at a savings of \$2 billion.
- limiting trade adjustment payments to State unemployment benefit levels and the combined duration of unemployment and trade adjustment benefits to 52 weeks. This program was so grossly mismanaged by the previous Administration that costs exploded by 500 percent during FY 81.
- placing an income cap at \$11,000 per year for a family of four on food stamp eligibility, eliminating duplicative benefits, and eligibility of those with high annual but seasonally fluctuating incomes.
- similar tightening measures will be proposed for medicaid, the black lung program, AFDC, and social security disability.

"Entitlements"
family term

--- two other targeting efforts need mention. Both the automatic student and special minimum benefit programs of social security are now obsolete. Current needy beneficiaries are eligible for more than \$6 billion in Federal higher education aids and \$7 billion in supplemental security income. Needy beneficiaries will receive dollar for dollar replacement from these other programs, while double dippers will be removed from the special minimum program and non-needy students from the Social Security education benefit program.

- D) Aids to business firms, economic development and promotion programs, and inefficient commercial subsidies will also be sharply reduced. To promote exports, job creation, new energy technologies, I propose to replace targeted subsidies with new general tax, regulatory and fiscal measures to stimulate renewed economic expansion and financial health in all sectors of our economy.

--- thus, we will reduce subsidized export- import bank lending by 20 percent because our economic plan will make all U.S. exports more competitive, not just the 21 percent directly subsidized by ex-im today.

--- I am proposing saving \$7 billion in synfuels spending during the next year by eliminating direct federal subsidies and relying on market forces, private capital, and loan and price guarantee support from the new synfuels corporation.

*Look { Damn
126* --- { Likewise we will reduce unnecessary subsidies for rural utilities, barge operators and milk producers.

--- we will eliminate the non-productive \$4 billion per year CETA job-creation program, relying on private sector job creation instead.

*Keep
job.
training*

--- Also, my budget reform plan calls for fundamental reform of current Amtrack, mass transit and railroad subsidy programs. By establishing new criteria for efficiency and economic viability we can reduce outlays by billions each year.

- E) I am also proposing to reduce spending levels by about 20 percent for highway, sewage treatment, water resource, airport construction and other public sector capital improvement programs. These programs provide important long-run benefits to our national economy and local communities. But under present conditions of economic and fiscal crisis, we must defer and stretch out these projects in order to solve our near-term economic problem and ensure that future benefits from these projects will provide maximum value in a vigorous and non-inflationary economy.

- F) Low priority programs or those which have not proved cost effective will be substantially reduced. Today the Federal Government is spending billions for worthwhile but unessential programs to support local cultural activities, various kinds of research, economic, urban and health planning, energy technology demonstrations, low priority space initiatives and urban and rural development programs. Our budget plan calls for a \$ ____ billion reduction in these activities, so that essential programs can be preserved, and so that a growing, prosperous economy in the future can provide the resources necessary to support these programs more generously.
- G) While our nation must spend substantial new sums on defense in the years ahead -- we have not excepted defense from our cost control program. As a minimum, we will seek to save \$4 billion by 1983 and \$10 billion by FY 86 through civilian personnel reductions, defense base realignment, improved contracting procedures and elimination of non-cost effective programs.
- H) My fiscal reform plan calls for sweeping consolidation of narrow Federal categorical grant programs into a few no-strings block grants for social, education and community support services. Specifically, I am proposing to consolidate 59 major education programs into two block grants to be distributed to State and local education agencies on a formula basis. This change will eliminate need for 10,000 Federal employees, thousands of pages of program regulations. At a Federal cost of \$2 billion less per year, we can provide more real support at the class-room level.

Gov't Exp.

(NOTE: ASSUMES \$45 billion FY'82 budget cuts)

(in billions)	<u>1981</u>	<u>Carter</u> <u>1982</u>	<u>Reagan</u> <u>1982</u>	<u>% Increase</u> <u>FY'81-82</u>
Federal	685.8	753.1	708.1	3.2%
State/Local	<u>386.2</u>	<u>421.3</u>	<u>421.3</u>	<u>9.1%</u>
Total	1072	1174.4	1129.4	5.3%

<u>Federal</u>	<u>1981</u>	<u>Carter</u> <u>1982</u>	<u>Reagan</u> <u>1982</u>
Non-defense	533.2	579.9	534.9
Defense	<u>152.6</u>	<u>173.2</u>	<u>173.2</u> (190.0)
Total	658.8	753.1	708.1

<u>Carter 1982</u>	
Federal	753.1
Defense	152.6
Percentage	20%

Total Government	1174.4
Defense	152.6
Percentage	13%

<u>Reagan 1982</u>	
Federal	708.1
Defense	152.6
Percentage	21.5%

Total Government	1129.4
Defense	152.6
Percentage	<u>13.5%</u>

The Budget Reform Plan

The budget reform plan represents a comprehensive redirection of Federal Government activity. It entails a sharp downward shift in Federal spending growth rates, bringing the 14 percent trend of the recent past to a range of 6 percent during the next two fiscal years. While such a sudden and rapid de-acceleration will require severe and far reaching budget control measures, it is an essential and unavoidable first step in breaking the inflationary psychology deeply embedded in the national economy. Absent such a dramatic and difficult policy reversal, worsened inflationary and financial disorder is a certainty.

This budget reform plan is one of four essential parts of the President's overall economic program. Other elements, which are detailed in the President's Economic Plan, include:

- A three-year 30 percent reduction in all individual tax rates designed to restore incentives and promote renewed economic growth;
- Significant modification of depreciation schedules for plant and equipment in order to promote investment, job creation and industrial revitalization;
- A far-reaching regulatory reform program which will alleviate excessive cost and compliance burdens and remove unnecessary barriers to economic expansion;
- A new partnership with a monetary policy aimed at reducing excessive rates of money growth and restoring a stable currency and healthy financial markets.

Historical Setting

The last 25 years have been characterized by unsustainable increases in Federal spending. This upward momentum in program growth has far exceeded the growth in our tax base. Tax increases -- both legislated increases and automatic increases that occur as income growth moves taxpayers into higher tax brackets -- have been imposed to finance this program growth. Even these tax increases, which have been a fundamental cause of the economic stagnation that this country has experienced, have been insufficient to finance the large spending growth that has occurred. As a result, this country has experienced unprecedented peacetime budget deficits in recent years and now labors under nearly a trillion dollar national debt.

The sharp upward spiral in Federal spending is shown in the following table. The rate of growth of Federal spending has accelerated sharply over the last quarter century and, in the absence of decisive and unprecedented budget control actions, threatens to continue to accelerate. From 1955 to 1964, spending increased at an annual average rate of about 6%. This rate accelerated to about 10% in the 1964-76 period and is estimated to be close to 12% for the 1976-81 period, or double the rate of 1955-64. In the most recent period, spending is currently estimated to increase at a 14% annual rate over FY 1979-81.

GROWTH IN FEDERAL SPENDING

<u>Annual Rate of Growth (%):</u>	<u>1955-64</u>	<u>1976-81</u>
Defense	2.9	11.9
Non-Defense	9.9	12.0
Total	<u>6.3</u>	<u>11.9</u>

Average Outlay Share of GNP:

Defense	9.4	5.2
Non-Defense	9.3	16.8
Total	<u>18.7</u>	<u>21.9</u>

As a share of gross national product (GNP), the non-defense sector of the budget has increased dramatically since the pre-1964 period. During this period, many of the Great Society and newer entitlement programs came into full bloom. This rapid growth in non-defense spending occurred partly at the expense of sharp reductions in the defense share of GNP and partly at the expense of an increase in total Federal spending as a share of GNP.

It is also significant that while in the first period Federal revenues averaged just ____ percent of GNP, budget surpluses were frequently achieved and net additions to the national debt amounted to only \$32.4 billion, or \$3.2 billion per annum. During the FY 76-81 period, the Federal tax share of GNP increased sharply, yet net additions to the national debt totalled \$321 billion, or better than \$50 billion per year.

BUDGET SUMMARY

The six year budget table below summarizes the dramatic change in national policy proposed by President Reagan. The table indicates that spending under existing law and policy would continue to grow by 8.5 percent annually. Moreover, the spending base proposed by the previous Administration involves a drastic underfunding of our national defense. When allowance is made for prudent increases to decisively improve military readiness and steadily rebuild our conventional and strategic forces to levels commensurate with present world conditions, larger and even more damaging spending levels would result. Outlays would grow in excess of 10 percent annually, crossing the one trillion dollar mark in FY 86.

Given this vast spending momentum, President Reagan has taken numerous steps to hold down spending growth for the remainder of the current fiscal year, and has established severe ceilings for total spending growth in the FY 82-86 period. To achieve these ceilings will require budget savings of \$45.9 billion in FY 82, and more than \$100 billion annually during future years, relative to the existing policy base. Measures to achieve \$36.8 billion of the FY 82 savings target are being proposed at this time in order to permit Congress to initiate action immediately on the arduous and difficult task ahead. On March 10, additional budget savings measures will be presented after comprehensive review and revision of the FY 81 and FY 82 budgets are completed.

Table II dramatizes the danger of insufficiently bold action on tax reduction. Under current law, tax revenues would rise by 14 percent annually. Such huge increases stemming from continued bracket creep and inadequate depreciation would have a debilitating affect on growth, savings, entrepreneurial activity and work effort. They would ensure continued economic contraction, high unemployment and declining living standards. By contrast, the proposed tax rate reductions will contribute strongly to the robust real growth rates of production and income assumed in the forecast underlying these estimates and the President's comprehensive economic plan.

Table III displays the renewed fiscal balance which can be achieved if the President's budget reform and tax reduction plan is adopted. The share of worker incomes and industry profits taken by government will fall to 20 percent of GNP in FY 82 and stabilize at around 19 percent thereafter, rather than rising to 24 percent after FY 85 as in current law. Total spending will steadily shrink from 23 percent of national income in FY 81 to less than 19 percent by FY 86. More importantly, despite the initial revenue losses attributable to lower tax rates, the Federal deficit can be rapidly reduced and move into surplus by FY 84.

Table 1

IMPACT OF BUDGET SAVINGS PLAN

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>
Current Policy Base	\$792.7	\$792.1	\$849.0	\$911.4	\$972.8	
Full Funding of Defense Budget	+7.2	+26.4	+37.0	+48.0	+59.1	
Outlays before Savings Plan	<u>736.9</u>	<u>818.7</u>	<u>886.0</u>	<u>959.5</u>	<u>1,031.9</u>	
Budget Savings Target	-45.9	-91.2	-121.0	-123.0	-128.2	
New Outlay Ceilings	691.0	727.5	765.0	836.5	903.7	
[Savings Proposed Now]	36.8	54.6	66.1	75.7	84.6	]

Table II

IMPACT OF TAX PROGRAM

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>
Current Law Revenue		\$699.6	\$804.5	\$913.6	\$1,025.4	\$1,151.4
Individual Tax Reduction						
Depreciation Reform						
Receipts with new tax policy		\$646.0	\$704.5	\$765.5	\$843.5	\$933.7

Table III

NEW BUDGET OUTLOOK WITH POLICY CHANGES

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>	<u>FY 85</u>	<u>FY 86</u>
Outlays		\$691.0	\$727.5	\$765.0	\$836.5	\$903.7
Receipts		<u>646.0</u>	<u>704.5</u>	<u>765.5</u>	<u>843.5</u>	<u>933.7</u>
<u>Deficit of Surplus:</u>		<u>-45.0</u>	<u>-23.0</u>	<u>+0.5</u>	<u>+7.0</u>	<u>+30.0</u>

Share of GNP:

Outlays
Receipts

NEW PRIORITIES

Achieving the President's budget savings target will require that the past decade's indiscriminate proliferation of new Federal programs and ever-widening reach of Federal economic and social responsibilities must come to an abrupt end. In fact, scores of poorly conceived or unessential programs initiated during recent decades must be eliminated or severely reduced.

In lieu of the fiscal sprawl and disarray that characterizes the Federal budget, the President's plan establishes two firm and over-riding priorities:

- Sufficient budget resources to rapidly rebuild the nation's inadequate defense capacities must be insured;
- Essential social safety net programs, including cost of living protection for the elderly, must be funded.

Beyond these single and urgent priorities all other Federal activities and programs will be subject to thorough scrutiny and widespread reduction. As is shown in the following table, the President's budget savings plan will dramatically re-order internal budget allocations. By FY 84, the defense share will rise from the present 24% share to 34%. This is a substantial expansion but still less than the defense budget shares of the 1950's and 1960's. Social safety net expenditures will also increase their budget share, demonstrating that the required defense build-up will not be financed at the expense of vital income support programs.

*Social Safety NET
is new category*

In response to sharply improved economic and financial conditions, the debt service share will fall slightly. As a consequence, the share accounted for by all other programs, ranging from energy research and demonstration projects to categorical aids for education to subsidies to business and agriculture will shrink dramatically.

SHIFT IN BUDGET PRIORITIES UNDER PRESIDENT'S PLAN

	<u>1962</u>	<u>1981</u>	<u>1984</u>
	(in billions of dollars)		
DOD - Military	46.8	157.9	259.8
Safety net programs	26.2	254.8	321.2
Net interest	6.9	64.3	65.6
All other	<u>26.9</u>	<u>177.2</u>	<u>122.5</u>
Total	106.8	654.2	769.1

Outlay Shares (%)

DOD Military	43.8	24.1	33.8
Safety net programs	24.5	→ 38.9	→ 41.8
Net interest	6.5	9.8	8.5
All other <i>(low priority)</i>	<u>25.2</u>	<u>27.1</u>	<u>15.9</u>
Total	100.0	100.0	100.0

Cuban Missile Crisis

The magnitude of budget priority change required to bring Federal spending under control while meeting priority commitments is revealed by analysis of the proposed FY 82 budget levels. Under the current policy base, outlays for debt service, the social safety net and national defense, including the proposed \$ _____ outlay increase, will total \$ _____ billion. This means that most of the President's \$ _____ billion budget savings goal must be obtained from \$ _____ billion included in the current policy base for all other programs. This amounts to a _____ percent reduction.*

* Modest savings of \$ _____ are proposed by eliminating excesses and inefficiencies in both the Defense and social safety net categories.

BUDGET REFORM CRITERIA

The drastic fiscal retrenchment required by the President's economic plan will be achieved through the imposition of a set of clear, consistent and economically sound policy criteria. Spending has achieved runaway momentum in recent years precisely because such criteria were entirely absent in both the Executive and legislative branches. During this fiscal "open season" almost no demand for federal assistance from any sector of the economy, region of the nation, other unit of government, or the non-profit sector was considered invalid. As a consequence, federal programs today are funding everything from windmills to luxury hotels, empty passenger trains, sewer collector lines, municipal payrolls and every variety of educational and social service.

✓ note

The initial round of budget savings detailed in this document correspond to the new criteria that the President has established for evaluating claims for Federal support. In the weeks and months ahead, these criteria will be applied vigorously to all areas of the budget in an effort to achieve substantial further expenditure savings from programs lacking sound justification for continued support.

The discussion below outlines these budget reform criteria and provides illustrations of program reductions resulting from their application. Full details of proposed budget policy changes are provided in the programs change section.

A. Preservation of the Social Safety Net

During the century's first great crisis of the American economy, a new system of income security measures was erected during the 1930's to protect the elderly, unemployed and poor from that era's severe economic burdens. During the subsequent four decades, these programs were maintained and improved and became the core of the nation's permanent social safety net. These essential commitments now transcend differences of ideology, partisanship and fiscal pressures which divide the American people.

Thus, as we seek to resolve the second great economic crisis of this century, in part through drastic budget reductions, the essential social safety net will be maintained. Indeed, the President's Budget Reform Plan is animated by and must be understood in terms of its motivation to preserve and maintain those social safety net programs which represent the accrued permanent consensus of the past five decades.

To be sure, not every program defended in the name of the disadvantaged can or should be considered part of the essential social safety net. But the President has determined that, at a minimum, the programs described in the foregoing chart merit the highest priority and should essentially remain intact:

SOCIAL SAFETY NET PROGRAMS

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
a. Social insurance benefits for the elderly						
b. Basic unemployment benefits						
c. Cash or near cash benefits for the chronically poor:						
d. Social obligation to veterans:						
Total Outlays	_____	_____	_____	_____	_____	_____
Social safety net as percent						

As the chart indicates, the dollar commitment to these core social safety net programs will be substantial over the next five years. Any retreat from proposed reductions elsewhere in the budget will pose an immediate threat to the nation's fiscal capacity to maintain the above commitments.

In addition to the core components of the social safety net program, the President has determined that certain other important programs can now be maintained at present levels. Thus, the Head Start Program, serving 374,000 children with an annual cost of \$____; the Low Income Youth Jobs Program, serving 665,000 summer youths with an annual cost of \$____; and subsidized school nutrition programs for low income children and elderly meals programs with an annual cost of \$____ can presently be spared the sharp reductions which have necessarily been required of all other social programs.

The above discussion makes clear that the dollar requirements to maintain the social safety net are and will continue to be substantial. Hard choices and difficult tradeoffs have not been avoided by the President in devising the Budget Reform Plan. In defending and seeking to maintain the social safety net, however, the President has articulated a sense of priorities which are both clear and widely shared.

REVISE ENTITLEMENTS TO ELIMINATE UNINTENDED BENEFITS

The nation's social safety net consists primarily of legislatively established entitlements to fixed social insurance or means tested benefits. While posing serious problems for shortrun fiscal management, such entitlements are the only practical way to insure reliable and regular payment of benefits to millions of American citizens.

note { During the last twenty years, however, the Federal entitlements structure and related income security programs have exhibited rapid, nearly uninterrupted growth. Total payments to individuals increased at a rate nearly double that of overall budget growth and 2.5 times faster than GNP. Moreover, the share of total budget outlays accounted for by these benefit payments rose dramatically.

GROWTH OF ENTITLEMENT AND INCOME SECURITY PAYMENTS

Year	Payments (in billions)	1972\$	Share of Federal Budget
1960	\$ 24.3		27.0%
1965	33.7		29.0
1970	66.1		34.0
1975	156.3		47.0
1981	\$ 316.0		47.7

Much of this growth represents an increase in participation and real benefit levels in the Social Security system. But a substantial proportion is due to the creation of numerous new entitlements and benefits since 1970 or major expansion of earlier programs. As is shown in the following table, these newer income security programs have exhibited explosive growth patterns -- increasing ten-fold in a single decade.

RELATIVELY NEW OR EXPANDED FEDERAL ASSISTANCE PROGRAMS

Program	1970 (in millions)	1981
1. Food Stamps	\$ 577	\$11,200
2. Black Lung	0	2,013
3. Extended Federal Unemployment	0	4,315
4. WIC	0	900
5. Low-income Energy Assistance	0	1,896
6. Supplemental Security Income	1,812*	7,305
7. Housing Assistance	480	6,861
8. Trade Adjustment Assistance	0	2,743
9. School Nutrition	383	4,052
10. Social Security Disability	2,352	16,978
TOTAL	\$5,604	\$58,263

* predecessor programs

The growth patterns of the past two decades have stemmed from multiple sources. In some cases, new needs have developed or have been identified. The substantial expansion of the food assistance programs in the early 1970's in response to new evidence of national hunger and malnutrition is an example of the latter; the energy assistance program reflects the former.

Other sources of growth have included:

---Expansion or liberalization of social insurance

coverage as represented by the near doubling of the Social Security disability caseload since 1970 or the \$2 billion cost of the Social Security student benefit created in 1965.

---Statutory, administrative and judicial liberalization of eligibility criteria for means tested programs.

In many cases, the steady expansion of deductions and disregards for shelter, child care, work-related

expenses, medical costs, irregular income and other expenses has created a wide gap between recipient gross income and countable income used for benefit determination. This process expands the eligibility base and escalates benefit costs.

---Failure to integrate multiple benefits, especially in-kind transfers. Many food stamp households, for example, receive Medicaid, free school lunches and breakfasts, housing subsidies, and low-income energy assistance benefits. Yet only cash transfers like AFDC are counted in determining food stamp allotments.

---Subsidy payments and reimbursement schemes for in-kind benefits like subsidized housing, medical assistance and child care services, encourage expansion of the quantity or cost of services to the limit of available federal dollars, without regard for the most efficient provision of benefits. Thus, section 8 housing requires \$, per unit in annual subsidies, Medicaid is frequently over-utilized, and day care standards and staffing ratios increase steadily.

These considerations and unsustainable growth trends contain an unmistakable lesson: our society's commitment to an adequate social safety net contains powerful, inherent expansionary tendencies. If left unchecked, these forces threaten eventual fiscal ruin and serious challenges to basic social values of independence and self-support. Periodic reassessment and revision of safety net entitlements is therefore essential.

The President's budget reform plan begins this long overdue

effort. For FY 82 more than _____ billion in budget savings can be achieved by an initial set of entitlement revision proposals. These savings will automatically grow to _____ billion by FY 85. Further proposals will be developed by the Administration in the months ahead.

In all cases, these recommended changes are designed to eliminate excesses, overlaps and unintended benefits that have developed during the recent period of unbridled expansion. If approved by the Congress, these reforms will refocus benefits on the truly needy and retarget programs on their intended purposes. They will bring the cost and coverage of the Federal entitlement and income support system back into conformity with the nation's essential social safety net commitments.

Thus, proposals to limit food stamp eligibility to families with less than \$11,000 in annual gross income and to employ retrospective income accounting will help return the program to its original goal: insuring adequate nutrition levels for all households. Under current rules and practice, the food stamp program threatens to become an indirect transfer payment program for the lower income population -- a policy effect never intended.

Similarly, the extended Federal unemployment benefit program was intended to provide extra support during periods of severe cyclical unemployment. But changes in the labor force and the increasingly uneven geographic distribution of unemployment have made the national trigger obsolete. The proposed shift to state triggers at modestly higher threshold levels will redirect extended benefits to areas where they are needed while removing incentives for prolonging unemployment in growth areas of the nation where job opportunities are available.

The proposed reforms of the Black Lung program contain a similar objective: to refocus benefits on the medically disabled and curtail tendencies to expand the program into a general miner's pension. Likewise, the President's plan seeks to sharply curtail the Trade Adjustment Assistance program, which has now become a secondary and overlapping unemployment insurance program, a development clearly incompatible with its original intent.

The President's fiscal reform plan also calls for elimination of two secondary social insurance benefits -- the Social Security student and special minimum benefits -- because more efficient means-tested benefit programs are now available to support needy recipients. These changes will save a net \$1.6 billion by FY 84 and modestly improve the actuarial balances of the trust fund.

Finally, these initial reform proposals seek to stabilize the runaway growth of two of the major in-kind benefit programs -- Medicaid and Section 8 housing -- through interim stabilization measures. These measures will produce budget savings of \$4.3 billion per year by FY 84 and permit time to develop alternative approaches that avoid the inherent cost and service escalation and benefit overlap built into existing programs.

Taken together, these initial reforms constitute a careful, discriminating and equitable effort to restructure the nation's overgrown entitlement system. They demonstrate that achieving both fiscal control and maintaining the nation's essential social safety net are compatible objectives.

II. Imposed Fiscal Restraint on non-priority National Interest Program

In normal circumstances the federal budget can carry programs which are in the national interest but cannot be assigned an urgent priority. For example, while no one can deny that our lives are made richer by museums, the arts, and humanities, it is also true that they cannot claim the same urgency or priority which we must assign programs which provide the truly needy with the fundamentals of their livelihood. In times such as these the arts and humanities must place greater reliance on the role of private philanthropy and state and local support. The plan is to phase down the spending on the arts and humanities endowments to an outlay level of approximately \$100 million.

The merit of research and development is without question. However, it is also without question that some R&D activities are less likely of yielding major break throughs than others. Such activities must be shut down in times of fiscal crisis to assure that we have the resources available to sustain vital R&D projects and to provide the basics for the truly needy.

Thus, the growth in outlays for the National Science Foundation in 1981 will be held to 3.0% over 1980 and in 1982 will be held to 9.3% over 1981. This funding level will enable the NSF to increase its support for basic and applied research in the mathematical and physical sciences and engineering, while eliminating new programs and cutting programs in other areas.

With respect to NASA, trimming back previously proposed programs will still leave the agency with a 13% increase above the already appropriated level for FY'81, which will enable us to proceed with the space shuttle program and to continue to balance the R&D program in areas of space science, space applications and aeronautics.

The National Institute of Health will receive nominal funding increases which are designed to allow the continuation of essential biomedical research; however, the increases will be insufficient to fund non-urgent activities such as, extraordinary overhead fees paid to institutions for federally supported trainees.

Finally, beyond these programs which clearly have merit, there are a number of programs whose fundamental merit is debatable. Such programs must be severely cut back or even eliminated in times such as the present.

The Federal Health Planning and Professional Standards Review Organizations (PSRO) programs have in some cases proven effective, but in most cases have proven themselves to be ineffective in controlling health care costs and inhibitive of the market forces needed to strengthen competition and drive down such costs. The PSRO's judged most effective will continue to have some transitional funding into FY'83 after which time no additional federal funding is proposed for this program.

The Planning Assistance Program of the Department of Housing and Urban Development will also be terminated because the program's primary intent of developing sub-national planning capabilities has been realized and further benefits accruing to the nation

are undefinable. Should states and localities determine the need for additional activity in this area, resources are available through other federally funded programs.

The eight remaining public health service hospitals - the residue of a program founded in 1798 to protect the nation from communicable diseases brought in by merchant seamen to ports with inadequate medical facilities - should be closed. Neither the eight cities nor the merchant seamen have a priority need for these hospitals - a fact well illustrated by the hospitals' giving away free services simply to make some use of excess capacity. A low level of funding in FY'82 (\$61 million) will enable the entire system either to be closed down in an orderly manner or turned over to local communities that wish to maintain the hospitals.

The National Consumer Cooperative Bank will be terminated because it appears to be a solution without a problem. Its charter to make subsidized loans to credit worthy consumer cooperative organizations has been used mostly by housing cooperatives and only in the amount of \$5 million. Basically there is no need for another federal housing agency. The real solution to the housing problem is to bring federal spending under control which should bring down the rate of inflation and the interest rates making housing affordable again. The bank's other function of providing technical assistance to cooperatives serving low-income persons, also appears to be unnecessary in light of the fact that out of appropriations totalling over \$37 million through 1980, less than \$1 million had been provided to intended recipients. Clearly this inactivity can hardly be a sign of an urgent national

priority; thus these funds must be conserved and redirected towards urgent priorities and towards solving our national fiscal crisis.

In short, programs which can not claim an urgent national priority in the face of our responsibilities to the truly needy and to solve our fiscal crisis, must be constrained.

D. Recover Allocable Costs with User Fees.--Most Government | 12
programs are designed to benefit the Nation as a whole, or | 13
provide special assistance to needy or vulnerable groups. | 13
Some Government activities, however, provide direct economic | 14
benefits to a specific and known group of individuals or | 15
enterprises. While it is often necessary or desirable for | 16
these activities to be conducted by the Federal Government, | 17
it is clearly inequitable for the general taxpayer to bear | 17
the burden of services that provide special benefits for | 18
specific users. The fiscal reform plan provides for | 19
shifting the cost of some such activities to those who | 20
directly benefit. Specifically, the Administration is | 21
proposing user fees to eliminate the subsidies on inland | 22
waterways, recover Coast Guard costs directly associated | 22
with activities that benefit users of boats and yachts, and | 23
fully finance the air traffic control system by reinstating | 23
and adequately funding the airport and airway trust fund. | 24

The Administration is planning to develop additional | 26
proposals that will apply this principle more extensively to | 27
Federal programs. | 27

F. Stretch-Out and Re-Target Public Sector Capital Investment | 12
Programs.--The Federal Government has undertaken a number of | 13
desirable public sector capital investment programs. Under | 14
normal conditions of low inflation and strong economic | 14
growth, the current rate of many of these activities would | 15
be justified. However, given the instability of the U.S. | 16
economy, the fiscal reform plan requires that in the short- | 16
run these investments be stretched out or delayed. The | 18
immediate need to improve the health of the economy as a | 18
whole overrides the merits of rapid completion of such | 19
projects individually. Specific proposals of this nature | 20
are being made for highways, water resource projects, waste | 21
treatment facilities, and airports. | 21

Reduce Federal Overhead, Personnel Costs and Program Waste and
Inefficiency

Federal Government activity is rarely subjected to the test of the marketplace. As a result, there has been a tendency to build up overhead, personnel, and regulatory costs without regard to the measurement of benefits. The Fiscal Reform Plan provides for reductions in these areas. It also will systematically reduce regulatory intervention in private sector activities so as to promote economic efficiency and output.

This process is already underway. The President has placed a complete freeze on all new Federal hiring and procurement of office equipment and related procurement, limits on consulting services and ordered reductions in government travel.

For FY 82 and beyond, every aspect of Federal management and administrative practice will be evaluated and tightened. As a successor to the present hiring freeze policy, a five year plan to steadily reduce Federal employment will be implemented. By FY 86, Federal payrolls would decline by _____ percent at a savings of \$_____ annually. Vigorous, systematic plans to eliminate program waste and fraud and to speed Federal debt collections are also under development. The President will propose major reform of the Federal pay comparability system in order to bring salary schedules and annual adjustment costs into line with actual private sector levels.

Finally, the substantial additional resources required for defense readiness and strengthening strategic and conventional capabilities will not exempt the Defense Department from rigorous requirements to eliminate wasteful practices and programs. The President's Budget Reform Plan calls for \$_____ billion in Defense cost savings in FY 82 rising to \$_____ billion by FY 86. Procurement reform, domestic basing structure realignment and future year personnel reductions will all contribute to these savings.

Apply Sound Criteria to Economic Subsidy Programs

The past decade of steadily deteriorating national economic performance has been accompanied by a rapid build-up of direct spending to alleviate or reverse these trends. Programs designed to stimulate growth, jobs, exports and new technologies, to artificially pump-up declining industries and firms, and in other ways alter and fine-tune the level and composition of national economic activity have grown like topsy.

The President's comprehensive economic plan begins with a fundamentally different premise: these direct spending and subsidy programs contribute more to the cause of our national economic break-down than to its solution. By contrast, sound budget control, tax reduction, regulatory reform and monetary policies proposed by the President offer the only real hope for renewed non-inflationary growth and prosperity.

Accordingly, the President's plan contemplates severe reductions in make-work job programs, governmental programs to stimulate solar conservation and synfuels technologies, regional development subsidies and a host of other mis-directed spending programs. In the context of a healthy expanding economy, stable financial markets and a revival of savings, investment and entrepreneurship. Normal market forces will be relied upon to achieve present program goals. For instance, the steady reduction of interest rates and elimination of inflationary cost pressures from the U.S. economy will do more to stimulate exports and international competitiveness than current export-import bank subsidies to a handful of large corporations. Similarly, market pricing of conventional fuels in conjunction with capital formation oriented tax policies will obviate the need for multi-billion direct Federal subsidies for synfuel development.

Many obsolete or inherently inefficient Federal subsidies to specific sectors of the economy will also be eliminated. More than _____% of Amtrak's regular rates generate less than _____% of total operating costs in passenger revenues. Because the nation can no longer afford this kind of sheer economic waste, a drastic shrinkage of the Amtrak route structure will be proposed.

A handwritten bracket on the right side of the first paragraph, spanning from the second line to the fourth line, with a checkmark next to it.

A similar plan to eliminate massive subsidies for new fixed rail transit systems will be proposed. The President's plan also rejects continuation of multi-billion subsidies to the Conrail system and Post Office. In the case of these and many additional subsidy programs now under study, rigorous application of principles of economic efficiency and appropriate Federal purpose will result in billions of annual budget savings.

(h) Block Grant Consolidation of categorical programs.

In preparing the spending control program the President met with scores of state and local officials as well as their Washington representatives. From these meetings came two clear conclusions. First they clearly recognized the need to bring federal spending under control, to stop inflation which is, overall, their number one problem. Second, they consistently asked that if federal funding were going to be reduced for their categorical grant programs, that as many of these as possible be consolidated and be converted into a few block grant programs.

The universally acknowledged benefits of block grants are that they allow the reduction of overhead because there are fewer people processing papers, and they allow the elimination of waste by efficiently targetting federal aid dollars on top priority state and local needs. Thus, a block grant program funded at a lower level can have as much impact for the state and local recipients as a higher level of funding for a multiplicity of narrow categorical grants.

In conjunction with this request for the conversion of categorical grants to block grants, state and local officials asked that federally mandated cost requirements and other regulations be relaxed - again so that they could stretch reduced federal dollars to have the same impact. The elimination of unnecessary regulations is a high priority of this Administration.

The objection most often raised to block grants is that "we will lose control." But that's the point. The federal government unnecessarily controls detailed state and local priorities. States and localities are not alien organizations inimicable to the best interest of the citizens whom they represent. They are instead those legislators and executives who on a daily basis cope with the real problems of the citizens they serve. People at the state and local level should be making decisions with respect to what kind of social and community services are required in their localities. It may turn out that one jurisdiction needs more money for rat control and less for venereal disease or more for child welfare services than for legal services that the federal government provides.

The one thing that is clear: the only real loser in converting categorical grants to a block grant is the bureaucratic middle-men - the grantsman - who suck funds away from the needy for whom the programs were designed. Many of the present 1176 categorical grants programs should be connected to block grants. At this time the President is proposing two major block grants: one for health and social services and the other for education.

The present array of about 40 categorical grants for health and social services mostly serve narrow population groups defined by various income, health status, age, residence and job categories.

Many of these health and social services programs are formula grants to states for provision of services at the local level, usually by local governments or agencies. Others make project grants or provide in-kind services or federally paid workers to local public agencies or to community based organizations and similar non-profit groups - each with its own planning process. Grant applications are reviewed individually - not as part of an overall funding priority.

This fragmentation makes it more difficult to develop a coherent financing and delivery system for the needy. The needy often must go to several different agencies for different services and different family members may receive care from different providers. Follow-up and continuity of care is a serious problem. Moreover the proliferation of separate regulations, out reach and linkage requirements, grant application and review processes, and audit/record requirements have created barriers for States, communities and providers that would like to coordinate services and funding as well as creating clearly unnecessary overhead expenses.

The health and social services grant consolidation chart above indicates the tremendous overhead that is involved in categorical grant programs. For example, there are 13 programs in which each federal employee involved in administering the program would have responsibility for less than \$1 million. 7 programs required at least one page of regulation for every \$1 million in outlays. Finally, 28 programs had average grants of less than \$1 million. In short, lots of federal employees and regulations are being used to dispense relatively small grants.

The President's block grant proposal addresses these problems. It is intended to enable states to plan and coordinate their own service program, establish their own priorities and exercise effective control over the resources provided to localities and non-profit organizations. This approach reduces the multiplicity of rules and regulations - hence federal direction - under which service agencies must currently operate. Furthermore, overlapping funding from different programs for the same services could be eliminated. States could select the service delivery agency best able to provide certain services now provided by direct federal grantees. The overall result would be to strengthen state governments that provide publicly financed services more effectively at lower costs for those in need.

The Department of Education currently administers 57 narrow categorical grant programs that provide resources to state and local governments to support a wide variety of objectives.

The President is proposing to collapse these 57 categorical grant programs into two block grant programs - a local education agency (LEA) block program and a state educational agency (SEA) block grant program.

A local education (LEA) block grant would combine certain programs (ie., title 1 grants for the disadvantaged, education for the handicapped, adult education, bilingual education, emergency school aid, school libraries and instructional resources, and 27 other minor programs). The purpose of these programs is to assist LEA's provide additional or special educational services to students who are particularly needy or deserving of special

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federal attention, i.e. the economically disadvantaged, physically and or mentally handicapped, and limited English proficient. Desegregation, adult education, and school libraries are also activities eligible for funding by the LEA block grants. The funds would be distributed according to a formula based on the number of disadvantaged and severely handicapped children living in the school district. A three year plan prepared by LEA and specifying priorities, goals and performance criteria, would identify how the funds will be spent.

The SEA block grant would combine all or part of 30 existing programs (including i.e., Title 1 for the disadvantaged, support and innovation, special education, school improvement, and professional development,) into one assistance program which would be used by the states for a vareity of educational activities. The funds would be distributed according to a formula based on the number of school age children living in the state. SEA's would be responsible for submitting a three year plan to specify the intended use of the block grant and criteria by which its performance could be evaluated. Private schools would be full and equal participants.

Funding for these block grant programs would be requested in 1982 at a level equal to 75% of the level represented by the sum of the components in FY'81. The consolidation would be accompanied by a slicing away a numerous regulations and requirements that create costs for state and local education agencies. The Administration anticipates that this deregulation will offset the reduction in federal funding. The outlay funding level proposed for FY'82 is \$4,260,000.

Programs Included in Local
Education Agency Block Grants

Program

1981
Continuing
Resolution
Level

Grants for the Disadvantaged

(Budget Authority)
(Millions of Dollars)

Title I ESEA Basic Grants for Disadvantaged

\$2,822.7

Title I ESEA State Agency Programs for Migrants

\$ 288.0

Title I ESEA Concentration Grants

\$ 145.0

Education for the Handicapped (State Grants)

Handicapped State Grant Program

\$ 922.0

Preschool Incentive Grants for the Handicapped

\$ 25.0

Adult Education

Adult Education Grants to States

\$ 120.0

Bilingual Education

Bilingual Education

\$ 137.9

Bilingual Vocational Training

\$ 4.8

Emergency School Aid (Desegregation)

Emergency School Aid	\$ 235.3
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Training Advisory Services (Civil Rights Act Title IV)	\$ 45.7
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School Libraries and Instructional Resources

School Libraries and Instructional Resources	\$ 171.0
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Other

Follow-Through	\$ 44.2
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Migrant Education -- High School Equivalency Program and College Assistance Program	\$ 7.6
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<u>Refugee Assistance</u>	\$ ---
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TOTAL	<u>\$4,969.2</u>
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Programs Included in State
Education Agency Block Grants

<u>Program</u>	<u>1981 Continuing Resolution Level</u>
<u>State Agency Grants for the Disadvantaged</u>	
Title I ESEA State Agency Programs for the Handicapped	\$ 165.0
Title I ESEA State Agency Programs for Neglected and Delinquent	\$ 37.8
Title I ESEA State Administration	\$ 47.0
 <u>Support and Innovation</u>	
Support and Innovation--Improving Local Educational Practices	\$ 91.4
Strengthening State Education Agency Management	\$ 51.0
 <u>Special Education</u>	
Severely Handicapped Projects	\$ 5.0
Early Childhood Education	\$ 20.0
Regional Vocational, Adult, and Post-secondary Programs	\$ 4.0
Handicapped Innovation and Development	\$ 20.0
Special Education Personnel Development	\$ 58.0
Gifted and Talented	\$ 6.3

School Improvement

Basic Skills Improvement	\$ 35.0
Arts in Education	\$ 3.5
Metric Education	\$ 1.8
Cities in Schools	\$ 3.1
PUSH for Excellence	\$ 1.0

Professional Development

Teacher Corps	\$ 30.0
Teacher Centers	
Pre-College Science Teacher Training	\$ 2.5
Bilingual Education Training Grants	\$ 37.1

Other

Career Education Incentives	\$ 15.0
Community Schools	\$ 10.0
Consumer Education	\$ 3.6
Law-Related Education	\$ 1.0
Alcohol and Drug Abuse Education	\$ 3.0
Ethnic Heritage Studies	\$ 3.0
Women's Educational Equity	\$ 10.0

TOTAL \$ 678.1

In summary, the creation of these two block grants will be a major contributor to the Budget Reform plan. More block grant proposals will be made to the Congress by this Administration.

Agency and Program Title	1981 Federal Employ.	1981 Grants			Pages of Regul.	Man- hours for Required Reports	Pages of law	Advisory Committees			Grant Costs in \$ Millions																		
		Types of Grants	No. of Grants	No. of Grant Sites				No. of Comm.	Costs in Federal		Publica -tions	1982 Carter Budget	1982 Current Services	1982 CS minus 80% 1981 CS															
									\$ Thousands	Man- Years																			
Child abuse	20	1	57	150*	15	6,000	7	1	70	3	45	7	7	-1															
Runaway youth	30	1	166	166*	5	10,000	3	—	—	—	12	10	10	-2															
Developmental disabilities	50	1	114	597*	20	30,000	15	1	722	20	1	51	51	-10															
REVISED																													
															Social Security Administration Low income energy assistance	20	2	150	100*	38	1,182,000	14	—	—	—	1,850	1,850	-370	
															Department of Education Office of Special Education and Rehabilitation Services Rehabilitation services	278	15	985	985	120	555,000	67	1	1	1	1	1,011	1,056	-283
															ACTION Domestic activities (excluding Foster Grandparents)	1,174	1	773	762	169	60,000	28	—	—	—	5	136	122	-33
															Community Services Administration Community services (excluding CED)	946	2	1,000*	900*	660	4,000	54	2	200	30	2	496	496	-100
															Legal Services Corp. ..	300 1/	9	600*	1,500*	56	10,000	16	—	—	—	4	347	347	-90
															TOTAL	4,805	111	7,606	24,917	1,388	7,182,000	465	20	1,935	77	646	9,451	9,691	-2,314

*Approximate.

1/Private corporation employees not included in Federal employment totals.

Health and Social Services Grant Consolidation

Agency and Program Title	1981 Federal Employ.	1981 Grants			Pages of Regul.	Man- hours for Required Reports	Pages of Law	Advisory Committees			Grant Costs in \$ Millions			
		Types	No. of	No. of				Costs in	Federal		1982	1982	minus	
		of Grants	Grant Grants	Grant Sites				No. of Comm.	\$ Thousands	Man- Years	Publica -tions	Carter Budget	Current Services	80% 1981 CS
<u>Department of Health and Human Services</u>														
<u>Health Services</u>														
<u>Administration</u>														
Community health														
centers	258	4	842	872	40	26,400	13	—	—	—	90	375	356	-96
Primary care R&D ...	10	1	33	32	2	1,000	3	—	—	—	1	—	11	-3
Black lung clinics .	10	2	18	56	6	500	1	—	—	—	1	5	5	-1
Migrant health	50	3	122	122	19	3,200	10	1	48	1	10	43	47	-13
High blood pressure.	7	1	53	53	2	800	1	—	—	—	2	26	22	-6
Home health services	2	2	122	122	11	1,000	2	—	—	—	—	—	5	-1
Maternal & child health:														
Grants	136	4	114	3,500*	24	30,000	12	—	—	—	108	357	391	-105
SSI Children	—	1	51	500*	12	1,600	3	—	—	—	2	30	33	-9
Sudden infant death.	6	1	42	42	5	300	4	—	—	—	2	3	3	-1
Genetic services ...	12	2	43	43	5	1,000	3	—	—	—	3	17	14	-4
Hemophilia	2	2	23	23	7	500	3	—	—	—	1	3	3	-1
Family planning	109	3	255	5,125	10	12,000	4	—	—	—	36	162	182	-49
Emergency medical services	42	4	70	70	21	1,600	15	1	28	1	17	33	33	-9
Payment to Hawaii ..	—	1	1	1	1	100	1	—	—	—	—	2	2	—
Program Management .	100	—	—	—	—	—	—	—	—	—	17	34	34	-7

*Approximate.

Agency and Program Title	Grant Costs in \$ Millions													
	1981 Federal Employ.	1981 Grants			Pages of Regul.	Man- hours for Required Reports	Pages of law	Advisory Committees				1982 CS		
		Types of Grants	No. of Grants	No. of Grant Sites				Costs in \$ Thousands	Federal Man- Years	Publica -tions	1982 Carter Budget	1982 Current Services	1982 minus 80% 1981 CS	
<u>Alcohol, Drug Abuse, and Mental Health Administration</u>														
Mental health services	409	21	779	574	6	40,000	50	2	66	2	106	339	346	-95
Alcohol Abuse Services	147	10	393	107	20	60,000	24	5	313	6	50	110	135	-37
Drug abuse services.	179	4	159	376	1	120,000	41	1	57	2	97	163	222	-61
Program management .	150	—	—	—	—	—	—	—	—	—	5	59	59	-12
<u>Centers for Disease Control</u>														
Health incentive grants	1	1	57	57	2	8,000	10	—	—	—	—	—	39	-10
Health education ...	1	2	54	165	2	2,000	6	—	—	—	—	18	20	-6
Venereal diseases ..	4	2	68	68	3	30,000	2	—	—	—	—	47	53	-15
Fluoridation	1	1	52	52	2	2,000	1	—	—	—	—	10	8	-2
Immunizations	2	1	64	64	3	6,000	2	1	56	1	—	37	34	-9
Rat control	1	1	38	68	3	5,000	1	—	—	—	—	1	15	-4
Lead paint	1	1	60	60	4	10,000	2	—	—	—	—	2	12	-9
Program management .	18	—	—	—	—	—	—	—	—	—	—	1	1	—
<u>Office of the Assistant Secretary for Health</u>														
Adolescent health ..	20	2	34	105	6	2,000	4	—	—	—	2	10	11	-3
Program Management .	9	—	—	—	18	—	—	—	—	—	1	**	**	**
<u>Office of Human Development Services</u>														
Social services (Title XX)	170	1	106	4,000*	30	4,900,000	18	1	143	1	5	3,091	3,132	-698
Child welfare services and foster care (Section IV BIE)	130	1	108	3,500*	40	60,000	25	3	231	9	20	565	524	-149

*Approximate.

**Less than \$500,000.

FINAL CATEGORIES

- 1) Maintain essential social safety net
- 2) ~~Revise entitlements and reduce benefit spill overs~~
To eliminate unintended benefits
- 3) Reduce middle/upper income benefit programs
- 4) Recover clearly allocable costs from users
- 5) Apply sound criteria to economic subsidy programs
- 6) Stretch-out & retarget public sector capital improvement programs
- 7) Impose fiscal restraint on non-priority national interest programs
- 8) Consolidate categorical ~~social, health, education~~ *grant* programs into block grants
- 9) Reduce overhead and personnel costs of the Federal government

FACT SHEET

ACCELERATED COST RECOVERY SYSTEM

The accelerated cost recovery system reduces write-off periods for business plant and equipment expenditures and provides audit-proof lives for real estate.

Most business property will fall into one of the following three write-off periods. An accelerated cost recovery schedule is provided for each.

- ° 3 years (and a 6-percent investment credit) for autos and light trucks, and for machinery and equipment used for research and development;
- ° 5 years (and a 10 percent investment credit) for other machinery and equipment except certain public utility property;
- ° 10 years for factories, stores, and warehouses used by their owners, and for certain long-lasting public utility property (10 percent investment credit for utility property, consistent with present law).

Audit-proof lives are established for straight line write-off of other depreciable real estate. These are:

- ° 15 years for other nonresidential buildings, such as offices and leased stores, and for low-income housing.
- ° 18 years for other rental residential structures.

A 5-year phase-in provides progressively shorter recovery periods for long-lived machinery and buildings acquired in years before 1985.

These provisions would be effective for property acquired or placed in service after December 31, 1980.

Direct Revenue effects of the proposal are:

	Fiscal Years					
	:	1981	: 1982	: 1983	: 1984	: 1985 : 1986
Before Interaction						
with Individual Tax	-2.5	-9.9	-19.5	-31.9	-47.2	-63.3
After Interaction						
with Individual Tax	-2.5	-9.7	-18.6	-30.0	-44.2	-59.3

CAPITAL COST RECOVERY PROPOSALPresent Law

Personal Property. Under present law, taxpayers may claim depreciation deductions for tangible personal property such as machinery and equipment used in a trade or business, including for lease or rental. These deductions are spread over the estimated "useful life" which is determined by the particular "facts and circumstances" of the anticipated use of the property or according to a system of guidelines known as the Asset Depreciation Range, or "ADR", system.

A taxpayer claiming depreciation on the basis of facts and circumstances must estimate the useful life and salvage value for each item of depreciable property. These estimates are subject to examination by auditing agents of the Internal Revenue Service.

The ADR system, established in 1971, sets out useful lives for classes of assets based upon the activity in which the assets are used (for example, mining, or manufacture of machinery) or according to the type of asset (e.g., automobiles or office furniture). A taxpayer electing to use the ADR system may rely on these lives without regard to the particular facts and circumstances. Further, taxpayers are

permitted to choose useful lives within a range extending from 20 percent shorter to 20 percent longer than the established guideline for each class.

Whether useful lives are determined by facts and circumstances or by ADR guidelines, the taxpayer also has a choice of the "method" of depreciation. Depreciation deductions may be computed ratably over the useful life (the straight-line method) or certain accelerated methods (such as declining balance or sum-of-years-digits) may be used. Accelerated methods allow larger deductions in the earlier years of the useful life (and smaller deductions later).

When personal property is retired, such as by sale or exchange, any gain or loss, as measured by the difference between the amount realized and the remaining undepreciated (or "adjusted") basis, is usually recognized immediately as ordinary income. Any gain in excess of prior depreciation deductions will generally be taxed at the capital gains rates. Losses realized are allowed as ordinary or capital depending on the nature and use of the asset.

Real Estate. Present law also allows depreciation deductions for business buildings. A set of guideline periods or facts and circumstances may be used to establish recovery periods. Guidelines range from 25 years for farm buildings to 60 years for warehouses.

Instead of estimating the overall useful life and salvage value of a building, taxpayers may separately depreciate its various components (e.g., the building shell, wiring, plumbing, roof, ceiling, flooring). It is not uncommon for a single building to be divided into more than 100 components. New residential rental buildings may be depreciated under the declining balance method at a rate of up to 200 percent of the straight-line rate (or the sum-of-the-years digits method may be used to give approximately the same result). Other new buildings may be depreciated using 150 percent declining balance and used residential properties may use 125 percent declining balance. Expenditures for the rehabilitation of certain low income housing and certified historic structures may be written-off over 5 years.

Upon the disposition of a building, the taxpayer is required to recognize as ordinary income any amount of gain up to the difference between the accelerated depreciation and the depreciation deductions allowable under the straight line method. An exception is provided for certain types of subsidized low-income housing. Gains in excess of the amount recognized as ordinary income are treated as capital gains. As with leased personal property, real estate depreciation in excess of straight line is considered an item of tax preference for purposes of the add-on minimum tax.

Related Investment Credit Rules. The investment credit is less than 10 percent for property with an expected useful life of less than 7 years. No credit is allowed if the expected useful life is less than 3 years. If the useful life is between 3 and 5 years, a credit of $3\frac{1}{3}$ percent applies; if the useful life is between 5 and 7 years, the credit is $6\frac{2}{3}$ percent.

Current law also requires the taxpayer to repay, or "recapture," some or all of the investment credit when property is disposed of before the end of the anticipated useful life. The entire credit is recaptured if a property is held less than 3 years. If the property is held less than 5 years, any credit of more than $3\frac{1}{3}$ percent is recaptured and, similarly, credit taken in excess of $6\frac{2}{3}$ percent is recaptured for dispositions before the seventh year.

Reasons for Change

Acceleration of capital allowances is a key measure to improve incentives for business investment as a foundation for increased productivity and sustained economic growth. In recent years, the real value of depreciation allowances has been greatly eroded by inflation at the same time that the country's capital needs have become more urgent. Adoption of this proposal will reduce substantially the burden of Federal income taxes on the return to investing in business plant and equipment.

Together with other measures to encourage work and saving and to reduce the burdens of Federal regulation and government spending, this legislation will provide the conditions for increased capital investment needed to provide jobs and improve the U.S. competitive position in world markets. The long-term economic strength of the country and the future standard of living of its people depend importantly on this program.

The Accelerated Cost Recovery System will also reduce the burden of accounting and tax planning for taxpayers and will remove sources of dispute between taxpayers and the Federal Government. This system will eliminate much of the complexity of depreciation rules that have built up in layers over the years through changes in law, regulations, and

administrative practice. The proposed system makes a clean break with most of present cost recovery provisions and, yet, is built on familiar concepts and definitions. In the new system, classes of capital assets are broad and well defined; cost recovery periods and accounting rules are certain and standardized.

General Explanation

The Accelerated Cost Recovery System will provide for faster write-off of capital expenditures by means of simplified and standardized rules. The system will replace the present complex provisions for determination of depreciation allowances. It substitutes easily identified classes, each with a standard schedule of deductions to be taken over a fixed recovery period. The proposed legislation adopts the now-familiar 10-5-3 concept for machinery and equipment used in business and for owner-occupied structures used for manufacturing and distribution. In addition, audit-proof lives are provided for two classes of real estate. Brief descriptions of the 3-, 5-, and 10-year classes summarize the essentials of the system.

- o 3-year property. This class consists of autos and light trucks plus machinery and equipment used in research and development activities. Expenditures for these assets will be written-off in three years according to an accelerated schedule -- 33 percent in the first year, 45 percent in the second, and 22 percent in the third. An investment credit of 6 percent will also apply to this class, an increase of 2-2/3 percentage points over the present law for property written-off in three years.

- o 5-year property. All other outlays for machinery and equipment, except for certain long-lived public utility property, are assigned to a 5-year class. After a phase-in period, additions to this class will be written-off according to an accelerated 5-year schedule -- 20 percent in the year acquired, and then in succeeding years 32 percent, 24 percent, 16 percent, and 8 percent of original cost. The full 10 percent investment credit will be allowed for this class.

- o 10-year property. Factory buildings, retail stores, and warehouses used by their owners, and public utility property for which present guidelines exceed 18 years will be written-off over 10 years. The annual sequence of deductions for this class is also accelerated -- 10 percent, 18 percent, 16 percent, 14 percent, 12 percent, 10 percent, 8 percent, 6 percent, 4 percent, and 2 percent. As under present law, the 10 percent investment credit applies to public utility property in this class, but is not generally available for real property.

Audit-proof lives are prescribed for other classes of real estate.

- o 15-year life. Non-residential structures not included in the 10-year class and low-income rental housing will be written-off in 15 years by the straight-line method. This treatment applies to each building as a composite.
- o 18-year life. Other residential structures for rental, such as apartment buildings, will each be written-off, as a composite, over 18 years according to the straight-line method.

Unlike present law, all of the cost recovery rules apply alike to new and used property, and no estimate of salvage value is required.

Accounting rules. An asset acquired at any time in the tax year is added to the "vintage" account for its class and kept in that account until fully written-off or retired. A "half-year convention" for the year of acquisition is built-in to the recovery schedule. Gain or loss is generally recognized on disposition of an asset. Gains on property for classes with accelerated recovery (the 3-, 5-, and 10-year classes) will generally be recognized as ordinary income to

the extent of prior allowances. However, no ordinary income recapture applies to the 15- and 18-year, straight-line recovery classes.

Taxpayers must pay back, or "recapture," a portion of the investment credit in the case of early retirements up to the fifth year that an asset is held. In these cases, the taxpayer may keep a credit of 2 percent for each full year the property is held, up to the amount of credit originally claimed.

Phase-in period. The 5-, 10-, and 15-year recovery period are phased-in over a 5-year period. However, the investment credit rules, the 3-year recovery period, and the 18-year audit-proof lives will begin with the effective date.

Effective Date

The Accelerated Cost Recovery System will be effective for property acquired or placed in service after December 31, 1980.

WASH FAX 11 08 11 FEB 1981 DATE AND TIME TRANSMITTED	SITE D 189 SSN NBR	12 DATE AND TIME RECEIVED
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FROM COL STEBBINS OFFICE/DESK OCJCS PHONE NBR 29123
SUBJECT LINK
CLASSIFICATION U PAGES 1



IMMEDIATELY

[illegible]

REMARKS:
PLS Deliver IMMEDIATELY

they are available for potential contingencies in the Indian Ocean region. These ships carry equipment and petroleum, oil, and lubricants for a Marine Amphibious Brigade, plus ammunition and consumables for early-arriving Air Force and Army units.

The foregoing initiatives in airlift, sealift, and material pre-positioning are essential to US power projection needs of the 1980s. However, all depend for maximum effectiveness on foreign transit rights or US access to foreign facilities. The United States will continue to require substantial overseas support in most areas of the world, and must seek to achieve it through continued negotiations with other governments, offering economic and security assistance where appropriate.

Finally, the US must complement its new initiatives with adequate funds for operations and maintenance (O&M). Insufficient O&M funds mean fewer flying and steaming hours, less training, less upkeep and overhaul, and a general deterioration in the effectiveness and efficiency of US forces. Additional O&M funding is needed for all forces, but especially for those that must operate reliably for long periods of time at great distances from their home bases.

MILITARY INVESTMENT

The military capability of a nation or an alliance is largely a function of the resources it has been willing to spend to achieve that capability. Levels and patterns of resource expenditure directly affect the size and quality of military forces, and constitute significant and visible indications of resolve, commitment, and priorities. For these reasons, comparisons of spending between the United States and the Soviet Union and between NATO and the Warsaw Pact are helpful in assessing the overall military balance.

Assessments of relative military spending by the US and the USSR rely on either "dollar cost" or "ruble cost" comparisons. Either comparison is subject to uncertainty and bias, but both yield similar conclusions when focused on the key factors of relative resource allocation and long-term trends.

The following assessment of relative trends and magnitudes of US and Soviet defense efforts relies on dollar estimates. That is, actual US outlays are compared with what it would cost the United States in dollars to replicate Soviet programs—to produce and man a military force of the same size and with the same weapons inventory as that of the USSR and to operate that force as the Soviets do. To insure a valid comparison, the calculation of US outlays accounts for certain military-

related activities outside of the Department of Defense, such as civil defense, and for the different ways in which personnel and retirement costs are treated.

Such analysis indicates that cumulative costs of overall Soviet military activities over the period 1970 to 1979 exceed comparable US costs by more than \$450 billion, or almost 30 percent. This large and growing gap is the result of differing expenditure trends over the past decade. While Soviet defense efforts steadily increased at approximately a three percent average annual real growth rate in dollar costs, comparable US outlays experienced a continuous decline from 1970 until 1973 and have only slightly improved thereafter. Examined over the entire decade, US outlays have declined at an average rate of approximately two and one-half percent per year. The resulting divergence is such that in 1979 the total dollar cost estimate for Soviet defense activities was about \$222 billion, or about 50 percent more than that for comparable US efforts. Chart II-30 displays the trends in US and Soviet defense spending for the years 1970-1979.

Although comparisons of spending for total defense activities are significant, they are potentially less important than comparisons of spending on "military investment" (research, development, test and evaluation (RDT&E), weapon system procurement, and military construction).

The disparities in Soviet and US spending on procurement, construction, and RDT&E have had a direct, visible, and highly adverse effect on the military balance. Soviet military investment has grown in real terms throughout the past decade, while comparable US spending has shown only modest growth since the decline was halted in the late 1970s. As a result, the US now faces a growing threat resulting from heavy Soviet investments in all forms of modern military hardware and weaponry. The momentum of this modernization continues unabated, and, unless counterbalancing US modernization is aggressively pursued, the gap between Soviet and US military capabilities will widen.

Since Soviet defense spending trends show no sign of abatement, US defense spending must increase to avert a further erosion of the military balance. Although the US defense budget is now on a path of modest real growth, the Joint Chiefs of Staff have indicated that a long-term trend of annual real growth, which in time will increase the portion of the gross national product devoted to defense to six or seven percent, is necessary to address the most pressing manpower, modernization, and readiness needs. Even that level of increased

xc in K

SPENDING CONTROL PROGRAM OVERVIEW

1. We need a strong spending control program--a shock--to break the cycle of inflationary expectations.
2. The spending control program is based on fundamental principles ...the overall guiding principle is that all will contribute to the program except the truly needy.
3. The program will result in over \$ _____ in FY81 ~~reductions~~ and \$ 53.2 billion in FY82 ^{outlay} reductions.
- 5. The impact of the spending control program is fair.
 - A. To families at all income levels
 - B. To all regions of the country
 - C. To various sectors of the economy
6. Success depends on action by the Congress.
4. The enactment of the spending control program will enable us to have a balanced budget by 1984.

Appendices

1. Expansion on Budget Cutting Principles
2. Cuts Identified by The 8 Principles
3. Summary Sheets of Cuts By Department
4. Fact sheets on all major cuts

Why we need a strong spending control program?

Being prepared by D. Kass.

FUNDAMENTAL PRINCIPLES

1. The non-needy should be removed from programs designed to protect the needy.
2. The government should not subsidize middle and upper income groups...its unfair to tax lower income families to benefit middle and high income groups.
3. Subsidies to particular business interests, as opposed to the public interest should be eliminated.
4. Subsidies from national tax resources to particular regions and levels of government should be reduced and generally limited to instances of greatest need.
5. Programs which duplicate the benefits or services of other already existing program should be eliminated.
6. Categorical grant programs should be converted into block grants to allow overhead reductions and eliminating waste caused by ineffective targeting of funds.
7. Programs whose benefits are marginal or do not exceed their costs should be eliminated in times of fiscal stringency.
8. Terminate counterproductive policies.

OVERALL GUIDING PRINCIPLE: All will contribute to the spending control program except the truly needy.

Results of Applying Budget Cutting Principles *

NY 81 NY '82

1. Removing the non-need
2. Eliminating middle/high-income subsidies
3. Eliminating subsidies to business
4. Eliminating regional subsidies
5. Ending needless duplication
6. Converting categorical grants to block grants
7. Improving cost-effectiveness
8. Terminating counterproductive policies.

Totals

* XX
XX
In cases where the budget cut was justified by more than one principle, the savings were arbitrarily allocated by dividing the savings by the number of principles.

1. REMOVING THE NON_NEEDY

FY 81 FY 82

1. Food stamps
2. Child Nutrition
3. Student Loans
4. Minimum Soc. Sec. Benefits
5. Soc. Sec. Student Benefits
6. Aid to Families with Dependent Children
7. Unemployment Insurance Extended Benefits
8. Trade Adjustment Assistance
9. Exclusion of unemployment benefits--lower
threshold for exemption of employment benefits
from \$22,000 to \$15,000 or \$18,000

Totals

2. Eliminating middle/high income subsidies

FY'81 FY'82

1. Health Professions Education
2. National Research Service Awards
3. Amtrack Subsidies
4. Northeast Corridor Improvement Project
5. Corporation for Public Broadcasting
6. National Endowment for the Arts/National
Endowment for the Humanities
out
7. Phase ~~ix~~ pleasure boat user Coast Guard Subsidies
8. Sell Conrail to avoid further federal subsidies
area
9. Reduce federal recreation user subsidies
10. Reduce federal subsidies on technical publica-
tions--e.g. Geological Survey
11. Reduce tax incentives for consumer credit
12. Limit home-ownership interest-property tax
exclusion to mortgages of \$200,000 or less.
- 13.

TOTALS

3. Eliminating Subsidies to Business

FY'81 FY'82

1. Alcohol Fuels/Biomass Assistance
2. Economic Development Adminⁿ Regional Commissions
3. Maritime Subsidies
4. Synthetic Fuels Subsidies
5. Fossil Energy Programs
6. Solar Energy Programs
7. Other Energy Supply Programs
8. Energy Conservation
9. Alcohol fuel/Biomass Financial Assist
10. Solar Energy and Conservation Bank
11. Local Rail Service Assistance
12. Cooperative Automobile Research Program
13. Export-Import Bank
14. National Consumer Cooperative Bank
15. Postal Service Subsidies.
16. Eliminate airline/general aviation subsidies
17. Phase out ~~subsidies for~~ boat user Coast Guard Subsidies
18. Phase out inland water way user operating and capital subsidies
19. Eliminate rail freight subsidies to business
20. Eliminate food and fiber inspection subsidies from USDA
21. Recover costs of permits and registrations of pollutants and pesticides.
22. Reduce depletion allowance to 500 bbl/da
23. Curtail tax exclusion on industrial development bonds.
24. Reduce dairy price supports
25. Reduce section 2106 airline subsidy program.

TOTALS

4. Eliminating regional subsidies

FY'81 FY'82

1. Rural Electrification Admin.
2. Economic Development Admin⁸ Regional Commissions
3. Various National Oceanic and Atmospheric Admin programs
4. School Assistance in Federally Affected areas
5. HUD planning assistance grants
6. HUD Urban Development Grants
7. Amtrack subsidies
8. Northeast Corridor Improvement Project
9. Local Rail Service Assistance
10. EPA Waste Treatment Grants
11. TVA Loan and Construction activities
12. Sell conrail to avoid further subsidies
13. Recover costs of permits and registrations of pollutants and pesticides.
14. Curtail tax exclusion on industrial development bonds
15. ~~Discontinue tax expenditures for~~
16. water Resource Development Construction programs
17. Mass transit operating/capital grant subsidies

Totals

5. Ending Needless Duplication

FY'81 FY'82

1. Child nutrition

2. Farmers Home Administration

3. Energy Conservation

4. HUD rehabilitation Loan Fund

5. HUD Neighborhood Self-Help Development

6. Solar Energy and Conservation Bank

7. Trade Adjustment Assistance

8.

Total

6. Convert Categorical to Block Grants

FY81 FY82

1. Elementary and Secondary Education Grant consolidations
2. HUD Urban Development Action Grants
3. DOT Highway construction
4. Social Services Block Grant Consolidation
List programs to be consolidated

Totals

8. Terminate Counter Productive Policies

FY81 FY 82

1. Energy Conservation

2. Energy Regulation

~~3. Social Security Administration
Health program~~

3. Health Planning

~~4. Community Development (Section 108) Loan Guarantees~~

4. Community Development (Section 108) Loan Guarantees

5. Acceleration of Outer Continental Shelf leasing

6. National consumer Cooperative Bank

7. Postal Service Subsidies

8.

Totals.

7. Improving Cost Effectiveness

FY'81 FY'82

1. National Institute of Education
2. Energy Conservation
3. Energy Information Administration
4. Dept of Energy Administration
5. Medicaid Cap
6. Health Planning
7. Health Maintenance ~~Organizations~~ Organizations
8. Health Professions Education
9. National Research Service Awards
10. Public Health Service Hospitals
11. National Health Service Corps Scholarships
12. HUD section 108 Community Development Loan guarantees
13. Public Housing Modernization
14. Acceleration of Outer Continental Shelf Leasing
15. Eliminating public ~~sector~~ sector jobs in CETA.
16. DOT Highway construction
17. Amtrack subsidies
18. Northeast Corridor Improvement
19. Local Rail Service Assistance
20. Highway Safety Grants
21. EPA Waste Treatment Grants
22. Retrenchment of NASA programs
23. National Science Foundation
24. Postal Service Subsidies
25. Sell Conrail to avoid further federal subsidies.
26. Reduce Federal employment
27. Sell Federal non-financial assets
28. Reduce pay increases

29. Defense savings

Specific Program reductions

Improved practices savings

30. Unemployment Work Test

A Balanced Budget by FY 84

REVENUE BUDGET FY 1981-1986

	1981	1982	1983	1984	1985	1986	1982-86 CAGR
Receipts ①	642.5	698.0	756.1	826.2	912.4	912.4	9.2
Outlays	729.0	790.3	846.4	904.6	961.0	961.0	7.3
Current Policy	5.7	25.1	38.6	54.0	72.2	72.2	88.7
+ Defense Add-On	134.7	815.4	895.0	958.6	1040.2	1040.2	9.1
- Total Pre Control	92.2	117.4	121.9	132.4	127.8	127.8	8.3
Deficit Pre Control	39.0	19.0	-0-	-0-	-0-	-0-	-
Max Allowable Deficit	53.2	99.4	126.9	132.4	127.8	127.8	24.5
Budget Savings Required	52.5	115.1	88.6	107.7	111.7	111.7	-
Savings Funded	21.4	19.9	18.9	18.8	19.0	19.0	-
Outlay as % GNP							

Notes: ② Receipts based on forecast/scenario and the program including 10, 10, 10 and accelerated depreciation

Economy

All Sectors of the ~~Country~~ Contribute Their Fair Share

FY 81 FY 82

1. Agriculture

- a. CCC Storage Facility Loans
- b. Farmers Home Administration
- c. Eliminate food and fiber inspection subsidies at USDA
- d. Reduce dairy price supports

2. Transportation

- a. Maritime Subsidies
- b. Local Rail Service Assistance
- c. ~~Eliminate~~ Eliminate airline/general aviation subsidies
- d. Phase out boat user Coast Guard subsidies.
- e. Phase out inland water way user operating and capital subsidies.
- f. Eliminate rail freight subsidies to business.
- g. Reduce section 2106 airline subsidies.

3. Energy Companies

- a. Synthetic Fuels Subsidies
- b. Fossil Energy Programs
- c. Solar Energy ~~Programs~~ Programs
- d. Other Energy Supply programs
Alcohol Fuel/Biomass financial Assistance
- e. ~~Eliminate all energy subsidies~~
- f. Solar Energy and Conservation Bank
- g. Reduce depletion allowance to 500 bbl/da.

4. Manufacturing Companies.

- a. Economic Development Admin & Regional Commissions
- b. Energy Conservation
- c. Cooperative Automobile Research
- d. Recover costs of permits and registrations of pollutants and pesticides.
- e. Curtail tax exclusion on industrial development bonds.

Impact of Spending Control program is fair to
LOW INCOME FAMILIES

Being prepared by Bob Carleson

Humanitarian Programs Where Funds for The Needy will not be Cut -

While spending restraint and budget cuts are essential to the Administration's inflation fight, the Office of Management and Budget recognizes the nation's responsibility to provide for Americans who are truly needy and who are actually dependent upon federal benefits for survival.

Truly needy

Pride in our American heritage and compassion for our own dictate certain important exceptions to any budget cutting exercise. The following seven federal assistance programs will not be cut and will be fully funded.

- . Social Security - a total of \$140 billion in basic retirement benefits for 32 million retirees, dependents and survivors.
- . Medicare - a sum of \$45.4 billion to serve 28.6 million people.
- . Supplemental Security Income - almost \$8 billion for about 4.2 million blind, disabled or elderly poor persons.
- . Veteran's Benefits - more than \$8.6 billion for 2.3 million veterans with service-related disabilities and \$4.1 billion for 8.1 million pensioners with non-service-related disabilities.
- . School Lunch and Breakfast programs - a sum of \$2.1 billion to provide free or subsidized meals to 9.5 million needy school children.
- . Operation Head Start - an appropriation of \$950 million to provide an educational boost to some 374,000 poor, mostly inner-city, pre-school children.
- . Summer Youth Jobs - an expense of \$870 million to employ 665,000 persons throughout the country.

Impact of Spending Control program is fair to

AVERAGE INCOME FAMILIES

Being prepared by Denis Kass

Impact of Spending Control Program is fair to

WEALTH FAMILIES

Being prepared by Denis Kass

~~Impact of the Program~~

All regions of the Country Contribute their fair share

1. Northeast contributions

- a. Northeast Corridor Improvement Project reductions
- b. Conrail sell off
- c. Mass transit operating subsidies
- d. Local rail service assistance

2. Sunbelt contributions

- a. Extended unemployment benefits.
- b. TVA Loan and Construction Activities.
- c. Curtail tax exclusion on industrial development bonds

3. Frost belt contributions

- a. Trade adjustment assistance
- b.

4. Rural area contributions

- a. Rural Electrification
- b. TVA loans and construction activity
- c. Water resource development construction programs.

5. Urban area contributions

- a. HUD planning assistance grants
- b. HUD urban Development grants
- c. Mass transit capital grant programs.

ALTERNATIVE APPROACH--OMB economics department may be able to get state by state distributions before and after cuts.

Success depends on action by the Congress

~~the most extensive pre-introduction~~
~~1. Did ~~xxxxxx~~ consultation with the Congress prior to the~~
~~introduction of legislation~~

1. Probably set a modern record for pre-introduction consultation with the Congress.

a. OMB Director Dave Stockman personally briefed at least _____ Congressmen...many of them more than once.

b. More than _____ Hill staff received personal briefings by Stockman or other OMB staff.

2. Key Groups were briefed on the outlines of the Program at the White House

a. The Congressional Black Caucus
Presidents of

b. ~~xxxxxx~~ the Major Labor Organizations

c. Agricultural leaders.
Chief Executive Officers

d. ~~xxxxxx~~ of big, medium sized and small businesses.

c. State and Local Officials.

d. Leaders of Key Hispanic groups.

3. Congressional Strategy.

is required by the procedures

a. A Reconciliation Bill ~~xxxxxxxxxxxxxxxxxxxx~~
of both Houses of Congress to complete the FY81 process.

1) The bill reconciles currently forecast revenues against the yet to be completed budget--the government is operating under a continuing resolution expiring June 5th.

2) The Bill passed by the budget committees and then adopted by each body instructs the Appropriations and substantive committees to revise their budgets to come in under a budget mark set in the bill.

3) The bill is a good vehicle for presenting much of the program as a package to each house of congress.

b. Recisions will have to be passed by the Congress for each cut in already appropriated funds to be realized...much of the package will be presented in the form of individual recisions.

c. New changes in the law will be required to realize the savings proposed in some parts of the program.

4. Outlook

a. The Republic majority in the Senate with the assistance of Democrats concerned about bringing federal spending under control may quickly pass a major reconciliation bill which would demonstrate their sincerity and the need for the House to act quickly.

- b. A bi-partisan coalition concerned about bringing federal spending under control in the House ~~w~~ is expected to pass a reconciliation bill, perhaps of smaller proportions, soon after the Senate acts.
- c. With the tone set by the reconciliation bills, the individual changes called for the in recisions and new legislation should begin to move promptly.

Key point: The spending control program is one element of an integrated four year program to restore the health and vigor of our economy. Tax cut~~s~~, stable monetary policy and deregulation must all proceed hand in hand with the spending control program.

~~TO: Ed Harper~~ 8:20 p.m. 2/11/81
Appendix #1

~~Draft/Brandon Hopkins/2-11-81~~

BUDGET-CUTTING PRINCIPLES

There are eight principles that have been followed in determining where the budget should be cut:

1. Removing the non-needy. Eligibility for programs intended to protect the truly needy will be tightened to ensure that a program's benefits are restricted to those people it was originally meant to help. Program eligibility and benefits will also be adjusted to ensure equitable treatment among comparable groups. Otherwise allowing such programs to become open-ended income supplements unrelated to a person's genuine need reduces the integrity of the program while seriously impairing the government's ability to promote the economic conditions necessary for all Americans, especially the poor, to improve their standard of living.

2. Eliminating middle/high-income subsidies. Programs intended to subsidize middle and higher income groups will be cut or reduced. It is unfair to tax lower-income Americans to pay for programs which primarily benefit the more economically well-off members of society.

3. Eliminating subsidies to business. Programs which benefit particular business interests, as opposed to the public interest, will be cut or reduced. The public has no responsibility to protect, through its taxes, private businesses from the legitimate risks of failure or loss of profits. Rather, the proper function of the government should be to help foster the favorable economic conditions in which efficiently managed businesses can succeed and prosper.

4. Eliminating regional subsidies. Programs which funnel national tax resources to particular regions of the country or levels of government will be reduced and generally limited to instances of greatest need. Our nation cannot afford to continue taxing all areas of the country to selectively assist a few areas, especially when the amount of money returned to the various regions is far less than the total amount taxed away from all regions in the first place. The prosperity of the different regions will be best enhanced by general economic improvement, with specific national help reserved for the most urgent cases.

5. Ending needless duplication. Programs which duplicate the benefits or services of other already existing programs will be eliminated. We do not enjoy the luxury of excess federal funds that would allow us to pay for the same

activity two or more times.

6. Converting categorical aid programs into block grants. This step will ensure that necessary aid programs have sufficient resources to carry out their objectives while reducing administrative overhead, eliminating waste caused by ineffective targeting of funds, and promoting local and state flexibility in responding to true needs which those levels of government can best recognize and act upon.

7. Improving cost-effectiveness. Programs which provide little benefit to society, or whose costs greatly exceed their benefits, will be reduced or eliminated. In a period of budgetary stringency, we must be especially prudent to ensure that the public is forced to pay for only those programs which are both efficient and of high priority.

8. Terminating counterproductive policies. Programs which exert an affirmatively harmful influence on society not only waste federal money, but introduce other economic distortions as well which often reduces Americans' economic well-being. Such programs will be a prime target for elimination or substantial modification.

The attached chart lists the proposed budget cuts, and notes the principle(s) upon which each suggested action is predicated.

Cuts Identified By The 8 Principles

Appendix #3

	1	2	3	4	5	6	7	8	
<u>Department of Agriculture</u>									11
Food Stamps.....	✓								12
Child Nutrition.....	✓				✓				14
Rural Electrification									16
Administration (off-				✓					17
budget).....									18
* NIB CCC Storage Facility									20
Loans.....									21
Farmers Home Admin....					✓				23
Alcohol Fuels/Biomass									25
Assistance.....			✓						26
<u>Department of Commerce</u>									28
Economic Development									29
Administration:									30
Regional Commissions									31
including Appala-									32
tional Regional			✓	✓					33
Commission.....									34
Maritime Subsidies			✓						36
Program.....									37
Various National Oceanic									39
and Atmospheric Admin.				✓					40
Programs.....									41
<u>Department of Education</u>									43
Elementary and						✓			44
Secondary Grants									45
Consolidation.....									46
School Assistance									48
in Federally Affected				✓					49
Areas (Impact Aid)...									50
Vocational and Adult									52
Education.....									53
Student Loans and Pell	✓								55
Grants.....									56
National Institute of							✓		58
Education.....									59

* Not in book

	1	2	3	4	5	6	7	8	9
<u>Department of Energy</u>									61
Synthetic fuels			✓						62
Subsidies.....									63
Fossil Energy Programs			✓						65
Solar Energy Program..			✓						67
Other Energy Supply Programs.....			✓						69
									70
Energy Conservation...			✓		✓		✓	✓	72
Energy Information Administration.....							✓		74
									75
Energy Regulation.....								✓	77
Departmental Admin....							✓		79
Alcohol fuel/Biomass Financial Assist.....			✓						81
									82
<u>Department of Health and Human Services</u>									84
Minimum Social Security Benefits.....	✓								85
									86
Social Security Disability Insurance.....	✓								88
									89
Social security - student benefits.....	✓								91
									92
Aid to Families with Dependent Children...	✓								94
									95
Medicaid cap.....							✓		97
NIB Social/Community Services and Health Program Consolidation						✓			99
									100
									101
Health Planning.....							✓	✓	103
NIB National Institutes of Health.....									105
									106
Health Professions Education.....		✓					✓		108
									109
Health Maintenance Organizations.....							✓		111
									112
National Research Service Awards.....		✓					✓		114
									115
Public Health Service Hospitals			✓						117

National Health Service Corps Scholarship....		1	2	3	4	5	6	7	8	120 121
Department of Housing and Urban Development										122
NIB	GNMA Tandem Mortgage Assistance.....	.								124 125
	Planning Assistance....				✓					127
	Urban Development Action Grants.....				✓		✓			129 130
	Community Development (Section 108) Loan Guarantees.....							✓	✓	132 133 134
	Rehabilitation Loan Fund.....					✓				136 137
	Neighborhood Self-Help Development.....					✓				139 140
NIB	Housing Counseling Assistance.....									142 143
	Public Housing Modernization.....							✓		145 146
NIB	Tenant Rent Burden.....									148
	Solar Energy and Conservation Bank.....			✓		✓				150 151
NIB	Community Development Block Grant (increase)									153 154
NIB	Department of the Interior Acceleration of Outer Continental Shelf Leasing (off-setting receipts).....								✓	156 157 158 159 160
	Department of Labor Unemployment Insur- ance Extended Benefits	✓								162 163 164
	Trade Adjustment Assistance.....	✓				✓				166 167
	Comprehensive Employ- ment and Training (CETA).....							✓		169 170 171
Department of Transportation Highway Construction							✓	✓		172

Program.....	1	2	3	4	5	6	7	8	175
NIB Urban Mass Transportation Capital Grants -- changes from Carter Budget.....									177 178 179 180
NIB Airport Construction-- changes from Carter Budget.....									182 183 184
AMTRAK Subsidies.....		✓		✓			✓		186
Northeast Corridor Improvement Project...		✓		✓			✓		188 189
Local Rail Service Assistance.....			✓	✓			✓		191 192
Highway Safety Grants..							✓		194
Cooperative Automotive Research Program.....			✓						196 197
Other Independent Agencies EPA-Waste Treatment Grants.....				✓			✓		199 200 201
NASA-Retrenchment of Programs.....							✓		203 204
Corporation for Public Broadcasting.....		✓							206 207
Export-Import Bank.....			✓						209
National Consumer Cooperative Bank.....			✓					✓	211 212
National Endowment for the Arts/National Endowment for the Humanities.....		✓							214 215 216 217
National Science Foundation.....							✓		219 220
Postal Service Subsidies			✓	✓			✓	✓	222
TVA Loan and Construction activities				✓					224 225 226 227

5

19

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3 4 5 6 7 8

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	1	2	3	4	5	6	7	8	
<u>Tax expenditure savings proposals</u> (Increase to receipts):									64 65
-- Scale back percentage depletion allowances to 500 BBL/day or less.....		✓	✓						66 67 68
-- Curtail the tax exclusion on industrial development bonds			✓	✓					72 73
-- Restrict or curtail the consumer interest deduction.....		✓							75 76
-- Cap on home-ownership interest-property tax exclusion (Treasury Department estimating staff).....		✓							78 79 80 81
-- Exclusion of State and local student bonds -- disallow the use of tax-exempt financing of student loans (Carter proposal).....		✓		✗					83 84 85 86 87
-- Exclusion of unemployment benefits lower threshold for exemption of employment benefits from an average of \$22,000 to \$15,000 or \$18,000.....		✓							89 90 91 92 93
EXPENDITURE REDUCTION ITEMS				✓					95
Water Resource Development Construction programs.....				✓					97 98
Commodity Credit Corporation, Dairy Price Supports.....			✓						100 101
NIB Defense budget totals (from Carter budget).....									103 104
Mass Transit Operating Subsidies.....				✓					106 107
Continued reduction of government employment (large reduction option).....							✓		109 110 111
Non-Financial asset sales -- GSA stockpile sales (Schneider memo recommending stockpile be retained until policies reformulated).....							✓		113 114 115 116 117
Reduced pay increases.....							✓		119

[illegible]

February 10, 1981

Changes from Current Services
Summary Chart of Budget Authority and Outlay Savings
and Increases to Governmental Receipts
FY 1981 - 1986 *
(in millions of dollars)

I. Budget Authority and Outlay Savings

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
<u>Department of Agriculture</u>														
Commodity Credit Corporation - dairy price support.....	---	138	---	86	---	495	---	507	---	553	---	487	---	2,266
Food Stamps.....	---	---	2,600	2,600	3,400	3,400	3,400	3,400	3,500	3,500	3,600	3,600	16,500	16,500
Child Nutrition.....	---	---	1,250	1,230	1,450	1,430	1,650	1,630	1,880	1,850	2,106	2,076	8,336	8,216
Rural Electrification Administration (off-budget).....	(2,757)	(552)	(5,520)	(1,656)	(5,930)	(2,842)	(6,375)	(4,117)	(6,860)	(5,489)	(7,379)	(6,450)	(34,821)	(21,106)
Farmers Home Admin....	1,007	30	2,428	105	2,428	179	2,428	255	2,428	331	2,428	407	13,147	1,307
Alcohol Fuels/Biomass Loans.....	525	56	---	104	---	3	---	4	---	3	---	3	525	173
Animal and Plant Health Inspection Service...	20	20	330	330	359	359	382	382	403	403	424	424	1,918	1,918
Subtotal.....	1,552	244	6,608	4,455	7,637	5,866	7,860	6,178	8,211	6,640	8,558	6,997	40,426	30,380
<u>Department of Commerce</u>														
Economic Development Administration/Regional Commissions including Appalachian Regional Commission.....	509	55	825	289	880	409	955	678	1,027	1,827	1157	1,058	5,353	4,316
Maritime Subsidies Program 1/.....	125	13	160	36	528	142	571	257	580	420	463	513	2,427	1,381
National Oceanic and Atmospheric Admin. Programs.....	9	6	152	59	202	135	238	207	250	237	241	223	1,092	867
Subtotal.....	643	74	1,137	384	1,610	686	1,764	1,142	1,857	2,484	1,861	1,794	8,872	6,564
<u>Department of Defense</u>														
Defense Cost Savings Plan.....	400	300	3,000	1,500	4,600	3,500	7,200	5,500	7,900	7,000	11,900	9,500	35,000	27,300
Military retired pay--Elimination of twice per year COLA.....	70	70	410	410	350	350	330	330	320	320	330	330	1,810	1,810
Subtotal.....	470	370	3,410	1,910	4,950	3,850	7,530	5,830	8,220	7,320	12,230	9,830	36,810	29,110

Appendix #2

Summary Chart (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Education														
Elementary and Secondary Grants Consolidation.....	---	---	1,537	110	1,803	1,259	2,042	1,807	2,413	2,095	2,688	2,318	10,483	7,589
School Assistance in Federally Affected Areas (Impact Aid)...	172	165	438	416	477	454	517	491	554	527	536	561	2,694	2,614
Vocational Education...	---	---	75	74	166	166	178	171	190	179	202	190	811	780
Student Loans and Pell Grants.....	288	89	1,124	914	1,984	1,702	2,343	2,185	2,549	2,564	2,741	2,948	11,029	10,402
National Institute of Education.....	---	---	20	22	22	20	23	20	25	21	27	22	117	105
Subtotal.....	460	254	3,194	1,536	4,452	3,601	5,103	4,674	5,731	5,386	6,194	6,039	25,134	21,490
Department of Energy														
Synthetic Fuels														
Subsidies.....	5,725	275	858	864	1,064	859	362	776	140	824	25	756	8,174	4,354
Fossil Energy Programs	169	163	398	387	735	707	838	755	758	781	835	794	3,733	3,587
Solar Energy Program..	132	79	363	365	343	349	358	334	313	319	298	304	1,807	1,750
Other Energy Supply Programs.....	229	114	211	199	205	211	200	196	182	180	177	180	1,204	1,080
Energy Conservation...	396	66	566	321	497	615	472	519	474	508	473	473	2,878	2,502
Energy Information Administration.....	23	23	66	66	80	80	86	86	92	92	97	97	444	444
Energy Regulation.....	33	33	171	148	159	161	152	153	148	144	139	138	802	776
Departmental Admin....	1	-9	-6	-17	1	1	---	---	---	---	---	---	-4	-25
Alcohol fuel/Biomass Financial Assist.....	745	114	---	29	---	13	---	15	---	15	---	15	745	201
Subtotal.....	7,453	858	2,627	2,362	3,084	2,996	2,468	2,834	2,107	2,863	2,044	2,757	19,783	14,670
Department of Health and Human Services														
Minimum Social Security Benefits.....	200	200	1,000	1,000	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100	5,600	5,600
Social Security - Disability Insurance..	---	110	---	550	---	1,175	---	1,700	---	2,225	---	2,750	---	8,510
Student Benefits.....	100	100	700	700	1,200	1,200	1,500	1,500	1,700	1,700	1,700	1,700	6,900	6,900
Aid to Families with Dependent Children...	---	---	671	671	783	783	812	812	845	845	880	880	3,991	3,991
Medicaid cap.....	100	100	1,013	1,013	2,038	2,038	3,319	3,319	5,013	5,013	7,198	7,198	18,681	18,681
Social/Community Services and Health Program Consolidation 1/.....	---	---	1,943	1,827	1,996	1,982	2,047	2,038	3,466	3,271	3,869	3,679	13,321	12,797
Health Planning.....	50	20	125	75	198	110	220	200	240	240	260	260	1,093	905
National Institutes of Health.....	126	54	164	114	286	255	368	333	419	388	451	423	1,814	1,567

Summary Chart (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Health Professions														
Education.....	219	32	277	126	301	221	322	260	341	297	359	313	1,819	1,249
Health Maintenance														
Organizations.....	37	6	27	18	62	27	75	50	82	61	90	73	373	235
National Research														
Service Awards.....	61	26	64	53	64	61	64	64	64	64	64	64	381	332
Public Health Service														
Hospitals.....	40	40	100	100	189	189	209	209	229	229	253	253	1,020	1,020
National Health Services														
Corps Scholarship....	16	3	31	14	45	37	54	45	65	54	80	65	291	218
Subtotal.....	949	691	6,115	6,261	8,262	9,178	10,090	11,630	13,564	15,487	16,304	18,758	55,284	62,005
Department of Housing and Urban Development														
GNMA Tandem Mortgage														
Assistance 1/.....	---	---	500	---	500	---	700	1,300	350	1,700	379	379	2,429	3,379
Planning Assistance....	34	3	37	27	40	37	44	40	47	43	50	46	252	196
Urban Development														
Action Grants.....	340	7	738	49	804	343	870	559	934	785	994	850	4,680	2,593
Section 108 Loan														
Guarantees.....	(88)	---	(275)	---	(300)	---	(325)	---	(350)	---	(375)	---	(1,713)	---
Rehabilitation Loan														
Fund.....	130	63	130	191	134	210	138	211	140	213	142	214	814	1,102
Neighborhood Self-Help														
Development.....	8	4	10	9	11	10	12	11	13	12	13	13	67	59
Public Housing														
Modernization.....	(300)**	---	800	---	800	---	800	20	800	60	800	100	4,000	180
Tenant Rent Burden.....	400	+38	4,007	171	3,607	529	4,540	965	4,983	1,609	5,122	2,221	22,659	5,457
Solar Energy and														
Conservation Bank.....	121	47	132	137	147	154	162	155	177	171	192	185	931	849
Subtotal.....	1,033	86	6,354	584	6,043	1,283	7,266	3,261	7,444	4,593	7,692	4,008	35,832	13,815
Department of Labor														
Unemployment Insur-														
ance Extended Benefits	---	568	1,900	2,162	500	875	300	488	100	228	---	338	2,800	4,659
Trade Adjustment														
Assistance.....	---	---	1,150	1,150	760	760	380	380	380	380	380	380	3,050	3,050
Comprehensive Employ-														
ment and Training														
(CETA).....	99	804	4,628	3,348	4,236	4,078	4,578	4,408	4,946	4,762	5,341	5,143	23,828	22,543
Subtotal.....	99	1,372	7,678	6,660	5,496	5,713	5,258	5,276	5,426	5,370	5,721	5,861	29,678	30,252

Summary Chart (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
<u>Department of Transportation</u>														
Federal Highway Program.....	---	---	1,390	244	1,964	1,211	2,546	1,700	3,243	2,088	3,437	2,234	12,580	7,477
Urban Mass Transportation--														
Capital Grants.....	210	31	950	170	1,047	545	1,220	975	1,368	1,284	1,497	1,480	6,292	4,485
Operating Subsidies..	---	---	378	316	761	543	1,144	858	1,528	1,234	1,626	1,373	5,437	4,324
Airport Construction...	272	120	250	140	278	161	305	196	330	219	371	239	1,806	1,075
AMTRAK Subsidies.....	25	25	431	431	606	538	760	699	964	966	1,056	1,050	3,842	3,709
Northeast Corridor Improvement Project...	---	25	288	95	-13	114	20	51	15	25	---	---	310	310
Local Rail Service Assistance.....	80	8	88	32	96	62	104	80	112	103	119	110	599	395
Highway Safety Grants..	---	---	177	49	135	120	148	148	172	160	188	167	820	644
Cooperative Automotive Research Program.....	12	6	13	9	14	13	15	14	16	14	17	15	87	71
Subtotal.....	599	215	3,965	1,486	4,888	3,307	6,262	4,721	7,748	6,093	8,311	6,668	31,773	22,490
<u>Other Independent Agencies</u>														
EPA Waste Treatment Grants.....	1,000	0	3,610	125	1,540	1,045	1,860	1,970	2,170	1,960	2,465	1,950	12,645	7,050
NASA-Retrenchment of Programs.....	92	78	359	274	225	311	-100	68	-427	-222	-244	-213	-95	296
Corporation for Public Broadcasting.....	---	---	43	43	52	52	73	73	98	98	111	111	377	377
Export-Import Bank.....	752	75	2,030	447	2,134	1,021	2,177	1,417	2,138	1,632	2,011	1,719	11,242	6,311
National Consumer Cooperative Bank.....	91	82	136	128	160	152	185	178	185	175	200	190	957	905
National Endowment for the Arts/Humanities..	---	---	165	85	186	131	203	193	229	227	156	140	939	776
National Science Foundation.....	64	27	68	17	77	70	86	79	96	89	103	95	494	377
Office of Personnel Management - Elimination of twice per year COLA.....	---	---	510	510	430	430	400	400	380	380	390	390	2,110	2,110
Postal Service Subsidies	250	250	632	632	690	690	765	765	779	779	779	779	3,895	3,895
TVA Loan and Construction Activities	---	---	770	770	920	920	972	972	1,034	1,034	1,127	1,127	4,823	4,823
Subtotal.....	2,249	512	8,323	3,031	6,414	4,822	6,621	6,115	6,682	6,152	7,098	6,288	37,387	26,920

Summary Chart (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Federal Personnel														
Reduction not related to program reductions 2/.....	142	142	793	793	1,273	1,273	1,515	1,515	1,778	1,778	2,040	2,040	7,541	7,541
Revision of Federal Pay Comparability Standard.....	---	---	3,800	3,800	4,900	4,900	5,800	5,800	6,200	6,200	6,600	6,600	27,300	27,300
Outer Continental Shelf Leasing and Sales.....	250	250	900	900	2,000	2,000	3,100	3,100	3,500	3,500	3,500	3,500	13,250	13,250
TOTAL, On-Budget Authority and Outlay Savings.	15,899	5,078	54,904	34,162	61,009	49,475	70,637	62,076	78,468	73,866	88,153	81,140	369,070	305,787
Off-budget Items - Rural Electrification Administration.....	2,757	552	5,520	1,656	5,930	2,842	6,375	4,117	6,860	5,489	7,379	6,450	34,821	21,106
TOTAL, Budget Authority and Outlay Savings.	18,656	5,630	60,424	35,818	66,939	52,317	77,012	66,193	85,328	79,355	95,532	87,590	403,891	326,893

* The estimates in this table are as of 2/9/81. In some instances there may be minor differences between the estimates in the table and the discussion papers.

** Deferral

1/ Awaiting decision.

2/ Estimated at 40% of total personnel reduction.

II. Increases to Governmental Receipts

	1981	1982	(in millions of dollars)		1985	1986
	1983	1984				
Corps of Engineers						
Inland Waterway User Charges						
Increase fuel tax to recover operation, maintenance, and replacement costs and capital costs on new waterways.....	---	---	258	275	300	315
Transportation						
Coast Guard						
Phase-in fees for Coast Guard Services.....	---	100	200	300	400	500
Federal Aviation Administration						
Increase trust fund taxes to cover all operating expenses.....	---	3,901	4,840	5,277	5,590	6,088
Highway Trust Fund						
Increase motor fuels taxes -- no discussion paper (increase to governmental receipts).						
Base extension.....	N/A	N/A	N/A	N/A	3,914	4,019
Convert to ad valorem tax rate (4.2%)....	500	2,300	2,900	3,400	3,900	4,700
Increase unit tax by 1.5¢ per gallon.....	(---)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Subtotal.....	500	6,301	7,940	8,977	13,804	15,307
Total, increases to governmental receipts.....	500	6,301	8,198	9,252	14,105	15,622
Effect on the budget deficit.....	5,578	40,463	57,673	71,328	87,971	96,762
Effect on the deficit, including off-budget Federal entities..	6,130	42,119	60,515	75,445	93,460	103,212

February 10, 1981

New Issues (Pending Decision)

Revenue Generating Items	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
CONRAIL						
Sell CONRAIL to avoid further Federal subsidies estimated at \$1.5-2.1B over 1981-85 (Increase to offsetting receipts)						
Sale (Option 1) BA	---	---	-2,500	---	---	---
0	---	---	-2,500	---	---	---
Avoidance of subsidies/ BA	+350	-400	-550	-300	-150	-100
0	+350	-400	-550	-300	-150	-100
Tax expenditure savings proposals (Increases to governmental receipts):						
--Limit percentage depletion for oil producers to 500 barrels per day of production:						
Before interaction with personal rate reductions....	*	100	100	100	100	100
--Repeal tax exemption for small-issue industrial development bonds:						
Before interaction with personal rate reductions.....	*	200	500	900	1,300	1,700
--Disallow 10 percent of home mortgage interest deduction:						
Before interaction with personal rate reductions.....	*	300	300	1,500	2,700	4,200
--Lowering of floor under taxation of U.I. benefits:						
Before interaction with personal rate reductions.....	200	300	300	900	1,200	1,400
--Limiting consumer interest expense deductions:						
Before interaction with personal rate reductions.....	*	500	1,800	300	4,200	4,700
Black Lung Disability Trust Fund program tightening and increased revenues.....						
	<u>279</u>	<u>338</u>	<u>386</u>	<u>407</u>	<u>439</u>	<u>459</u>
Subtotal Governmental Receipts	479	2,238	4,386	4,207	9,079	12,559
BA	50	-400	-1,100	-100	150	-100
0	50	-400	-1,100	-100	150	-100

New Issues (Pending Decision)
continued

		1931	1932	1933	1934	1935	1936
(in millions of dollars)							
<u>Expenditure reduction items</u>							
<u>Water Resource Development</u>							
Construction programs--delay some							
new contract awards.....BA		-20	-30	-355	-555	-520	-210
	0	-20	-30	-395	-615	-550	-210
Non-Financial asset sales -- GSA							
stockpile sales (Schneider memo							
recommending stockpile be retained							
until policies reformulated).....							
		---	---	---	---	---	---
Unemployment Insurance Regular							
Benefits -- impose stiffer work							
test standard.....0		---	---	-750	-720	-680	-660
Low priority veterans services....BA							
	0	-280	-335	-160	-153	-183	-182
		-155	-302	-292	-295	-206	-163
Section 406 Airline subsidies.....BA							
	0	---	-50	-35	-25	-15	+5
		---	-45	-35	-25	-15	+5
Sallie Mae							
Withdraw access to FFB in 1982							
(new loan disbursement) --							
off-budget.....0		(---)	(-1,923)	(-2,500)	(-3,000)	(-3,500)	(-4,000)
Subtotal.....BA							
	0	-300	-465	-550	-733	-718	-387
		-175	-427	-1,472	-1,655	-1,451	-1,028
<u>Economic Assumptions and Estimates</u>							
Revenue yield from reduced marginal							
tax rates (revenue models are							
currently being generated.).....							
		?	?	?	?	?	?
=====							
Grand Total, New Issues:							
Governmental Receipts.		479	2,283	4,335	4,207	3,939	12,559
Reflections and							
offsetting receipts..							
BA		50	-165	-3,600	-1,333	8	447
		75	-165	-3,600	-1,333	8	447

New Issues (Pending Decision)
continued

	(in millions of dollars)					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Effect on budget deficit.....	-304	-3,115	-8,908	-6,162	-11,540	-13,637
Effect on overall Federal deficit.....	-304	-5,038	-11,408	-9,162	-15,040	-17,637

1/ Payment of protected employees (pre-1976 employees) may equal or exceed these savings.

Fact Sheets
on
All Major Cuts

Being Revised By
OMB.

TO: MW, NF, JB, SB, MM, DM, PQ, MA, DR, BT

FROM: SN

FYI

Real Income Doubled Since '60, Economist Says

By Gary Klott

United Press International

NEW YORK, Feb. 16 — When President Reagan addressed the nation on television recently, he said what most Americans have assumed for some time: Our standard of living has been on the decline for two decades and "we're very much worse off" today than we were in 1960.

But are we really worse off?

"Despite perceptions, people are not really worse off in the aggregate," says consumer economist Dr. Sandra Shaber of Chase Econometrics, a consulting and forecasting firm.

In fact, according to Shaber's analysis of living standards since 1960, the "average" American's real disposable income — which is what you have left after taxes and after allowing for inflation — has more than doubled over

the past 20 years.

For the population as a whole, real disposable income has risen 109 percent since 1960. If the figure is broken down to reflect population growth and the surge in the number of households due to the rising divorce rate and other demographic changes, the gains are more moderate but still indicative of a general rise in living standards: 70 percent on a per capita basis and 39 percent per household.

And those are just the quantifiable gains. As Shaber points out, such benefits as cleaner air, improved safety in the workplace and quality improvements in some goods and services certainly add to living standards. Even though they often add to the cost of the goods and services we buy, those kinds of benefits escape traditional economic measure.

But with the quantifiable measures alone indicating higher living standards, why the widespread perception that everyone is worse off today?

The reasons are partly psychological and partly due to the reality that some people are not better off.

One psychological factor stems from the fact that real disposable income has grown at a much slower rate in recent years. In the 1970s, real income grew at a compounded annual rate of only 3.1 percent compared to 4.4 percent in the 1960s.

"The rapid growth of the 1950s and 1960s taught many Americans to take progress for granted and created an atmosphere of rising expectations," says Shaber. "The relative slowdown of the 1970s and the appearance of serious problems new to the American experience seem to have aroused deep

anxieties and even feelings of deprivation."

Further adding to the perception is the fact that discretionary income — the amount left for luxuries after buying necessities — has been on the decline since 1978. With price rises having been most pronounced for such basic necessities as food, energy and housing, inflation has left a smaller slice of the consumer budget — especially among low and middle income families — available for luxuries, which is an important personal gauge of economic well-being.

National averages also can be deceptive. There obviously are some people who have not fared as well and who may indeed be much worse off today, such as those who live on fixed incomes which have not kept pace with inflation.

Wash. Post-Business
Section - 2/17/81

F42
AIF, MW, B...

GEOFFREY H. MOORE

Statistics Exaggerate Woes of Average Family

According to the Bureau of Labor Statistics, a married worker with three dependents who earned the average earnings in the third quarter of 1980 received \$237 in gross pay per week. After federal income and Social Security taxes, take-home pay came to \$208. And after allowing for inflation, his spendable earnings brought him \$83 in terms of the dollar's 1967 purchasing power. Back in 1967 a similar individual netted \$91 weekly after taxes.

In terms of real dollars, that is, the married worker with three dependents seems to be worse off than he was 13 years ago. In fact, one would have to go back to 1960 to find a lower figure for real spendable earnings than in 1980. No progress in 20 years!

Inflation has, of course, been partly responsible for this disastrous record, as nominal gains in pay have been wiped out by higher prices. The tax system has also done its bit to make things worse, since higher nominal earnings are taxed at higher rates. In 1960 the tax man took less than 10 per cent of this worker's earnings; in 1980, the tax bite was more than 12 per cent.

But the real culprit is a faulty statistical base. The figures apply to a married worker with three dependents *who earns the average earnings*. The fact is that most married workers earn more than the average earnings. Indeed, in the third quarter of 1980, according to a comprehensive survey (referred to below), half of all married couples with only one earner had earnings in excess of \$316 per week.

In other words, the average married worker with three dependents earns a good deal more than the average!

If this sounds like statistical goobledygook, it is. The problem is that the average weekly earnings upon

which the figures for a married worker with three dependents are based do not apply to that type of worker at all. In fact, they don't apply to any particular type of worker. They are derived by dividing the total amount of weekly wages reported by employers by the total number of names on their payrolls. Marital status is not reported. Some persons are on more than one payroll, and for them it is a very odd average indeed. A worker who makes \$250 a week at one job and \$100 a week at another job earns \$175 on the average, a figure that understates his total earnings by 50 percent. Multiply that situation by the five or six million people who have two or more jobs, and you begin to see the makings of a statistical monstrosity.

In addition, a large number of persons, especially married women, as well as young people who work after school or on weekends, have part-time jobs. They work to supplement the family income and their average pay is usually less than \$100 a week. Since their names are on the payroll they get counted the same as everyone else, so what they earn reduces the average weekly earnings per worker. It is ironic that anyone who makes an effort to increase his family's income by taking a part-time job has exactly the opposite effect on the statistics measuring family welfare.

The upshot is that the spendable weekly earnings for a married worker with three dependents, reported every month by the Bureau of Labor Statistics, is a fictitious number. It does not represent the earnings of such an individual, and it has been getting less and less representative as the years go by.

The reason for this deterioration is that the proportion of persons who work part-time has been growing. In 1960 fewer than one in seven workers in non-farm industries had part-time jobs. By 1972 the proportion was up to about one in six, and now it is close to one in five.

Dr. Moore, former head of the Bureau of Labor Statistics, is director of the Center for International Business Cycle Research at Rutgers University.

See STATISTICS, G-4

Statistics Exaggerate Woes

Continued from G-1

The weekly earnings of these part-time workers are hardly more than one-fourth as much as the earnings of full-time workers, because they work fewer hours and they receive a lower rate per hour. The more numerous they become, the lower is the weekly average, and the less representative it is of what a married worker with three dependents really earns. Yet it is solemnly reported month after month, often as front-page news.

In 1979 the National Commission on Employment and Unemployment Statistics, appointed by President Carter, recommended that the Bureau of Labor Statistics stop publishing the spendable weekly earnings figures because of their misleading character. The commission also recommended that the BLS establish the quarterly survey of family earnings that we have just referred to.

The survey has been started, and it yields a very different picture of the level of earnings. Some 40 million families were covered in the third quarter of 1980, and their median earnings came to \$412 per week. Married-couple families with two or

more earners outnumbered married couples with only one earner — there were 18 million of the former, with median earnings of \$551 per week, as compared with 15 million of the latter, with earnings of \$316 per week. Two-earner families are the mode.

The BLS has not converted these family earnings figures to real spendable earnings, and until it does so they are not likely to have much public appeal. As a rough approximation, one can do this by applying the same tax formula that the BLS uses for its married worker with three dependents. For all families, this yields an effective tax rate of 18 percent and median spendable weekly earnings of \$337 in third-quarter 1980. In dollars of 1967 purchasing power, this is \$135 per week. The real after-tax earnings of the average family, then, are more than 60 per cent higher than the \$83 per week that the BLS attributes to the married worker with three dependents.

In the never-ending struggle to make ends meet, we can well afford to give the average family a statistical break.

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A Look at Reagan Economics 'Lesson'

By LEONARD SILK

In his television address on the economy Thursday night, President Reagan declared that the United States was in "the worst economic mess since the Great Depression" and warned that "we are threatened with an economic calamity of tremendous proportions," a theme that echoed the "economic Dunkirk" paper of his budget director, David A. Stockman.

Economic Analysis

Although Mr. Reagan insisted he did not want to subject his audience to a "jumble of charts, figures and economic jargon," he set out to explain "where we are, how we got there and how we can get back" — in effect, laying out an economic primer that might lead the American public to understand and support his effort to "turn things around."

How accurate and well founded was this economic primer? And is this the worst economic mess since the Great Depression?

Since "mess" is not a well-defined

economic term, it is difficult to confirm or refute his statement, but it seems exaggerated. Unemployment, as reported yesterday, is now at 7.4 percent of the civilian labor force. In 1975 unemployment averaged 8.5 percent. (As a comparison, in 1933 unemployment averaged 24.9 percent.)

Inflation, as Mr. Reagan said, averaged 12.4 percent last year and 13.3 percent in 1979, measured in terms of the Consumer Price Index. Most economists would maintain that the Con-

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A Critical Look at Lesson In Economics by Reagan

Continued From First Business Page

sumer Price Index is a less accurate measure of inflation than the price index used to deflate gross national product. This index rose by 8.8 percent in 1979 and 9 percent in 1980.

Depends on Yardstick

The past two years of back-to-back inflation, in terms of consumer prices, were indeed the worst of the postwar period. But measured by the G.N.P. deflator, 1974 and 1975 were worse, totaling 19.3 percent, compared with 17.8 percent in the past two years.

(The current rate of inflation cannot be compared in percentage terms with the Depression, when the economy suffered from deflation. From 1929 to 1932, the Consumer Price Index fell by one-fourth and the G.N.P. deflator by one-fifth. That deflation was doubtless more painful, resulting in more business failures than the current inflation.)

Mr. Reagan cited the budget deficit as another sign of the current mess. He said the nation faced "runaway deficits of almost \$80 billion for this budget year that ends Sept. 30." That sounded scary, since President Carter, in his last budget, had estimated the deficit for the fiscal year 1981 at \$55 billion. But President Reagan was including "off-budget" items, such as Federal housing credit and loans for rural electrification, in the \$80 billion deficit.

Many of Mr. Reagan's statements appeared to overdramatize the national crisis. For instance, he said that if the seven million unemployed Americans stood in a line, it would reach "from the coast of Maine to California." But 4 percent unemployment was considered in the postwar boom years the equivalent of "full employment," and the overwhelming majority of economists would say that the normal, or frictional, level of unemployment has now moved up to 5 percent; many conservatives would put it at 6 percent.

Unemployment is a serious problem for many young people, especially minorities in urban areas, and for many industrial workers in the Northeast, especially in autos and steel, but it does

not look like a grave national disaster. The line of "above normal" unemployed would not reach to the Mississippi.

The President's arithmetic on the shrinkage of the 1960 dollar to 36 cents today was correct, but perhaps misleading, in that he did not say how much real earnings had increased. Indeed he asserted that "even with cost-of-living pay raises," everyone's "standard of living is going down."

However, per capita disposable income in 1972 dollars — that is, average personal income after taxes and after allowing for inflation — rose from \$2,709 in 1960 to \$3,668 in 1970 and to \$4,567 in 1980. This suggests that the living standard of the average American has roughly doubled since 1960. Yet many people feel worse off; rising social tensions (along with the rising cost of fuel and food) may help explain the common perception.

Mr. Reagan seemed to reserve his biggest ammunition for blasting the climbing Government debt, which he means to control by chopping expenditures. He warned that "we may, in spite of our best efforts, see a national debt in excess of a trillion dollars."

"Now this is a figure that is literally beyond our comprehension," he said.

Here the President might have made the figure more comprehensible to his students by noting that, with a population of 223 million, a national debt of \$1 trillion would equal about \$4,500 per person — no trifle, but not disastrous relative to national income and gross national product (which will exceed \$2.9 trillion this year).

The President appeared to oversimplify the lesson that government deficits were the root of inflation. But that, as well as his prescription for curing inflation, is a subject for many arguments to come — in the halls of academe, in chambers and corridors of Congress and in the living rooms and workplaces of the nation.

In any case, Mr. Reagan deserves to be congratulated — and was by most of his auditors — for tackling the difficult task of economic education.

Some Economists Dispute Premises Of President's Speech on Economy

Liberals Challenge Statistics

By STEVEN RATTNER

Special to The New York Times

WASHINGTON, Feb. 6 — Some liberal economists took issue today with the economic premises of President Reagan's speech last night, which reflected what the President referred to as a comprehensive audit of the nation's economic condition.

The economists contended in interviews that key economic statistics in Mr. Reagan's speech were misused and the extent of the difficulties overstated.

A copy of the audit, prepared by Murray L. Weidenbaum, chairman-designate of the Council of Economic Advisers, was obtained by The New York Times. The audit warns that the nation's economic ills are caused by the Federal Government and that the difficulties will become dramatically worse without "profound — even drastic — changes in Federal economic policies."

Misuse of Statistics Contended

One of the problems in changing economic policies was evident today in Congress when the Republican-controlled Senate gave final approval today to a \$50 billion increase, to \$985 billion, in the Federal debt limit. The increase allows the Federal Government to borrow money to pay its operating costs. [Page 7.]

The 30-page audit that the President used was mostly a series of charts, rather

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Economists Dispute Reagan Premises

Continued From Page 1

than an analysis of the state of the nation's economy, as Mr. Reagan suggested in his nationally televised speech. The audit bore a strong resemblance to Mr. Reagan's speech, beginning with the contention that "the American economy is in many ways in its worst state since World War II."

In particular, the economists were unhappy about Mr. Reagan's repeated unfavorable comparisons of the present situation with the economy of 1960.

"Clearly in every real respect we're better off today than we were then," said Gardner Ackley, chairman of the Council of Economic Advisers under President Johnson and now a professor at the University of Michigan. "We may not feel better off."

The economists, many of them associated with Democratic administrations, were also concerned about Mr. Reagan's and Mr. Weidenbaum's argument that the Federal Government was the principal source of economic ills. They cited such other factors as the sharp oil price increases and the wage-price spiral, contending that to focus almost only on the Government could cause policy to be misdirected.

One Reagan adviser, Alan Green-

span, defended Mr. Reagan's analysis of present circumstances, contending that "we are much worse off than we were in 1960 in the sense that the system is out of balance." And Mr. Greenspan, chairman of the Council of Economic Advisers under President Ford, attributed some of the other causes of inflation, such as the wage-price spiral, to the Federal Government as well. "The wage-price spiral is the consequence of a lot of other policies," Mr. Greenspan said. "It is not an exogenous force sprouting out of some unknown depth."

Focus of Audit

The audit prepared by Mr. Weidenbaum focused on inflation, interest rates, taxes and the Federal budget, arguing that "all appear to be out of control."

"It has become convenient for some to blame these economic failings on factors beyond our control, such as world oil prices and poor harvests," it contended. "Such assessments are deceiving. The basic source of most of our economic distress is the past misguided policies of government itself."

In addition to philosophy, the liberal economists were troubled by the use of statistics. Numbers are regularly used by Government officials to support

their positions, but the practice appears to have been employed to an unusual extent in the speech and audit. "He was really way off base in his factual material," said George Perry, a senior fellow at the Brookings Institution. "What purported to be evidence about the growth of government was very badly used."

For example, Mr. Reagan cited the growth in Government employment. But Government employment has grown more slowly since 1960 than the population so that the number of Government workers per American has dropped.

One contention that the economists did not disagree with was that inflation hurt the economy by creating uncertainty and worry. The economists also conceded that the performance of the economy last year was disappointing, although they contended that the effects of the recession were cyclical and not the beginning of an ominous trend.

Economic Scene

Leonard Silk

The Politicizing Of Economics

THE doctrinal strife within the Reagan Administration among schools of economic thought bearing such tags as supply-siders, conservative Keynesians and monetarists points up the disarray within the economics profession itself. In the midst of that disarray, politicians feel at ease in choosing those economic advisers who tell them what they want to hear.

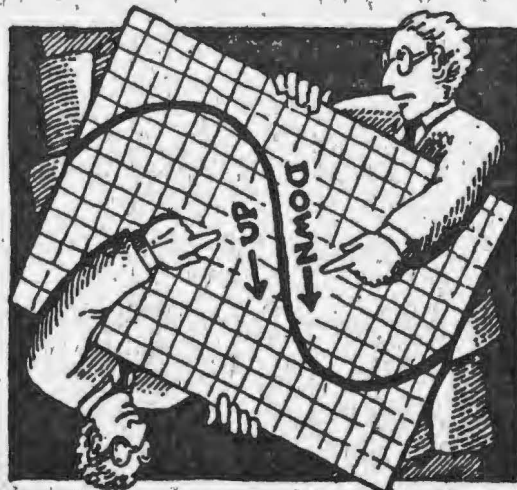
And there are economists to suit every taste. If the old economic models produce results suggesting that huge tax cuts will exacerbate inflation, new ones can always be created to produce more welcome results.

The Claremont Economic Institute, a private research group now doing consulting work for David A. Stockman, director of the Office of Management and Budget, has produced "scenarios" showing President Reagan's economic policies producing a much faster slowing of inflation than most other economists believe possible.

The "expectations-driven" Claremont model is designed to register big changes in public psychology resulting from the radical policy changes advocated by the Reagan Administration. "There's a tremendous missionary zeal in all this," says John Rutledge, the director of Claremont.

Economics appears to be turning into a "forensic science," like law, appropriate to support a particular client's cause. The forensic approach goes back to the ancient Greek Sophists who assumed that there was no pure truth; debaters were free to muster the most formidable arguments they could find to bolster their contentions.

This forensic approach to knowledge was attacked by such early philosophers of science as Sir Francis Bacon who, by stressing scientific methods relying on observation, measurement, explanation and verification, sought to discover principles and truths that were not dependent on the opinions, values or goals



Robert Mapplethorpe

of particular investigators. But the scientific method is easier to pursue in the "hard" physical sciences than in the "soft" social sciences, such as economics.

Consider President Reagan's television address on the economy last Thursday night. He declared that "since 1980 our Government has spent \$5.1 trillion; our debt has grown by \$648 billion." Continuing, the President said: "Prices have exploded by 178 percent. How much better off are we for all that? Well, we all know, we're very much worse off."

Is that a fact? Focusing only on the last sentence, can we say it is true or false? How would one prove whether "we" (presumably the nation as a whole, rather than blacks and minorities, the poor, the middle class, the rich or any other subgroup) are better off or worse off than in 1980?

First, we must establish criteria for assessing the statement. If we take per capita income after taxes and after adjusting for inflation as a relevant criterion, we find that we are much better off, since, measured in 1972 dollars, per capita income after taxes rose from \$2,709 in 1960 to \$4,567 in 1980.

But is this the best criterion? Others might argue that psychological states are more important (people may feel worse off). Alan Greenspan, who has

continued to assume the role of economic spokesman for President Reagan while conducting his private consulting business, says we are "worse off in the sense that the system is out of balance."

Thus the assertion that we are worse off than in 1980 cannot be regarded as a "fact," but only as a statement for which there may or may not be warrant, depending on the criteria used and the empirical evidence to validate or refute the selected criteria.

As hard as it is to establish past "facts" and causal relationships in economics, it is even harder to validate forecasts or "scenarios," especially statements about the future that are intended to justify or call forth actions to dispel the prediction itself. For instance, President Reagan contended that "we are threatened with an economic calamity of tremendous proportions, and the old business-as-usual treatment can't save us."

Matthew Lipman, professor of philosophy at Montclair State College, says that the President's statement appears to be an "argument from alarm," a classic logical fallacy in which the assertion of some danger is offered as the reason for some prescribed (but not necessarily relevant or constructive) course of action.

But how can one be sure whether a particular argument from alarm is false or sound? "You can ask the speaker," Professor Lipman says, "Why do you say this?" In other words, one should ask his goals and whether his prescription is intended to serve particular interests, economic or political. Are other means available to forestall the predicted calamity?

Most important, it is necessary to ask whether the alarm is justified. Here Mr. Reagan's argument invited skepticism since he contended that the urgent calamity could be averted by tax cuts phased in over the next three years and even beyond, together with huge cuts in nondefense (but not defense) expenditures. Mr. Reagan contributed to more skepticism by declaring, "Our basic system is sound."

Further, if the economic peril is so great, and the state of economic knowledge so insecure, is this the time to be chopping off Federal support for economic research through the National Science Foundation as Mr. Stockman is proposing?

POST 2/3/71

Budget Questions

(I) But What About the Poor?

THE PRESIDENT'S prospective cuts in government programs are very much in the news. And the poor, as a group, are likely to bear a major part of the burden of sustaining them. Before the budget debate mires down in the technicalities of who is eligible and for what assistance—or blows up into a volley of charges about welfare cheaters met by countercharges of cruelty to the poor—it is fair to ask just who are the nation's poor in this day and age, and do they really need all this help?

Naturally, social scientists, who are generally not poor, disagree as to what being poor means and who fits the definition. People's needs and hardships vary in ways that government statistics can't capture, and it gets harder every year to get people to tell you what they have on hand, or at least on call, in the way of money and other resources. But by the federal government's official way of counting, there are now about 25 million poor people in the United States. They come in every age, race and background. Two-thirds of the poor are white, 41 percent are men, almost 50 percent are neither very old nor very young. But some people—notably the old, the racial and ethnic minorities, women heading families and children—have above-average likelihoods of being poor. With some combination of these characteristics, the likelihood can get very high—40 percent of elderly black women and over two-thirds of black and Hispanic children in female-headed families, for example, are poor.

In recent years, poverty has also become increasingly urban. Over 60 percent of the poor now live in metropolitan areas, almost 40 percent of them in inner cities. These are the places where poverty seems most bleak and the chances of escape most limited. While 42 percent of the poor still live in the South, poverty has declined rapidly in that region while growing elsewhere. And the poverty profile, especially among blacks, is increasingly dominated by the archetypal welfare family: the husbandless mother and her two or three children. Such families now account for one-third of all the nation's poor.

How well has the country done in combating poverty? By some measures, pretty well. The number of poor people has fallen from 22 percent of the population 20 years ago to less than 12 percent now. True, virtually all of that decline came in the booming 1960s. But holding the poverty percentage constant in the 1970s was no mean task. While declining birth rates at all income levels helped to curb the growth in welfare rolls, the number of people in "high-risk" categories—the old, racial and ethnic minorities, women heading households, and immigrants (both legal and illegal)—grew faster, and in some cases much faster, than the general population grew.

Substantial credit for what success there was—in particular the 1.5 million reduction in the number of aged poor over the last 10 years—must go to government programs. Without those benefits, over 40 million people would be in the official category of poor instead of the 25 million now counted. And if you add in direct assistance that comes in a form other than cash, like food stamps and housing subsidies that have grown rapidly in recent years, the poverty number falls to between 12 million and 17 million depending on what benefits are counted and how they are valued. If a reliable way could be found to adjust for extra-legal income and other discrepancies in the poverty count, poverty might be made to seem to have almost disappeared.

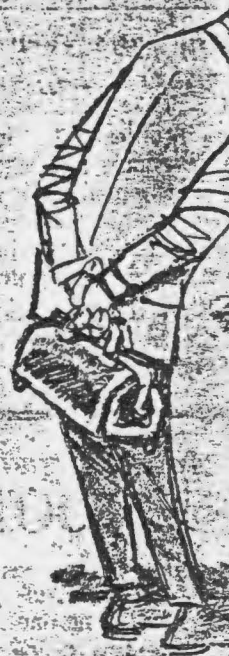
Is the war on poverty won then? Emphatically, no. In the first place, when we say "poor," we mean very poor. The official poverty line is set at less than 60 percent of what the government says a family needs to maintain even a "lower living standard." And, in some sense, poor is poorer than it used to be. A poverty income has, by definition, stayed constant in purchasing power while family income has doubled since 1950, even after adjusting for inflation.

More than ever, being poor also means being dependent on government programs. During the 1960s, many people (mostly men) did earn their way out of poverty, especially in rural areas and the South. But the number of "working poor" families (now mostly headed by women) has stayed almost constant over the 1970s while the number of poor and near-poor families who are totally dependent on government benefits has increased substantially.

Getting out of poverty hasn't meant much in recent years either. Most of the formerly poor have moved only a few hundred dollars above the poverty line, and many would fall back if their benefits were cut.

The poor are still very much with us. And it is sobering to think that many of the adults among them, who now have children of their own, were children themselves less than 20 years ago when the nation set out in earnest to conquer poverty. Have our efforts been in vain? Not at all. A smaller part of our population is in dire misery than ever before in our nation's history.

President Reagan said, in his economic speech last week, "We can, with compassion, continue to meet our responsibility to those who through no fault of their own need our help." That's entirely right. As the budget-cutting begins, it will be necessary to keep constantly in mind exactly who these people are and how they will be affected. They are not only the millions now classified as poor; they are also the millions more who have been lifted out of desperate want by federal benefits and now depend on those benefits to keep them there, not as a matter of choice but of necessity.



LETTE

I wish someone would show President Reagan how President Reagan did it for that matter inflation by removing We all know gasoline sky high for individual business concerns.

Everything we buy stores by trucks. Trucks have to pay more for fuel. You can bet your bottom dollar you are paying more for furniture—you name it trucks pay for it prices.

Inflation to come down Greenbelt.

I wish to commend for immediately decontrol. The action was a far look beyond the minimum possible price increase. The president was swift as the stage for his administration policies that look

POST 2/10/81

Budget Questions

(III) When Were the Good Old Days?

PRESIDENT REAGAN'S theory of the federal budget seems to take the year 1960 as the point after which things began to go wrong. That, certainly, is the thought with which he opened his speech on economic policy last week, and that seems to be the controlling view as his administration initiates the most powerful challenge of the past generation to the conventional budget. American politics is now coming into a profoundly interesting time as the traditional ideas about public spending are suddenly ordered to stand up and account for themselves. That's a highly useful exercise, and there have been more than enough mistakes of public judgment over the past 21 years. But it would be inane to succumb to the myth of the 1950s as a better, more orderly time for Americans, from which they have slipped through self-indulgence and inflation.

There is now an implication that Eisenhower policy is the new administration's intellectual point of reference as it embarks on this daring attempt to rewrite the budget. Perhaps Mr. Reagan's challenge is not only to Mr. Carter's last budget as it stands, but to the 21 years of social initiatives that have transformed it. Certainly this is an inference that can be drawn from much of the diffuse complaint about the social programs and about increased federal involvements in people's lives generally. But are Americans really worse off now than then? How would you measure the change? And what did the federal budget have to do with it? We need to have these things straight if we are to know what we are trying to achieve in this reordering of budget priorities and commitments.

In fact, Americans are a great deal richer than they were in 1960. Per capita, after federal taxes and after inflation, the average income is up by two-thirds. But money is hardly what counts in the end. One basic measure of the standard of living is life itself. The average American's life expectancy now is nearly 74 years, more than four years longer than in 1960. Part of it has nothing directly to do with money; physical exercise, for example, is now in fashion. But much of the progress reflects the public money pumped into public health, not only into the hospitals and research laboratories, but into those wildly expensive sewage treatment plants, and into the community action programs that showed isolated

and ignorant people how to get health care. The infant mortality rate is always a good indicator of a country's social organization. After a long period of stagnation, it began moving rapidly downward again in the late 1960s. Its relationship to Medicaid and food stamps is beyond argument. Before you decide that food stamps are too expensive, consider carefully what they buy.

Surely another basic element in the standard of living is access to education—in this country, the key to equality of opportunity. In 1960, there were fewer than 4 million students enrolled in colleges and universities. This year, there are more than 12 million. That couldn't have been accomplished without federal money for both the institutions and the students. Perhaps some of that aid can now be scaled down a little. But before you take your pencil to that part of the budget, remember that it has bought opportunity for many millions of young Americans to whom, in an earlier generation, it would have been foreclosed.

The list can be carried on at length. Housing standards are higher. Pensions are more generous, and personal economic security in general is better protected. For most people, working conditions have improved. None of these things was accomplished solely with federal money, but none of them would have been likely without it.

There's a difference between history and nostalgia. The 1950s were no halcyon time of public wisdom and private diligence. The United States in those years was a society under strain. Inflation was held in check, but at a cost of three recessions in eight years and exceedingly slow growth of incomes. The question isn't whether the country can do that again, but whether it can't do better.

It's true that Americans are living currently beyond their means. It's true that the country is going to have to cut down a little, beginning with the federal budget, to restrain inflation. But it's also true that the federal budget is inseparable from the American standard of living. If it's the last 21 years that are under challenge, there's an obligation to remember what those 21 years have brought. By no means can all of it be measured merely in money. This ought to be the starting point of understanding in the administration's effort to bring the budget under control.



LETT

My husband and a home. We consider to be economically homeowners who are attempting to keep property clean of trierally sanitary.

Much to our dismoving in, we found hood is infested with became apparent to observed them hold our woodpile late of this is a residential are numerous children in this area, all had with the rats.

I am appalled! I at every County School 2. I went to the meet child in a special e Montgomery Count gram. I went becaus program he is in, he will have next

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MTT 2/7/81

Dr. Reagan Approaching Surgery

A funny thing seems to have happened in the preparation of President Reagan's televised summons to economic sacrifice Thursday night. The inflation crisis was graphically proclaimed, in a blizzard of statistics and with a crumpled dollar bill and three coins to denote "the worst economic mess since the Great Depression." The promise of lower taxes was reiterated at emphatic length. But the pain and sacrifice of the coming budget surgery were never really described.

So Mr. Reagan preserved his avuncular image and also the impression that some vast, voracious, distant monster called The Government had only to be disciplined, like a spendthrift child, before growth and stability would be everyone's reward.

The President left his audience thinking there was a problem all right, but quite ignorant about the painful remedy. He spoke in the pink tones of a candidate, not the deep purples of a President wrestling with "calamity." Mr. Reagan promised the clinical budget details soon enough, for a speech to Congress on Feb. 18. But if fortifying the nation was his purpose, he missed an important educational opportunity.

"Now we all had a hand in looking to Government for benefits, as if Government had some sources of revenue other than our earnings," he began. Good enough. But where was the list that proved the universal guilt: the subsidies to every owner of a home mortgage and farm, the escalating benefits to pensioners,

the physician's cut of Medicare and the teacher's slice of education aid? Where was the demonstration that if everyone had pressed the Government to overspend, everyone would now have to contribute, from their earnings, to the constraints on new Federal spending?

Such a list of desirable cutbacks would have been a fair test of Mr. Reagan's political support in the weeks ahead. And it would have made it plain that his attack on the very concept of Government was in fact an attack on hitherto — perhaps still — popular programs.

It was one thing to ask, as he did in his campaign, whether people felt better off after four years of Jimmy Carter's economics. But it was quite another thing to glide glibly over 20 years of American politics by insisting that people were now "very much worse off" than in 1960. Which people did the President mean? Surely not the poor, for whom there were no food stamps, Medicaid or Head Start two decades ago. Surely not the people whose health improved from cleaner air or whose lives were saved in safer automobiles. And surely not those whose civil rights to vote and travel freely were finally established by an aroused Federal power.

Is there really no way to explain the profligacy of Government without destroying its authority or denying its record of accomplishments?

President Reagan has won the right to test his tax and budget remedies for inflation. And, commendably, he once again promised not to cut Federal spending "at the expense of the truly needy." In both respects, he will do better with a sharp knife than with a machete.

Poland's Ticking Clock

Another round of strikes in Poland may now really be ended. The holdouts in the southern industrial city of

ing for this Soviet military bondage and it has been frayed to the point of transparency. At the approach of Communist Party congresses in Moscow this month

few of the book's findings.
• The crash-test results are based solely on a head-on impact into a rigid barrier, a test so specific that it completely ignores the 47 percent of real-world accidents that are not frontals and is essentially meaningless for any frontal more complex than running straight into a building. For those few real-world accidents that do happen this way, correlation studies by the National Highway Traffic Safety Administration not included in the book show an 8 percent chance of death at the 35-m.p.h. test speed. Awarding a "pass" or "fail" depending upon which side of the 8 percent line a car falls in a very infrequent type of accident is certainly not a meaningful rating of a car's safety.

• The section on repair cost considers only price of parts and labor. Since a car with cheap parts that need frequent

An American Hurdle To Nuclear Progress

To the Editor:

Dr. Rosalyn Yalow's Jan. 31 Op-Ed article, "Fear of Radiation," is a refreshing whisper of reason in an otherwise pervasive outpouring of misinformation about radiation. "Radiation" and "radioactivity" have become scare words, in part because of the sensational and often emotional tone of news reports dealing with these topics.

There is no public concern about the radioactive potassium 40 which flows in our bloodstream, about ingestion of radioactive carbon 14 or about the residues scattered by Mount St. Helens. But when the equally harmless radioactive krypton was vented from Three Mile Island, the news media followed the operation as if it were potentially of catastrophic dimensions.

Ignorance yielding to emotion has caused this nation great harm. While other Western nations and the Soviet Union are moving swiftly with construction of nuclear and breeder reactors, the United States is marking time. There is no escaping the reality that nuclear energy will be an ever-increasing resource for America's energy needs. THEODORE PERROS
Washington, Feb. 1, 1981

On the President's Economic Address

President Reagan's economic address undoubtedly will be well received. Certainly, federal largess over the last 20 years has created huge deficits without the kinds of results to justify the expenditures. Few fiscally responsible persons can argue over the need to reduce these deficits. But to pin our economic plight entirely on the federal sector cannot be right.

Food stamps did not put auto workers out of work. Medicare did not cripple the steel industry. Clean air and water did not devastate the apparel industry. Domestic products inadequate to the requirements of the marketplace did, both in cost and in substance. It seems as if the Japanese are more aware of the reasons for our industrial decline than we are. They say it's our own business practices. The pursuit of short-term profits, the abandonment of market segments to foreign competition, industry's failure to keep pace with technology and the failure of business to recognize market trends have all but destroyed our competitive advantage.

President Reagan obliquely referred to the surplus of dollars chasing an essentially unchanging supply of goods. Should, then, the money supply be reduced to strike a balance? Will this put people back to work? Will business be motivated to improve productivity and

product quality? Will business move aggressively to capture abandoned markets?

President Reagan must be lauded for his courage in seeking to gain mastery over the federal machine. I hope he succeeds. Deficits in the hundreds of billions of dollars threaten our national solvency and drain from the economy needed capital. But to suppose that federal policies alone hold the key to our industrial survival is as naive as believing that social programs alone can solve our social problems.

Business should not be coddled. It should be criticized. The myopic golden goose is strangling itself.

LAWRENCE TOBIN

Columbia

Did I see correctly the first "graph" President Reagan showed the American people? I saw "curves" representing the growth of government expenditure and the growth of tax revenues. But I believe I saw no coordinates, no numbers. Since I positively did hear Mr. Reagan tell what "slope" indicates, I looked hard for the numbers, but a second "graph" appeared before I could be sure. That one showed the two "curves" converging, but again I saw no numbers.

Did anyone?

If anyone did, will some of the

"pseudo-intellectuals" among us please compute the size of expenditures and revenues Mr. Reagan anticipates? That way, we can break the suspense of waiting to hear the Reagan team's objectives. If there really were no numbers, what the president showed us was not a graph but a cartoon, and the Reagan team assumes that 232 million Americans are too ignorant to tell the difference. If the team is right, Mr. Stockman had better make provision in his budget for a great many more education vouchers than he probably has in mind: the American people have not mastered eighth-grade math.

KAREN E. FIELDS

Washington

Well, Mr. Reagan has made his first big speech. How is he doing? It is still too soon to judge his performance and too soon to carp, but the auguries are poor, and the urge is strong.

His merely telling us again how bad it is and what his goals and intentions are isn't encouraging. First of all, he exaggerated. Our current plight isn't as bad as he painted it. Not only has it been worse several times since the '30s, it has been worse recently. But more frightening than that, Mr. Reagan seems to be still campaigning. You can beat an incumbent's hard choices with vague intentions, but you can't run a country that way. And you can't keep promising the details next week.

And please don't tell us again that the situation is too complicated for us to understand. Statements like that reveal more about Mr. Reagan's understanding than ours. And, frighteningly, more about his ability to do something effective about things than perhaps he realizes.

GEORGE E. HUMPHRIES

Washington

New Etiquette for the Press: Two Views

I am surprised and upset that the members of the press took Mr. Reagan's "Press Conference Rules of Etiquette" sitting down. All that rising and scrambling Joseph Kraft referred to [op-ed, Feb. 1] grew out of a need—a vital need to be recognized by a president who consistently chose a select group of reporters he trusted over

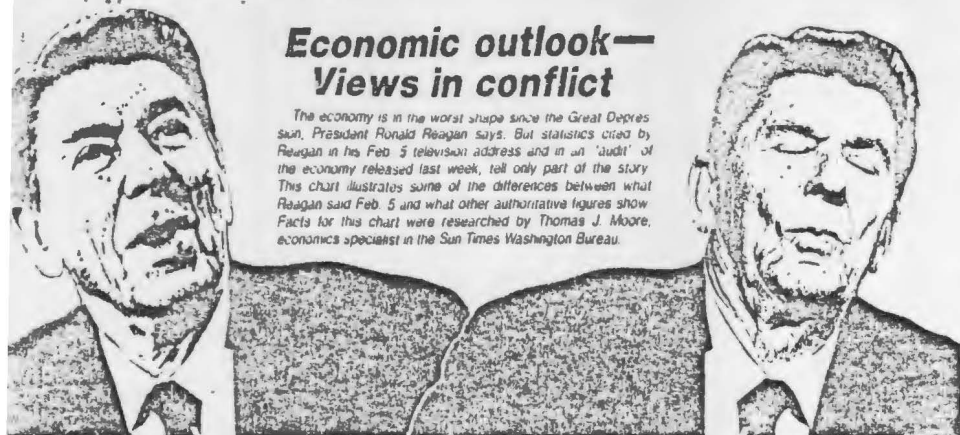
Reagan's first press conference was a "dignified affair." I don't deny that. But if this trend of politely waiting to be called on continues, I do suggest that this event be officially referred to as a "Dignified Affair" instead of a "Press Conference."

MARY E. McLEAN

Springfield, Va.

Economic outlook— Views in conflict

The economy is in the worst shape since the Great Depression, President Ronald Reagan says. But statistics cited by Reagan in his Feb. 5 television address and in an "audit" of the economy released last week, tell only part of the story. This chart illustrates some of the differences between what Reagan said Feb. 5 and what other authoritative figures show. Facts for this chart were researched by Thomas J. Moore, economics specialist in the Sun-Times Washington Bureau.



WHAT REAGAN SAID:

GOVERNMENT BUREAUCRACY

"Twenty years ago, in 1960, our federal government payroll was less than \$13 billion. Today, it is \$75 billion."

WHAT REAGAN DIDN'T SAY:

Almost the same number of people worked for the federal government in 1980 as did 20 years earlier, even though the population grew by 28.5 percent, including military, the figures are:
1960: 4,906,000 or 2.7 percent of the population.
1980: 4,966,000 or 2.1 percent of the population.

"The percentage of earnings the federal government took in taxes in 1960 has almost doubled."

The federal tax bite into wages and salaries has increased since 1960 but it has nowhere near doubled. The exact figures, counting income tax and Social Security, are:
1960: 18.3 percent of wages and salaries.
1980: 24.6 percent of wages and salaries.
The bulk of the increase has come from increases in Social Security taxes.

GOVERNMENT REGULATION

"Regulations adopted by government with the best of intentions have added \$666 to the cost of an automobile."

Reagan made no mention of the new equipment in automobiles provided by the regulations. They include:
• Retractable seat and shoulder belts.
• Brakes that stop more quickly.
• Stronger bumpers to limit crash damage.
• Pollution control equipment.
About one-third the additional cost was for equipment to reduce air pollution and two-thirds for safety features, particularly sturdier bumpers.

HOME OWNERSHIP

"What has happened to that American dream of owning a home? Only 10 years ago, a family could buy a home and the monthly payment averaged a little more than a quarter—27¢ out of every dollar earned. Today, it takes 42¢ out of every dollar of income. So, fewer than one out of 11 families can afford to buy their first new home."

The number of Americans who own their own home is growing slowly but steadily, 65.2 percent in 1978 compared with 61.9 percent in 1960.
A recent nationwide study of home buying using 1979 data found:
• The typical home buyer spent 24.3 percent of his income on his monthly payment and other housing expenses.
• Some 81 percent of those buying their first home spent 30 percent or less of their earnings on housing expense.
However, the typical first-time buyer was one year older, in 1979, compared with two years earlier, suggesting some families must wait longer for their first home.

STANDARD OF LIVING

"Since 1960 our government has spent \$5.1 trillion; our debt has grown by \$648 billion. Prices have exploded by 178 percent. How much better off are we for it all? We all know, we are very much worse off."

Across the social and economic spectrum Americans are incomparably better off today than they were in 1960.
Disposable personal income was 89 percent higher in 1980 than 1960, after adjusting for federal tax increases and inflation.
The benefits of economic growth were widely distributed.
Some one out of 10 people were below the poverty line in 1979. Twenty years earlier more than twice as much of the population lived in poverty.
The elderly made specially large income gains. In 1959 people over 65 earned only some half the national median income. By 1979 the gap had narrowed so the elderly earned only one-third less than the national median.

THE NATIONAL DEBT

"By 1980, our national debt stood at \$284 billion. Today, the debt is \$934 billion. Before we reach the day when we can reduce the debt ceiling we may, in spite of our best efforts, see a national debt in excess of a trillion dollars."

The national debt, like any other, should be measured in proportion with the income to pay it off, just as a family with higher earnings can safely handle a larger mortgage.
In 1980, the national debt amounted to one half of the nation's total "income" or the total output of goods and services.
In 1960, the national debt had dropped to 35 percent of the country's annual output.
Put another way, in 1980 everyone in the country would have had to work six months to retire the national debt. In 1960, it could be retired in just over four months.

Reagan's budget war aims at you

By Thomas J. Moore
Sun-Times Bureau

WASHINGTON—Next week President Reagan is scheduled to launch what may look like the battle of the budget but in reality is a move to win the hearts and minds of the American people.

Reagan is preparing to bet virtually all his initial political capital to persuade the public and Congress he has a workable plan to cut inflation sharply.

The first major move is scheduled for Wednesday, when Reagan is expected to ask Congress to slash some \$50 billion from the federal budget, a 6 percent cut.

He has been building momentum through a television speech and other White House moves aimed at persuading the public that the economy is in crisis. (See accompanying chart)

WHILE MANY ARE CALLING Reagan's policy "new" or supply-side economics, the administration approach is the oldest economics of all. It rests on mass psychology:

Economics remains in part a matter of what people believe and how they behave, regardless of all the econometric models, complex formulas and esoteric theories.

A person who believes that inflation is going to get worse—whether factory worker or Wall Street financier—is going to behave in a manner that fulfills his own prophecy.

He will borrow money rather than save, hoping to repay the debt in dollars that have shrunk in value. When borrowing and saving get out of balance the result is high inflation rates, high interest rates or both.

Workers who see their buying power eroded by inflation demand larger wages; these higher wages push prices higher and reduce the value of the dollar still more.

This inflationary machinery in turn interlocks with government pushing spending, taxes and borrowing upward.

IN A SWEEPING BID to reverse this inflationary momentum, Reagan will direct his fire at government. Since inflation hikes federal spending and taxes, his first major initiative will be to reverse policies of two decades and cut both.

By the usual and customary theories of economics, to reduce spending and taxes by an equal amount has no effect at all. The economy has exactly the same number of dollars in circulation to purchase the same amount of goods.

But Reagan's target is the heart and mind of the consumer, banker and businessman, not the professional economists measuring the flow of money. If he convinces the public these policies will lower inflation, changed public behavior may help the problem.

EVIDENCE IS MOUNTING that public perceptions increasingly drive the economy. If Reagan can make a lasting change in those perceptions he will have achieved an astonishing political coup.

That is the heart of the administration's campaign.

If Reagan convinces the public and the financial markets that his policies are going to lower inflation, they will demand smaller pay raises, save more and resist higher prices.

And that chain of events could lead to less inflation.

But Reagan's first major move as president is also fraught with peril. A wary public knows that any politician can cut taxes. And for decades no politician has achieved substantial cuts in spending. To abolish or cut sharply real programs risks antagonizing special interests with millions of supporters.

While Reagan administration economists dismiss the possibility, inflation can be kicked sharply upward by unexpected developments: an oil price runup or sudden rise in food prices.

Finally inflationary perceptions are now locked into labor contract wage increases, loan agreements, investment schemes and cost-of-living escalators.

These arrangements are now imbedded in the fabric of the economy and could persist to undermine Reagan's effort to sell the nation that a new deal on inflation is at hand.

'Economic outlook' sources:

President Reagan's remarks: text of Feb. 3 television address. GOVERNMENT EMPLOYEES: 1980 figures, Budget of the United States, 1982 Special Analysis by the figures, Statistical Abstracts of the United States. TAXES: Department of Commerce, National Income and Product Accounts (1980 benchmark revision) and unpublished data supplied by the department. GOVERNMENT REGULATION: "The Costs of Regulation & Benefits of Reform" by Murray A. Weidenbaum, Center for the Study of American Business, Washington University. HOME OWNERSHIP: Annual Housing Survey, Bureau of the Census and "Homeownership: Coping with Inflation," 1980, published by the United States League of Savings Associations. STANDARD OF LIVING: Per-capita personal income from The Economic Report of the President, Jan., 1981. Income statistics for elderly and persons under the poverty line: Current Population Reports, Bureau of the Census. NATIONAL DEBT: Calculated from the Budget of the United States, 1982, and the National Income and Product Accounts.