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(DOLAN) Draft 1/26/81

ECONOMIC SPEECH

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

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

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

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

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

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

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

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

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

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

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

But I wish I could say to you tonight that these steps by themselves will be enough to set us on the road to economic recovery. I cannot do so.

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

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

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

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

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

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

We know of course that this kind of fexderal spending and these runaway deficits could mean a repeat of last year: high interest rates, double digit inflation , un-employment, stifled productivity, a cutback in housing starts, threats to the stability of major businesses and lending institutions.

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

Only a few weeks ago, we learned that the consumer price index rose again. Within the last two years, food prices went up 10%. And during the last three years, we suffered the worst inflation since World War I.

These developments -- coupled with the government's punitive tax system and its heavy regulatory burden will continue stifling the economic initiatives of both individuals and businesses. And, if left unchecked, all of this will crush any chance for economic recovery in the immediate future.

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

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

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

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

Or the purchase of a car. (SHOW GRAPH IV) In 1971, it took slightly more than 35 months to pay for an automobile. (ARROW POINTS TO 1971) Today it takes nearly 44 months. (ARROW POINTS TO 1980) Almost a 10 month rise in as many years. (ARROW ACROSS LENGTH OF GRAPH)

We all know when this kinds of inflation occurs, banks and lending institutions -- in order to keep up with inflation -- must ask for higher interest rates when they make loans.

Here (SHOW CHART V) is an illustration of how steadily mortage interest rates have gone up since 1965 -- (ARROW MOVES FROM 1965 to 1980) this graph also shows how dramatic this rise has been in the last year. (A ARROW MOVES BETWEEN 1979 to 1980)

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As we have seen, the expansion of inflation, the reduction in the purchasing power of your dollar, the rise in mortage rates and business failures all have been steady trends during the last twenty years.

Well, there has one other steady trend during the last three years -- the trend that is principally responsible for the problems we have just seen. That steady trend has been the growth of government. A growth of government that has imposed the burden of runaway deficits, excessive regulation and punitive taxes on our economy.

In 1960, government consumed 18½% of our national production. Last year, it took 23%. HERE (SHOW GRAPH VI) IS AN ILLUSTRATION OF THE growth of government during the past two decades. In 1960, government was spending almost $1,900 (ARROW POINTS TO 1960) per family -- by 1980 - although the average family is no better off -- the government is spending an incredible $7,800 per family. (ARROW POINTS TO $7,800)

All of this spending has accomplished three things:

First, it has caused the huge federal deficits which trigger inflation. (SHOW REVISED CHART VIII) This chart shows the steady rise in deficits from 1970. (ARROW MOVES UP THE CHART.)

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

$9,000 per household. (ARROWS POINT TO $9,000.)

Second, the growth of government has sent the number of federal regulations skyrocketing.

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

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

In 1960, you were paying almost 11¢ on every dollar you earned to the federal government (SHOW GRAPH XI) now you are paying nearly 18¢. Another way of looking at this: ~~today~~ in 1960 an average family of four earned enough income by February 8 to pay its federal tax bill. In 1980, the average family of four has to work a month longer to pay its tax bill. (NO CHART).

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

$6,000. (ARROW POINTS TO $46,000)

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

If you earn $10,000 in 1960, you would have to earn $16,000(?) today just to stay even with inflation. However, in 1960 you were only paying 12%(?) of your $10,000 in income taxes. But today if you are earning $16,000 you are also in a higher income tax bracket and you are paying 18%(?) of your $16,000 income. ~~Whereas, in 1960, you were only paying 10% of your income~~.

This is what economists refer to when they talk about bracket creep -- this bracket creep, ~~has~~ this hidden tax, has added $ ____ billion to the federal treasury during the past twenty years. And yet even with all this hidden revenue federal government has not been able to control its deficits.

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

You and I know the simple facts:

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

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

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

-- And finally we have seen a sad, steady rise in unemployment, In a year, it has grown from 6% to 7 and one-half per cent. Among young people, who badly need that first job to learn economic skills unemployment fluctuates between 16% and 18%. Among minority youths the rate is nearly doubled. In some cities, unemployment has reached depression levels. And I want those of you with whom I visited last fall during our country's election campaign -- in cities like Kokomo, Indiana and Flint, Michigan where the unemployment rate is at depression levels -- to know: this administration has not lost its concern or its committment to get you and other Americans back to work.

And yet we must not tonight make the mistake of just discussing the economic discomfort these developments have brought into our lives. For the impact of our economic troubles goes far beyond material hardship.

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

This has cut down on the intimacy of family life, by reducing leisure time for family activities. Among working people, it has led to feelings of frustration and demoralization -- even rage and exhaustion. In my opinion, these developments are in great measure responsible for the serious rise we have seen in family instability and unhappiness.

Among lower income groups, this situation is even more aggravated. The growth of government programs that promote dependency and the shrinking of real economic opportunity for many minority groups has created a new kind of servitude -- a servitude to the social worker, to the government bureaucrat, to the politician -- to the power of the state itself. And finally, middle-class and upper income families, whose willingness to risk investment on new ventures is the cutting edge of the economy, are so burdened by taxes and inflation they seek speculative shelters like gold, silver or real estate rather than reinvestment of their economic resources in a dynamic economy.

When the family is weakened, when too many lower income groups become wards of the state, when potential investors and entrepneurs are discouraged and ~~is~~ dis heartened from taking risks -- this weakens not just the economy but our society -- our civilization -- as a whole.

History is filled -- from the Roman Empire to the Weimar Epublic -- with examples of the havoc that follows the slow decay of economic and social bonds brought on by excesses of government.

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

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

During recent decades, the increasing fascination with statistics and the ability to store large amounts of information in computers led many economists, like many other social scientists, to state what they knew in terms of numbers or quantities. Economists regularly used statistics and aggregate numbers to measure our national wealth and examine how it is distributed throughout our society. This emphasis on goods and services that the public "demands" and then consumes is known as "demand -- side economics."

consumption

You can see how this emphasis on measuring present goods and services -- wealth already accumulated and achieved -- led many economists to take this wealth for granted -- even to begin prescribing ways in which the government might -- through spending and taxes -- redistribute that wealth more equally.

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

This is called "supply-side" economics -- economics that appreciates the obvious: wealth is created for all of us only when those who work harder or take more risks in the marketplace receive greater rewards.

This is the genuis of our economic system -- as Walter Lippman observed more than 40 years ago: for the first time in history an economic system gave men a "way of producing wealth in which the good fortune of others multiplied their own."

What is encouraging is that for the first time in a long while economists have stopped recommending that government overspend and overtax -- they are realizing what the American people today fully understand -- that government spending only consumes wealth and by doing so discourages the hard work, personal initiatives and risk taking that "supplys" wealth to our economy.

One economist at Harvard, for example, has recently noted that a business, like an army or even a football team, can have roughly the same resources as a competitor and yet constantly outperforms that competitor. The economist attributes this higher performance to an indefinable x factor -- a spirit that motivates and achieves.

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

That is why we must seek again to increase our national wealth by rewarding hard work and risk taking. We must make ~~By making a~~ a larger economic pie, so we can offer more people a larger share ~~piece~~ of that pie.

To do this we cannot hesitate or dally. We must end excessive government spending, taxation, and regulation. We must reduce spending and cut taxes simultaneously.

To put it simply: our program is INSERT WIDENBAUM.

Add Paragraph on how we must also stop trying to kid the public -- temporary versus permanent debt ceiling.

We must engage in some plain talk -- this means those of us in public life must take political risks just as an entrepenuer takes business risks. We must work with hope, we must thrive on our faith in the future. A George Gilder, one of the new supply side economists who has developed many of the concepts I have discussed tonight, said in his recent book Wealth and Poverty, "The venturer who awaits the emergence of a safe market, the tax-cutter who demands full assurance of new revenue, the leader who seeks a settled public opinion, all will always act too timidly and too late."

I do not intend to act timidly or too late. I ask you tonight for your support for a new economic program for America. A program that will return our country to prosperity, recapture our spirit of enterprise and restore our faith in the future.

For in this faith in the future I trust is not just the foundation of our economic system but of our society and of our civilization.

Let it be clear we do not seek to extend economic freedom for purposes of greed or simply because ~~it adds~~ to our material wealth. We seek to extend our economic rights because they comprise one of our most important freedoms. Most of us exercise our right to vote perhaps once or twice a year -- but each day, in many different ways, all of us exercise our economic freedom. And we must never forget ~~the societies and~~ (that every free society in history has respected) the right of property and sought ~~The~~ to reward~~s of~~ hard work and personal initiative.

All of this, of course, is merely to restate a wisdom well know to the Americans who formed this nation -- a wisdom that has been lost -- but a wisdom that today, I believe is quickly being recovered. As Thomas Jefferson wrote:

"Government that leaves men free to determine their own etc. and does not take away from ~~labor~~ man the fruits of its labors -- this is the sum of good government."

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During recent decades, the increasing fascination with statistics and the ability to store large amounts of information in computers led many economists, like many other social scientists, to state what they knew in terms of numbers or quantities. Economists regularly used statistics and aggregate numbers to measure our national consumption wealth and examine how it is distributed throughout our society. This emphasis on goods and services that the public "demands" and then consumes is known as "demand -- side economics."

You can see how this emphasis on measuring present goods and services -- wealth already accumulated and achieved -- led many economists to take this wealth for granted -- even to begin prescribing ways in which the government might -- through spending and taxes -- redistribute that wealth more equally.

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

This is called "supply-side" economics -- economics that appreciates the obvious: wealth is created for all of us only when those who work harder or take more risks in the marketplace receive greater rewards.

This is the genuis of our economic system -- as Walter Lippman observed more than 40 years ago: for the first time in history an economic system gave men a "way of producing wealth in which the good fortune of others multiplied their own."

What is encouraging is that for the first time in a long while economists have stopped recommending that government overspend and overtax -- they are realizing what the American people today fully understand -- that government spending only consumes wealth and by doing so discourages the hard work, personal initiatives and risk taking that "supplys" wealth to our economy.

One economist at Harvard, for example, has recently noted that a business, like an army or even a football team, can have roughly the same resources as a competitor and yet constantly outperform~~s~~ that competitor. The economist attributes this higher performance to an indefinable x factor -- a spirit that motivates and achieves.

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

That is why we must seek again to increase our national wealth by rewarding hard work and risk taking. We must make ~~By making a~~ a larger economic pie, so we can offer more people a larger share ~~piece~~ of that pie.

To do this we cannot hesitate or dally. We must end excessive government spending, taxation, and regulation. We must reduce spending and cut taxes simultaneously.

To put it simply: our program is INSERT WIDENBAUM.

Add Paragraph on how we must also stop trying to kid the public -- temporary versus permanent debt ceiling.

We must engage in some plain talk -- this means those of us in public life must take political risks just as an entrepenuer takes business risks. We must work with hope, we must thrive on our faith in the future. A George Gilder, one of the new supply side economists who has developed many of the concepts I have discussed tonight, said in his recent book Wealth and Poverty, "The venturer who awaits the emergence of a safe market, the tax-cutter who demands full assurance of new revenue, the leader who seeks a settled public opinion, all will always act too timidly and too late."

I do not intend to act timidly or too late. I ask you tonight for your support for a new economic program for America. A program that will return our country to prosperity, recapture our spirit of enterprise and restore our faith in the future.

For in this faith in the future I trust is not just the foundation of our economic system but of our society and of our civilization.

Let it be clear we do not seek to extend economic freedom for purposes of greed or simply because it adds to our material wealth. We seek to extend our economic rights because they comprise one of our most important freedoms. Most of us exercise our right to vote perhaps once or twice a year -- but each day, in many different ways, all of us exercise our economic freedom. And we must never forget ~~the societies and~~ (that every free society in history has respected) the right of property and sought to ~~The~~ reward~~s of~~ hard work and personal initiative.

All of this, of course, is merely to restate a wisdom well know to the Americans who formed this nation -- a wisdom that has been lost -- but a wisdom that today, I believe is quickly being recovered. As Thomas Jefferson wrote:

"Government that leaves men free to determine their own etc. and does not take away from ~~labor~~ man the fruits of its labors -- this is the sum of good government."