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THE WHITE HOUSE
Office of the Press Secretary

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 4 P.M. (E.S.T.)
AND RELEASE UNTIL 9 P.M. (E.S.T.)
Wednesday, February 18, 1981.

February 18, 1981

SUMMARY FACT SHEET

A Program for Economic Recovery

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SUMMARY FACT SHEET

The President's Economic Program

Summary: President Reagan tonight presented to a Joint Session of the Congress a comprehensive program to bring about a recovery of the Nation's economy to reduce the burdens of high inflation, high taxation and over-regulation. The program calls for fundamental redirection in the role of the federal government, including:

- Reductions in personal tax rates and business taxes;
- Spending cuts and other measures to reduce the budget deficit;
- Reductions in the burden and the intrusion of Federal regulations; and
- A new commitment to a stable monetary policy.

BACKGROUND:

- Immediately upon taking office, President Reagan asked for a comprehensive audit of our Nation's economic situation. He described the findings in a Nationwide television address on February 5, 1981. Among the serious economic problems that he found upon taking office were:
 - Rates of consumer price inflation were 13.3% in 1979 and 12.4% in 1980, up from 4.8% in 1976.
 - Interest rates for short term credit had reached 20%, and home mortgage rates were over 15%, two and one-half times 1960 levels.
 - Almost eight million people were unemployed.
 - Under the previous Administration the Federal budget was out of control:
 - Estimates made in March 1980 of Federal spending in fiscal year 1981 were low by at least \$50 billion, and estimates of the deficit were low by over \$70 billion.
 - Recent Federal spending has been growing by about 16% per year.
 - Deficits this year are now expected to be around \$80 billion, including over \$55 billion that shows up in the Federal budget and about \$25 billion which is hidden in so-called "off-budget" programs.
 - The national debt is approaching \$1 trillion.
 - The percentage of income paid by individuals in Federal taxes has doubled since 1960 -- all to pay the costs of expanding Federal programs.
 - Government regulation has expanded rapidly, adding to the cost of all consumer goods, impeding new industrial development, and substituting Washington-based decisions for those of individuals, businesses, and State and local governments.

- During his first few days in office, the President:
 - Took initial steps to bring government spending under control, including a freeze on government hiring and procurement, reductions in government travel, and reductions in the use of consultants and contracts.
 - Created a task force under the direction of the Vice President to coordinate efforts to reduce the regulatory burden, placed a freeze on new regulations, and withdrew certain regulations issued in the final days of the Carter Administration.

NEW ACTIONS ANNOUNCED TODAY

In his address to a Joint Session of the Congress and in detailed economic and budget reform messages, the President described his proposals and plans for:

- The first round of major reductions in Federal spending. Additional spending reductions will be presented on March 10, 1981, in a full revision of the 1982 budget. Together, these proposals will reduce FY 1982 spending \$41.4 billion below current policy levels, they will also result in \$2.0 billion in user fees and \$5.7 billion in off-budget cuts for a total of \$49.1 in savings.
- A major reduction in individual and business taxes.
- Additional measures to reduce the cost, burden and intrusion of government regulations.

The principal effects of the President's program, if it is approved by the Congress, will be to:

- Reduce inflation rates.
- Reduce the nonproductive burden imposed by the Federal government, particularly through regulations.
- Reduce the heavy tax burden on the American taxpayer.
- Reduce the size and role of the Federal government, and its intrusion in decisions that could better be made by individuals, businesses, and State and local governments.
- Reduce interest rates for credit purchases and borrowing of money by reducing government borrowing made necessary to cover massive deficits.
- Increase real incomes by spurring capital investment and enhancing productivity .

The President's proposals are summarized below and described more fully in documents being sent to the Congress.

BUDGET OUTLOOK WITH THE PRESIDENT'S BUDGET SAVINGS AND TAX REDUCTION PROGRAM.

Official budget estimates showing the President's tax and budget savings proposals will be provided in the March 10th revision of the 1982 Budget. The table below provides a preliminary estimate of the renewed fiscal balance when the President's measures are fully implemented:

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Proposed Outlay Ceilings	654.7	695.5	733.1	771.6	844.0	912.1
Receipts with tax plan	600.2	650.5	710.2	772.1	850.9	942.1
Target Deficit (-) or Surplus	-54.5	-45.0	-22.9	+ 0.5	+ 6.9	+ 29.9
<u>Share of GNP</u>						
Outlays	23.0	21.8	20.4	19.3	19.2	19.0
Receipts	21.1	20.4	19.7	19.3	19.3	19.6

THE PRESIDENT'S BUDGET REFORM PLAN

In his address to the Joint Session and in a detailed Budget Reform Plan sent to the Congress, the President described the first major steps in a comprehensive redirection of Federal Government activity including:

- Cutbacks in lower priority Federal activities;
- Sharply constrained overall spending levels; and
- Dramatic shifts in internal budget priorities.

A. Past Actions Have Contributed to Today's Economic and Budget Problems.

The rate of increase in Federal spending has risen sharply over the past 25 years:

	<u>Average Annual Rate of Increase</u>
• From 1955 - 1964:	6.3%
• From 1976 - 1981:	11.9%
• From 1979 - 1981:	15.9%

Spending increased even more rapidly than tax revenues, which were pushed up by inflationary movement of taxpayers into higher tax brackets.

The results have included increased tax burden, reduced incentives for working, saving and investing and a slow down in the economy. As a result, Federal deficits and borrowing continue to increase.

Also, national defense was underfunded because of the failure to control domestic program expansion.

B. New Priorities.

Achieving the President's budget savings targets will require an end to the proliferation of new Federal programs and a reversal of the trend toward greater Federal roles in economic and social programs. The President's program stresses two overriding priorities:

- Sufficient budget resources must be provided to rebuild the Nation's defense capacities;
- The Social Safety Net of income security measures erected in the 1930's to protect the elderly (including cost of living protection for the elderly), unemployed, and poor, as well as veterans, must be maintained.

Beyond these two priorities, all other Federal programs are being subjected to thorough scrutiny and widespread reduction.

C. Criteria Used in Evaluating Programs and Funding Levels.

Eight basic criteria have been used in evaluating and making decisions on all other programs:

1. Entitlement Programs must be revised to eliminate unwarranted beneficiaries and payments.
2. Subsidies and benefits for middle and upper income levels must be reduced.
3. Allocable costs of government programs must be recovered from those benefiting from the services provided, such as airports and airways, inland waterways and Coast Guard services to yacht and boat owners.
4. Sound economic criteria must be applied to economic subsidy programs such as synthetic fuels, Export-Import Bank loans, and subsidized loans.
5. Capital investments in public sector programs — such as highways, waste treatment plants and water resource projects — must be stretched out and retargeted.

6. Fiscal restraint must be imposed on programs that are in the national interest but are lower in priority than the national defense and safety net programs. Examples include NASA, National Science Foundation, and the National Institutes of Health, which would be allowed to grow at lower rates than planned.
7. Large numbers of categorical grants must be consolidated into block grants permitting less Federal administrative overhead, greater flexibility for State and local governments, greater efficiency in management and reduced overall costs. Examples include elementary and secondary education, and health and social services.
8. Federal personnel and overhead costs, and program waste and inefficiency must be reduced.

D. Major features of the President's Program

Major features of the President's program include:

- A \$41.4 billion reduction in FY 82 outlays compared to the current policy base, together with \$2.0 billion in user charges and \$5.7 billion in off-budget outlay reductions for a total of \$49.1 billion in fiscal savings.
- A dramatic downward shift in Federal spending growth rates, bringing the 16% trend of the recent period to about 7% over the next several fiscal years.
- A steady reduction in the Federal deficit, resulting in a balanced budget in 1984 and modest surpluses thereafter.
- The first comprehensive proposal in more than a decade to overhaul the Nation's overgrown \$350 billion entitlements system. Proposed revisions of food stamp, extended unemployment benefits, trade adjustment assistance, student loans, various secondary social security benefits, medicaid and other entitlement programs would save \$9.4 billion in fiscal year 1982, with savings growing to \$18.9 billion by FY 86.
- Substantial cutbacks or actual elimination of non-essential or ineffective Federal programs, including CETA public service jobs, AMTRAK, energy technology commercialization programs, impact aid, and Federal support for the arts.
- Proposed consolidation of nearly 100 narrow categorical grant programs into a few flexible block grants for State and local support of education, health, and social services. Savings by FY 1983 would exceed \$4 billion.
- Sharp reductions in direct Federal subsidies for synfuels development, Export-Import Bank activities and the dairy industry, along with a substantial stretch-out of funding for highways, airports, sewage treatment plants and water projects.
- Increased user fees for barge operators, airway system users and commercial and recreational vessels.

Specific program reductions proposed in the President's Budget Reform Program are listed by department and agency in the attached 10 page table. This table shows estimated reductions in budget authority and outlays, as well as increased receipts from user charges, for fiscal years 1981-1986.

E. A Stronger National Defense within Restrained Overall Spending Levels.

The President has decided that budget resources must be devoted to national defense to improve and sustain the readiness of U.S. forces and to increase their ability to deter and, should deterrence fail, to prevail in response to aggression against U.S. interests. The defense budget has been reviewed closely to achieve cost savings. Part of the defense growth will be financed by the savings that result from increased efficiency and reductions in travel and other marginal activities.

The President has also decided that Federal spending growth must be held to 6% in FY 82 and that similar restraint must be exercised in future years. To provide \$7.2 billion extra for defense in 1982, overall spending levels must be reduced by \$41.4 billion or by 6% from the current policy base.

The 83 major policy and program changes described in the President's Budget Reform Plan and listed in the appendix to this Fact Sheet provide most of the savings required in FY 1982, with larger reductions in future years. In summary, the President's Budget Savings Plan would provide the following:

	Outlays Fiscal years (\$ in Billions)					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Existing budget status</u>						
Current policy base	657.8	729.7	792.1	849.0	911.4	972.8
Added Defense funds	1.3	7.2	20.7	27.0	50.2	63.1
Current policy base with adequate defense	659.1	736.9	812.8	876.0	961.6	1035.9
<u>President's Budget Plan</u>						
Proposed spending ceiling	654.7	695.5	733.1	771.6	844.0	912.1
Budget savings target	4.4	41.4	79.7	104.4	117.6	123.8
<u>President's Budget Savings Proposals</u>						
Actions recommended now or to be included in March						
Budget Revisions:						
Budget Outlay reductions	4.8	41.4	58.5	73.7	86.6	95.8
User charges (receipts)	-	(2.0)	(2.6)	(3.0)	(3.5)	(3.9)
Off-budget outlay reductions	<u>(.7)</u>	<u>(5.7)</u>	<u>(7.4)</u>	<u>(9.2)</u>	<u>(11.1)</u>	<u>(13.1)</u>
Subtotal	(5.5)	(49.1)	(68.5)	(85.9)	(101.2)	(112.8)
Budget savings to be proposed subsequently	-	-	21.2	30.7	31.0	28.0

F. The Resulting Shift in Spending.

The shift in government spending priorities as a result of the rigorous review conducted by the President and the Cabinet is shown in the tables below:

(Dollar amounts in billions)	<u>1962</u>	<u>1981</u>	<u>1984</u>
Department of Defense—Military.....	46.8	157.9	249.8
Safety net programs	26.2	239.3	313.0
Net interest.....	6.9	64.3	66.8
All other		<u>193.2</u>	<u>142.0</u>
Total.....	106.8	654.7	771.6
Outlay Shares (Percent)			
Department of Defense—Military.....	43.8	24.1	32.4
Safety net programs	24.5	36.6	40.6
Net interest.....	6.4	9.8	8.6
All other	<u>25.2</u>	<u>29.5</u>	<u>18.4</u>
Total.....	100.0	100.0	100.0

G. The First Step in Budget Reform.

The Budget Reform Message forwarded to the Congress is the first step in the President's program to reduce budget deficits. The reform package provides details on 83 major policy and program actions to achieve budget savings. These major actions are being provided now to permit the Congress to begin work immediately and meet its schedule for reconciling fiscal year 1981 spending levels and setting the course for fiscal year 1982.

H. The Fully Revised 1982 Budget.

On March 10, 1981, the President plans to submit his fully revised 1982 budget to the Congress. This new budget will provide details on the additional 1981 and 1982 budget savings that are needed to achieve the President's goal of a \$41.4 billion reduction in 1982 outlays below the current policy base.

THE PRESIDENT'S PROPOSAL TO REDUCE TAXES

President Reagan's plan for reducing taxes proposes:

- Reducing individual tax rates by 10% a year for 3 years.
 - Increasing the incentive for productive investments by business and industry in new plant and equipment by allowing more rapid write-off of recosts of investments.
- A. Reducing individual income tax rates. Tax rates will be reduced by 10% effective July 1, 1981; a second 10% on July 1, 1982; and the third 10% on July 1, 1983.

The net effect will be a 5% reduction in 1981 individual taxes, a 15% reduction in 1982 taxes, a 25% reduction in 1983 taxes and a 30% reduction in 1984 taxes.

1. Background. Individual tax burdens have been increasing steadily over the past few years as inflation pushes individuals into higher tax brackets and social security tax rates have increased. This has reduced the incentive to work and the ability to save.
2. Effect on tax rates. At present, under each of the four taxpayer rates schedules -- joint, single, married filing separately, and head of household -- individuals pay tax at marginal rates ranging between 14% and 70%. When the tax cut proposed by the President is fully implemented, rates will range between 10% and 50%.
3. Implementing the tax reductions. Under the President's proposal, reductions will begin July 1, 1981. At that time, withholding will be reduced by roughly 10% for individual taxpayers.
4. Expected effects. The cut in tax rates will provide individuals greater incentives for productive employment and for savings. Also, reduced tax rates will make tax shelters less attractive and productive investments more attractive. Thus, cuts in individual taxes are expected to contribute to increased investments that will expand the productive base of the economy and create more jobs.

B. Encouraging Productive Investments by Business and Industry.

The second major part of the President's tax proposals -- called the Accelerated Cost Recovery System -- would establish a new system for treating investments by business and industry. This system will determine the periods of time over which the costs of investments can be "recovered" or "written off" when calculating taxes. The system will result in fixed periods, known in advance, over which the cost of investments in particular plant and equipment can be charged off as expenses of doing business and thus deducted from gross income before calculating taxes.

1. The New System.

Most business property will, for purposes of calculating taxes, fall into one of the three write-off periods listed below. An accelerated costs recovery schedule is provided for each.

- 3 years: This class consists of autos and light trucks and machinery and equipment used for research and development. Expenditures can be written off in 3 years: 33% in the first year, 45% in the second year, and 22% in the third. An investment credit of 6% will also apply to this class, up 2-2/3 percentage points from present law for property written off in 3 years.
- 5 years: This class consists of other machinery and equipment, except for certain long-lived public utility property. After a phase-in period, the original cost of additions can be written off according to an accelerated 5-year schedule:
 - 20% in the year acquired.
 - 32% in the 2nd year.
 - 24% in the 3rd year.
 - 16% in the 4th year.
 - 8% in the 5th year.

The full 10% investment credit will be allowed for this class.

- 10 years: This class consists of factory buildings, retail stores, and warehouses used by their owners; and public utility property for which present guidelines exceed 18 years. The accelerated schedule for deductions is as follows:

• 10% in the 1st year	• 10% in the 6th year.
• 18% in the 2nd year.	• 8% in the 7th year.
• 16% in the 3rd year.	• 6% in the 8th year.
• 14% in the 4th year	• 4% in the 9th year.
• 12% in the 5th year	• 2% in the 10th year.

As in present law, the 10% investment credit applies to public utility property in this class, but is not generally available for real property.

Specific depreciation periods, not requiring subsequent audit, would be established for write-off of other depreciable real estate -- on a straight line basis (i.e., the same % share of the original cost each year). 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.

2. Effective Dates.

The new system would be effective for property acquired or placed in service after December 31, 1980. A 5-year phase in period would provide progressively shorter recovery periods for long-lived machinery and buildings acquired before 1985.

3. Principal Changes from the Current System.

The proposed new capital recovery system improves upon the current system in several ways. Specifically, it would:

- Substantially increase the incentive for business investments for increased productivity, higher real wages, and sustained economic growth.
- Provide the basis for creating new jobs.
- Improve U.S. competitive position in world markets.
- Reduce the accounting and tax planning burden for taxpayers, by replacing the current, complex concepts such as "useful life" and "facts and circumstances of the anticipated use" which require estimates by taxpayers and later audit by IRS agents and which result in years of dispute and litigation.
- Reduce the auditing burden on the Internal Revenue Service.

Details of both tax proposals are being provided in material released by the Secretary of the Treasury.

C. Estimated Receipts with the Tax Reduction Program.

The table below shows current estimates of receipts and taxes as a share of GNP — before and after the President's Tax reduction program:

	Fiscal years (\$ in Billions)					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Current law receipts	609.0	702.4	807.6	917.2	1033.2	1159.8
Individual Income tax reductions	-6.4	-44.2	-81.4	-118.1	-141.5	-162.4
Depreciation Reform	-2.5	-9.7	-18.6	-30.0	-44.2	-59.3
Proposed user charges	-	2.0	2.6	3.0	3.5	3.9
Receipts with new tax policy	600.2	650.5	710.2	772.1	850.9	942.0
<u>Share of GNP</u>						
Current Law	21.4	22.0	22.4	22.9	23.5	24.1
After tax reduction program	21.1	20.4	19.7	19.3	19.3	19.6

THE PRESIDENT'S PROGRAM TO REDUCE REGULATORY BURDEN

In his address to a Joint Session of the Congress, the President reviewed the actions taken since January 20th and new steps to reduce the burden, cost and intrusion of government regulatory efforts that are unnecessary, duplicative, inefficient, ineffective, or simply not justified on the basis of benefits.

A. Actions Taken Since January 20th.

The actions taken by the President since January 20th include:

- Creation of a Task Force on Regulatory Relief on January 22, 1981. The Task Force is chaired by the the Vice President and has seven cabinet-level members.
- Termination on January 29, 1981, of the Council on Wage and Price Stability's wage-price standards program which has been ineffective in halting the rising rate of inflation, has proven unnecessarily burdensome and a waste of taxpayer money.

- Postponement of regulations on January 29. The President requested the heads of 12 departments and agencies to postpone, to the extent permitted by law, the effective dates of regulations that would otherwise become effective before March 29, 1981, and to refrain to the extent permitted by law from issuing new regulations during that same 60-day period.
- Withdrawal or modification of regulations. In response to the President's request for a close review of existing and proposed regulations, the Secretaries of Education, Transportation, Labor and Energy, and the heads of EPA and OMB already have modified or revoked a number of regulations.

B. New Actions Announced by the President.

The President announced two additional actions in his continuing program to reduce unnecessary regulation. These are:

- Issuance of an Executive Order designed to improve management of the Federal regulatory process.
- Integration of the goals of regulatory relief with paperwork reduction, principally as is carried out under the recently enacted Paperwork Reduction Act of 1980 which provides, in effect, for OMB review of most regulations.

Changes from Current Base
Summary Table of Budget Authority and Outlay Savings by Agency
and Increases to Governmental Receipts
FY 1981 - 1986
(in millions of dollars)

1. 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>														
Dairy price supports (Commodity Credit Corporation).....	---	138	---	1,095	---	1,614	---	1,887	---	2,263	---	2,727	---	9,724
Food Stamps.....	150	150	1,828	1,822	2,012	2,004	2,462	2,451	2,636	2,624	2,771	2,759	11,859	11,810
Child Nutrition.....	145	42	1,657	1,575	1,800	1,709	1,934	1,835	2,046	1,940	2,158	2,045	9,740	9,146
Rural Electrification Administration (off-budget).....	(38)	(38)	(1,142)	(1,142)	(2,328)	(2,328)	(3,603)	(3,603)	(4,975)	(4,975)	(6,450)	(6,450)	(18,536)	(18,536)
(Loan guarantee commitments).....	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)		(32,427)	
Farmers Home Admin....	---	30	---	105	30	179	105	255	179	331	255	407	569	1,307
(Direct loan obligations).....	(565)		(2,354)		(2,354)		(2,354)		(2,354)		(2,354)		(12,335)	
Alcohol Fuels/Biomass Loans 1/.....	505	46	---	94	---	3	---	4	---	3	---	3	505	153
Subtotal.....	800	406	3,485	4,691	3,842	5,509	4,501	6,432	4,861	7,161	5,184	7,941	22,673	32,140
<u>Department of Commerce</u>														
Economic and Regional Development (including Appalachian Regional Commission 2/.....	502	24	769	440	854	644	934	755	1,010	882	1,085	997	5,154	3,742
National Oceanic and Atmospheric Admin....	9	6	152	69	202	148	238	216	250	253	241	223	1,092	915
Subtotal.....	511	30	921	509	1,056	792	1,172	971	1,260	1,135	1,326	1,220	6,246	4,657
<u>Department of Defense-Military</u>														
Personnel.....	68	68	2,387	2,387	3,736	3,736	4,152	4,152	4,369	4,369	4,544	4,544	19,256	19,256
Program and all other.	360	280	840	530	1,360	1,050	2,180	1,700	2,860	2,400	3,560	3,000	11,160	8,960
Subtotal.....	428	348	3,227	2,917	5,096	4,786	6,332	5,852	7,229	6,769	8,104	7,544	30,416	28,216

Summary Table (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 Education</u>														
Elementary and Secondary Grants Consolidation.....	---	---	1,498	106	1,761	1,217	1,998	1,766	2,366	2,051	2,617	2,272	10,240	7,412
School Assistance in in Federally Affected Areas (Impact Aid)...	67	82	474	450	523	500	567	551	608	584	632	613	2,871	2,780
Vocational Education..	---	---	236	220	242	242	259	252	277	269	294	283	1,308	1,266
Student Assistance....	338	106	1,016	803	1,659	1,499	1,857	1,808	2,074	2,019	2,287	2,233	9,231	8,468
National Institute of Education.....	---	---	20	22	22	20	23	20	25	21	27	22	117	105
Institute of Museum Services.....	12	2	14	12	15	13	16	14	18	16	19	18	94	75
Subtotal.....	417	190	3,258	1,613	4,222	3,491	4,720	4,411	5,368	4,960	5,876	5,441	23,861	20,106
<u>Department of Energy</u>														
Synthetic Fuels.....	545	275	1,028	864	1,064	859	362	676	140	224	25	256	3,164	3,154
Fossil Energy.....	70	59	373	361	522	433	605	549	676	657	602	604	2,848	2,663
Solar Energy.....	99	79	363	365	428	414	372	406	330	330	275	275	1,867	1,869
Other Energy Supply...	148	37	186	156	178	177	178	170	169	158	176	163	1,035	861
Energy Conservation...	254	66	677	310	597	611	427	589	374	433	373	373	2,702	2,382
Energy Information and Departmental Overhead	13	3	38	27	62	62	67	67	73	73	78	78	331	310
Energy Regulation.....	33	33	150	127	138	140	131	132	127	123	118	117	697	672
Alcohol fuels Subsidy 1/.....	745	114	---	29	---	13	---	15	---	15	---	15	745	201
General Science.....	5	4	40	29	45	43	61	61	72	72	84	84	307	293
Subtotal.....	1,912	670	2,855	2,268	3,034	2,752	2,203	2,665	1,961	2,085	1,731	1,965	13,696	12,405
<u>Department of Health and Human Services</u>														
Social Security-														
Minimum Benefits.....	---	50	---	1,000	---	1,100	---	1,100	---	1,100	---	1,100	---	5,450
Disability Insurance..	---	65	---	550	---	1,175	---	1,700	---	2,225	---	2,750	---	8,465
Student Benefits.....	---	20	---	700	---	1,200	---	1,500	---	1,700	---	1,700	---	6,820
Aid to Families with Dependent Children...	*	*	520	520	670	670	722	722	795	795	824	824	3,531	3,531
Medicaid.....	353	100	1,237	1,013	2,213	1,986	3,166	2,930	4,181	3,916	5,318	5,021	16,468	14,966
Health and Social Services grant Consolidation 3/.....	---	---	2,697	2,540	3,148	2,993	3,532	3,347	3,863	3,676	4,084	3,929	17,324	16,485

Summary Table (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
Regulation of Health Care														
Industry														
-Health Planning.....	28	10	100	62	168	87	180	159	190	188	199	197	865	703
-PSRO'S.....	6	38	15	117	19	134	27	212	29	223	31	234	127	958
(PSRO obligations).. of Health 4/.....	(38)		(119)		(136)		(215)		(227)		(238)		(973)	
National Institutes of Health 4/.....	126	54	197	145	373	336	512	468	628	584	726	682	2,562	2,269
Health Professions Education.....	219	32	280	126	309	221	336	260	361	297	385	313	1,890	1,249
Health Maintenance Organizations.....	37	6	24	18	57	27	66	50	69	61	72	73	325	235
National Research Service Awards (ADAMHA) 4/.....	4	1	5	4	5	4	6	6	6	5	7	6	33	26
Merchant Seamen (PHS) 5/.....	39	39	110	110	183	183	194	194	205	205	215	215	946	946
National Health Service Corps Scholarship....	16	3	31	14	45	37	54	45	65	54	80	65	291	218
Subtotal.....	828	418	5,216	6,919	7,190	10,153	8,795	12,693	10,392	15,029	11,941	17,109	44,362	62,321
Department of Housing and Urban Development														
Planning Assistance....	34	3	37	26	39	36	42	39	44	41	46	44	242	189
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	11	11	12	11	12	12	64	57
Community Development Support Assistance....	---	---	584	12	678	67	837	271	882	702	926	814	3,907	1,866
Subsidized Housing -program level.....	---	1	3,536	10	3,026	39	3,440	95	3,437	223	3,624	371	17,063	739
-rent contributions...	500	9	4,916	232	4,574	538	5,587	1,018	6,066	1,748	6,269	2,445	27,912	5,990
Public Housing Modernization.....	(300)**	---	800	---	800	---	800	20	800	60	800	100	4,000	180
Solar Energy and Conservation Bank.....	121	47	132	149	141	137	150	147	158	157	166	162	868	799
Subtotal.....	793	127	10,145	629	9,403	1,037	11,005	1,812	11,539	3,155	11,985	4,162	54,870	10,922

Summary Table (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 the Interior														
Improved targeting of conservation expenditures.....	573	91	566	270	512	286	465	365	471	349	605	403	3,192	1,764
Youth Conservation Corps.....	56	52	60	59	60	60	60	60	60	60	60	60	356	351
Subtotal.....	629	143	626	329	572	346	525	425	531	409	665	463	3,548	2,115
Department of Labor														
Unemployment Insurance-Extended Benefits.....	400	523	700	1,231	700	477	100	196	100	284	200	287	2,200	2,998
Unemployment Insurance-Work Test.....	---	---	---	---	---	285	---	285	---	272	---	264	---	1,106
Unemployment compensation for ex-service members.....	60	60	175	175	175	175	181	181	183	183	183	183	957	957
Trade Adjustment Assistance.....	---	---	1,150	1,150	760	760	380	380	380	380	380	380	3,050	3,050
Comprehensive Employment and Training (CETA).....	153	635	4,644	3,566	4,236	4,073	4,578	4,408	4,946	4,762	5,341	5,143	23,898	22,587
Young Adult Conservation Corps.....	---	53	250	179	256	248	262	262	269	268	275	274	1,312	1,284
Federal employees injury compensation (FECA)...	---	---	102	102	114	114	126	126	138	138	151	151	631	631
Subtotal.....	613	1,271	7,021	6,403	6,241	6,132	5,627	5,838	6,016	6,287	6,530	6,682	32,048	32,615
Department of Transportation														
Federal Highway Construction.....	---	---	1,390	244	1,964	1,211	2,546	1,700	3,243	2,088	3,437	2,214	12,580	7,477
Urban Mass Transportation-Capital Grants.....	210	31	950	270	1,047	545	1,220	975	1,368	1,284	1,497	1,480	6,292	4,585
Operating Subsidies..	---	---	103	96	581	256	1,059	600	1,528	1,083	1,626	1,356	4,897	3,391
Airport Construction...	272	120	250	140	278	161	305	196	730	219	371	239	1,806	1,075
AMTRAK Subsidies.....	25	25	431	325	606	485	760	688	964	904	1,056	1,050	3,842	3,477
Northeast Corridor Improvement Project...	---	25	288	95	13	114	20	51	15	25	---	---	310	310
Low volume railroad branch lines.....	80	8	88	32	96	62	104	80	112	103	119	110	599	395
Highway Safety Grants..	---	---	167	16	125	112	138	138	162	150	178	163	770	579
Cooperative Automotive Research Program.....	12	6	13	9	14	13	15	14	16	14	17	15	97	71
Subtotal.....	599	215	3,680	1,227	4,698	2,959	6,167	4,642	7,738	5,870	8,301	6,647	31,183	21,160

Summary Table (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
Other Independent Agencies														
EPA Waste Treatment														
Grants.....	1,000	---	3,610	125	1,540	1,045	1,860	1,970	2,170	1,960	2,465	1,950	12,645	7,050
NASA.....	75	60	330	241	248	334	-90	86	-390	-156	-200	-124	-27	441
Civil Aeronautics														
Board-Airline subsidy.	---	---	56	50	64	64	54	54	34	34	2	2	210	204
Corporation for Public														
Broadcasting.....	---	---	43	43	52	52	73	73	98	98	111	111	377	377
Export-Import Bank.....	750	60	1,980	410	2,110	990	2,250	1,380	2,410	1,600	2,560	1,710	12,060	6,150
Foreign Aid (FAP).....	616	85	1,854	402	205	584	2,513	1,063	2,978	1,527	3,187	1,827	11,353	5,488
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	222	223	239	231	1,015	863
National Science														
Foundation.....	63	26	66	15	90	81	120	109	153	141	183	155	675	527
Office of Personnel Management -														
Institution of annual														
COLA.....	---	---	558	510	472	424	430	389	416	366	417	367	2,293	2,056
Postal Service Subsidies	250	250	632	632	690	690	765	765	779	779	779	779	3,895	3,895
Student Loan Marketing														
Association (off-														
budget).....	---	---	---	(1,923)	---	(2,500)	---	(3,000)	---	(3,500)	---	(4,000)	---	(14,923)
Water Resource Development														
Construction programs.	---	---	95	90	340	337	545	544	515	514	215	217	1,710	1,702
Corps of Engineers...	(---)	(---)	(50)	(50)	(296)	(296)	(485)	(485)	(439)	(439)	(179)	(179)	(1,449)	(1,449)
Water & Power Resources														
Service.....	(---)	(---)	(35)	(35)	(28)	(28)	(43)	(43)	(57)	(57)	(20)	(20)	(183)	(183)
Soil Conservation														
Service.....	(---)	(---)	(10)	(5)	(16)	(13)	(17)	(16)	(19)	(18)	(16)	(18)	(78)	(70)
U.S. Railway Association														
Conrail subsidies.....	-350.	-250	400	300	550	550	300	300	150	150	100	100	1,150	1,150
Subtotal.....	2,495	313	9,925	3,031	6,707	5,434	9,208	7,104	9,720	7,411	10,258	7,515	48,311	30,808
Federal Personnel														
Reduction not														
related to above														
reductions.....	386	386	1,342	1,342	1,811	1,811	2,264	2,264	2,763	2,763	3,263	3,263	11,829	11,829
Effects on civilian														
agency pay costs of														
revising the Federal														
Pay Comparability														
Standard.....	---	---	2,165	2,079	2,938	2,907	3,463	3,356	3,740	3,698	3,990	3,873	16,296	15,913
Mineral Leasing on														
Outer Continental														
Shelf and Federal														
Lands 6/.....	250	250	800	800	2,000	2,000	3,100	3,100	3,500	3,500	3,500	3,500	13,150	13,150

Summary Table (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
TOTAL, On-Budget Authority and Outlay Savings.	10,661	4,767	54,666	34,757	58,810	50,109	69,082	61,365	76,618	70,232	82,654	77,325	352,491	298,555
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Off-budget Items -														
Rural Electrification Administration.....	38	38	1,142	1,142	2,328	2,328	3,603	3,603	4,975	4,975	6,450	6,450	18,536	18,536
(Loan guarantee commitments)....	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)		(32,427)	
Student Loan Marketing Association.....	---	---	---	1,923	---	2,500	---	3,000	---	3,500	---	4,000	---	14,923
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL, Budget Authority and Outlay Savings.	10,699	4,805	55,808	37,822	61,138	54,937	72,685	67,968	81,593	78,707	89,104	87,775	371,027	332,014

* Less than \$500 thousand

** Deferral

- 1/ The appropriations for the Alcohol Fuels and Biomass programs are in the Department of the Treasury.
- 2/ Funds for the Appalachian Regional Commission are appropriated to the President.
- 3/ Some of these savings are to be derived from agencies other than the Department of Health and Human Services.
- 4/ Elimination of National Research Service Awards is also included in National Institutes of Health reduction.
- 5/ These savings to the Public Health Service will be partially offset by additional costs to the U.S. Coast Guard, the Merchant Marine and several other agencies.
- 6/ Offset included for Department of Interior operating costs and payments to states.

II. Other Reductions to the Deficit

	1981	1982	(in millions of dollars)		1985	1986
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Black Lung Trust Fund reform.....	30	378	354	353	382	469
Smaller reductions (for agencies listed above and for other agencies) that have been identified (outlays).....	—	6,300	8,000	12,000	16,000	18,000
Total, Other reductions to the budget deficit.....	<u>30</u>	<u>6,678</u>	<u>8,354</u>	<u>12,353</u>	<u>16,382</u>	<u>18,469</u>
Off-budget items:						
Smaller reductions that have been identified.	706	2,617	2,565	2,603	2,637	2,615
Total, Other reductions to the deficit, including off-budget items.....	<u>736</u>	<u>9,295</u>	<u>10,919</u>	<u>14,956</u>	<u>19,019</u>	<u>21,084</u>

III. 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
17 Federal Aviation Administration						
Increase trust fund taxes to cover all operating expenses.....	---	1,882	2,159	2,442	2,753	3,104
Subtotal.....	---	1,982	2,359	2,742	3,153	3,604
Total, increases to governmental receipts.....	---	1,982	2,617	3,017	3,453	3,919

IV. Summary effects on the deficit

	1981	1982	(in millions of dollars)		1985	1986
			1983	1984		
Listed outlay savings (Table I).....	4,767	34,757	50,109	61,365	70,232	77,325
Other outlay reductions (Table II).....	30	6,678	8,354	12,353	16,382	18,469
Total, effect on outlays.....	<u>4,797</u>	<u>41,435</u>	<u>58,463</u>	<u>73,718</u>	<u>86,614</u>	<u>95,794</u>
Increases to governmental receipts (Table III).	---	1,982	2,617	3,017	3,453	3,919
Total, effect on the budget deficit....	<u>4,797</u>	<u>43,417</u>	<u>61,080</u>	<u>76,735</u>	<u>90,067</u>	<u>99,713</u>
Off-budget outlays listed above (Table I).....	38	3,065	4,828	6,603	8,475	10,450
Other changes in off-budget entities that have been identified (Table II).....	706	2,617	2,565	2,603	2,637	2,615
Total, off-budget changes.....	<u>744</u>	<u>5,682</u>	<u>7,393</u>	<u>9,206</u>	<u>11,112</u>	<u>13,065</u>
Effect on the deficit, including effects on off-budget entities.....	5,541	49,099	68,473	85,941	101,179	112,778

Date: February 17, 1981

MEMORANDUM FOR: SECRETARY REGAN
DEPUTY SECRETARY-DESIGNATE MCNAMAR

From: E. George Cross, III *EGC*

Subject: Money Measurement

Based on the use of \$1,000 bills, this chart shows the height of a stack of such bills necessary to produce the following amounts of money.

AMOUNT	TIGHT	LOOSE
\$1 million	4 inches	4.29 inches
\$1 billion	333 feet	357.5 feet
\$1 trillion	63 miles	67.7 miles

A tight pack of bills is based on the "bricks" of money used by the Bureau of Engraving. One "brick" is sixteen inches deep.

A loose pack of bills is based on a Bureau of Engraving count of 233 bills in a one inch pack.

cc: Misty Church

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	CROSS					
Initials / Date	/	/	/	/	/	/



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 9, 1981

MEMORANDUM FOR: Program Associate Directors
Deputy Associate Directors
Dale McOmber
Ed Preston

FROM: Glenn Schieede

SUBJECT: Fact Sheets

Dave Stockman has reviewed most of the drafts of fact sheet materials that had arrived by Saturday night and believes most need substantial revision.

His rewrite of one issue is attached as one way of providing additional guidance.

The following provides more detailed guidance and instructions:

1. Fact sheets will be incorporated into a larger document called the "Fiscal Reform Plan." This will set each proposed budget change in the context of about a half-dozen basic policy principles:
 - Strengthen social safety net by revising and refocusing entitlements.
 - Shift resources and decision-making authority for education and social services to state and local Government through block grants and program simplification.
 - Shift clearly allocable costs of Government activities to the users who directly and disproportionately benefit.
 - Adhere to sound economics and market principles to achieve national goals in areas like job creation, economic growth promotion, transportation, and energy.
 - Reduce funding levels for lower priority programs and non-essential Government in order to help resolve immediate fiscal and economic crisis.
 - Stretch-out construction schedules and activity rates for desirable public sector capital investment programs. The long-run benefits of these programs will be enhanced if the near-term instability and deterioration of the U.S. economy is remedied.

-- Reduce Federal Government overhead, personnel, regulatory agency cost and intervention in order to lessen public sector costs and promote private sector expansion.

2. A concept paper laying out these principles in more detail will be distributed late Monday. Fact sheet writers should begin immediately to revise papers with a view to explaining and justifying individual programs within this framework.
3. Fact sheets should not be oriented to legislative and program technicians, but advocacy documents explaining why program changes are justified using compelling statistics and arguments; e.g., some AmTrak rates cost more in subsidy per passenger than a first-class airline ticket between destinations. Fact sheets should be designed, where appropriate, to discredit status quo policy and provide common-sense, plausible rationale for proposed alternative. Search for the succinct "dagger" in each case; e.g., "We should not finance 30-year TVA powerplants with 90-day paper."
4. The Fiscal Reform Plan Document will be organized in sections based on the above principles. Fact sheets on proposed policy/budget will be distributed among these sections, as appropriate.
5. Whenever an activity/program or entitlement is reduced, please point out alternative route to objective, or other Federal programs, where appropriate; e.g., DOE conservation budget reductions ... note \$_____ billion tax credit; ____% change in U.S. energy/GNP co-efficient due to market forces.

Attachment

cc: Dave Stockman
Ed Harper
Jim Miller
Larry Kudlow
Jack Campbell
Susan Hause

SAMPLE REVISION

1. Change title to:

"Reduction of Middle Income School Lunch Subsidy"

2. Describe Policy Change and Justification in advocacy fashion and in non-technical language as follows:

"As part of a general effort to refocus Federal social programs on the truly needy, the Administration will propose a _____ percent reduction in school lunch subsidies to children from families with incomes above \$ _____ (income levels should always be expressed in terms of gross income equivalents whenever "countable" income thresholds are referred to ---- a footnote can explain the translation for the legislative technicians).

This change will be achieved by reducing the general cash and commodity subsidy by _____ per meal relative to FY 1980 statutory levels. The current policy of full subsidization of meals for poverty level children and _____ subsidization for children from families between 125 percent and 185 percent of the poverty line will be continued by increasing the appropriated reimbursements to local school systems.

Consequently, about 10 million poor children will continue to receive free school lunches, and _____ million will participate in the breakfast program. An additional _____ million lower-middle income children will also continue to receive nearly full subsidies for school meals. The families of nearly _____ middle and upper income children, however, will be required to provide an extra _____ per child each year from private financial resources.

3. Describe minor policy changes in this program and rationale.
4. "By more directly targeting Federal nutrition subsidies on needy children, program costs can be reduced by about 30 percent annually, or by more than \$8 billion over the next five fiscal years. At the same time, the important national policy objective of insuring adequate in-school nutrition for lower income students will be maintained.
5. Next section would be a more technical description of precise policy/legislative changes being proposed, along with any necessary program description material.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: MURRAY L. WEIDENBAUM, CHAIRMAN-DESIGNATE
COUNCIL OF ECONOMIC ADVISERS

SUBJECT: AUDIT OF THE U.S. ECONOMY AS OF JANUARY 20, 1981

FEBRUARY 6, 1981

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Inflation	3
The Growth of Federal Government Spending	10
Heavier Tax Burdens	15
Escalating Interest Rates	20
Family and Personal Hardship	24
Conclusion	30

Highlights

The American economy is in many ways in its worst state since the great depression. Though the economy previously has suffered from persistently high levels of inflation or unemployment, the combination of both today is sapping the fundamental economic strength of the nation.

Nor do these traditional indicators alone measure the extent of our economic distress. The mortgage interest rate, the prime interest rate, Federal spending and taxes, and the deficit all appear to be out of control as well. A concerted and comprehensive effort will be required to reverse these adverse trends.

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

Inflation, interest rates, and tax burdens are higher than they were four years ago. And last year's Federal deficit financing reached an all-time high. All of these developments are the legacy of a discredited notion: that the government is the basic source of economic well-being. The facts and figures in the following pages illustrate that sad but clear lesson of recent American economic history.

Nevertheless, the fundamental and durable nature of the private enterprise system still shows through the dismal statistics of our current economic performance. Americans, for example, continue to be the world's most productive workers -- the average worker in the United States produces, in an hour of work, 20 percent more than his or her counterpart in West Germany and 50 percent more than in Japan (although Japanese auto industry productivity is nearly double that of the U.S. and Japanese steel, about 25 percent greater). Furthermore, the recent sustained strengthening of the dollar in world currency markets, business analysts generally agree, in large part reflects rising confidence at home and abroad that the Federal Government is embarking on a new direction in economic policy.

To tap into this Nation's productive, sound economic base requires a commitment to reduce tax and regulatory burdens, to increase incentives for working and saving, and to restrain monetary growth and federal credit activity. A mere change in degree will not do; a genuine reversal of the relentless growth in government is essential. Only in this way can the innate creativity of individuals flourish, turning ideas and investments into higher quality goods and services at stable prices, ultimately resulting in higher real incomes and more productive jobs.

Inflation

America is suffering from the most persistent high inflation in this century. During the 1970s inflation averaged 7.5 percent a year, contrasted to 2.3 percent during the 1960s. Moreover, the rate of inflation rose to more than 13 percent in 1979 and was over 12 percent in 1980.

Inflation weakens the entire economy.

*It increases costs, uncertainty, and risk, all of which discourage investment and business expansion. This in turn destroys potential jobs and reduces production, which further aggravates long-term inflation.

*It discourages saving, which provides the essential funds to finance growth in the economy.

*It lowers living standards by pushing the cost of many goods, such as new homes, beyond the reach of millions of Americans.

*It destroys the purchasing power of those on fixed incomes.

*It makes the average consumer a speculative borrower who buys now hoping to pay later with inflation-cheapened dollars.

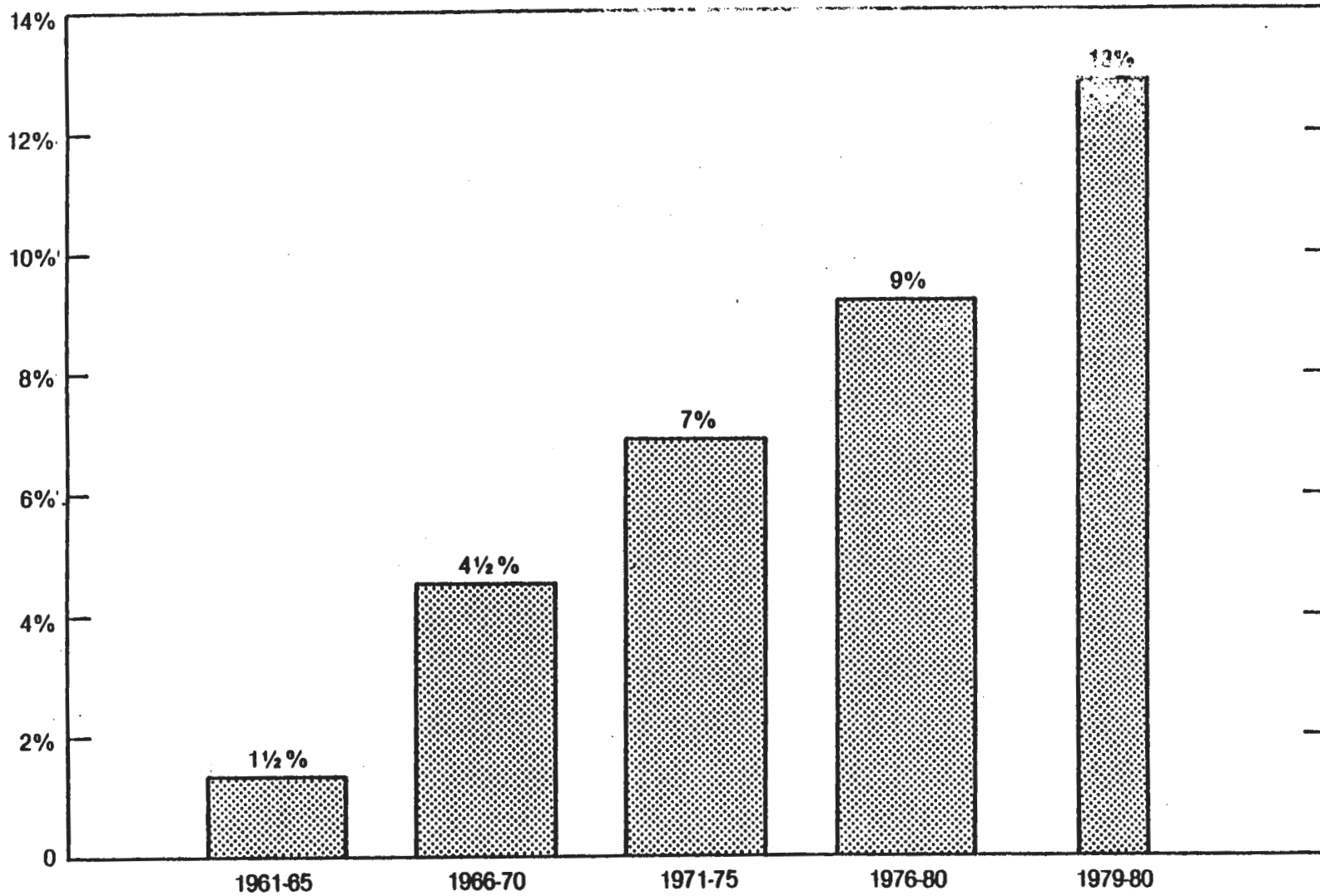
*It worsens our ability to compete in international markets.

Finally, the financial markets appear to believe that inflation is long term and endemic. This is also one of the causes of persistently high interest rates.

Unfortunately, the inflation psychology likely will remain unbroken as long as the Federal Government's economic policies continue to feed the growth of costs and prices and to erode productivity.

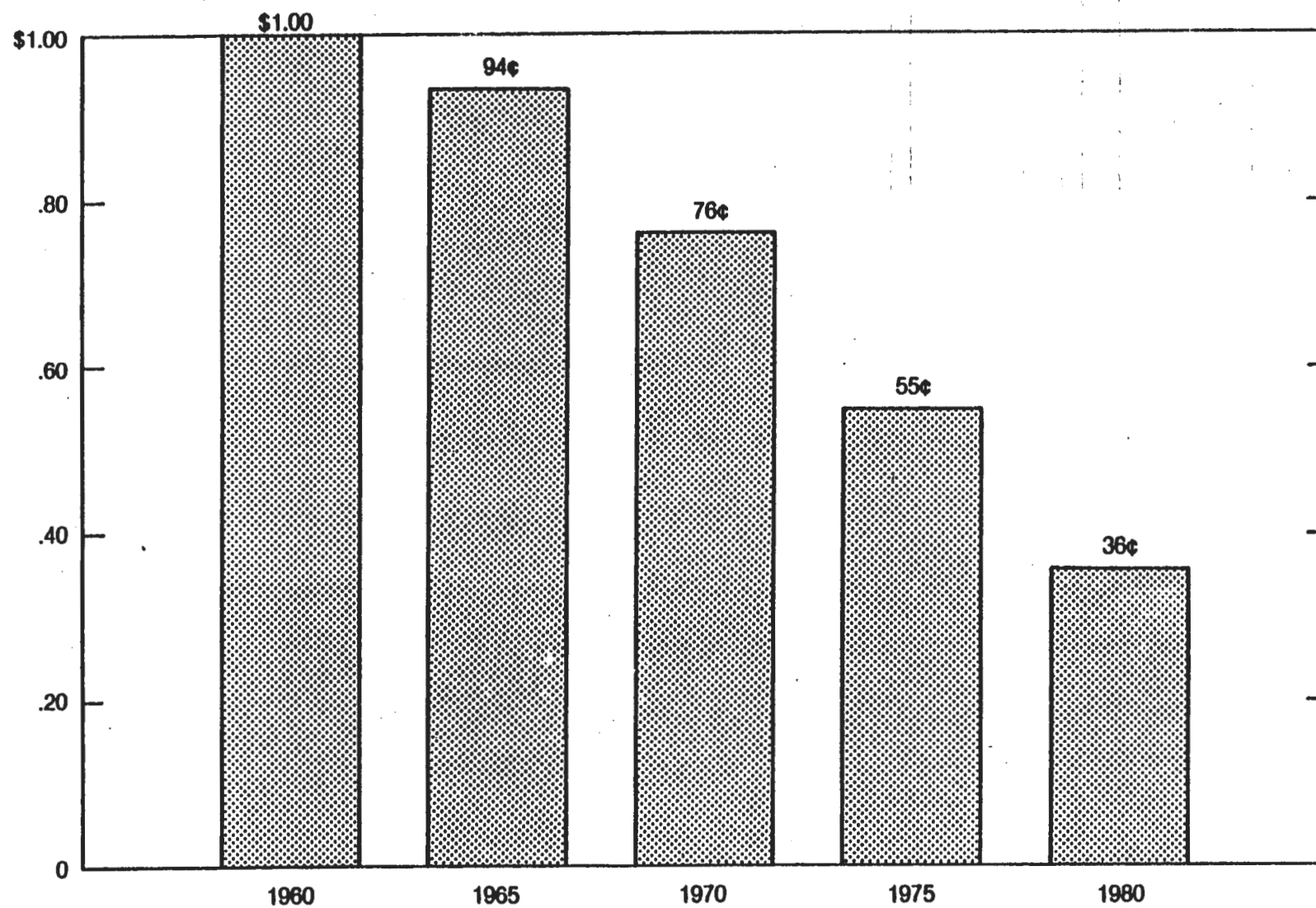
CHART 1

THE ACCELERATING COST OF LIVING



Note — Average annual change in the consumer price index for all urban consumers, using December data.
Source: Department of Labor.

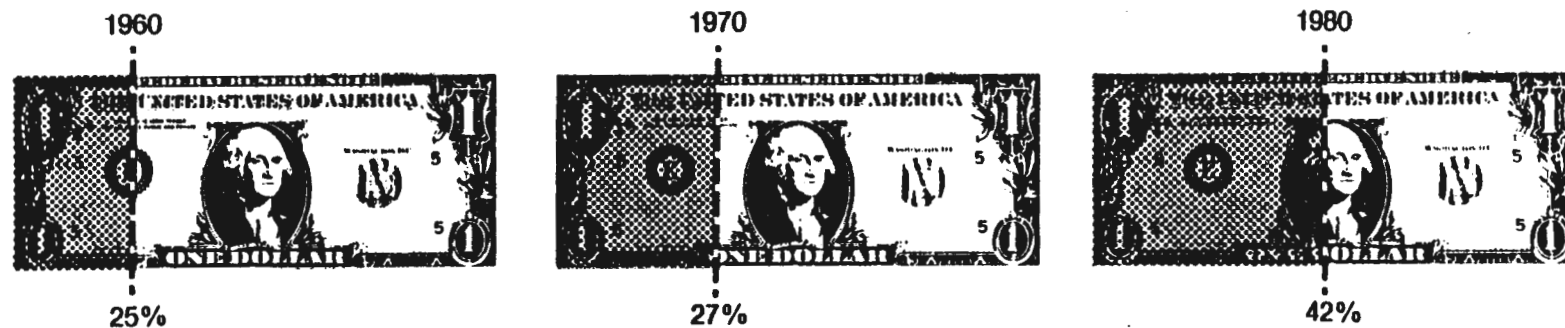
THE DECLINING PURCHASING POWER OF THE DOLLAR (1960 = \$1.00)



Note — Inverse of average level of consumer price index, all urban consumers.
Source: Department of Labor.

CHART 3

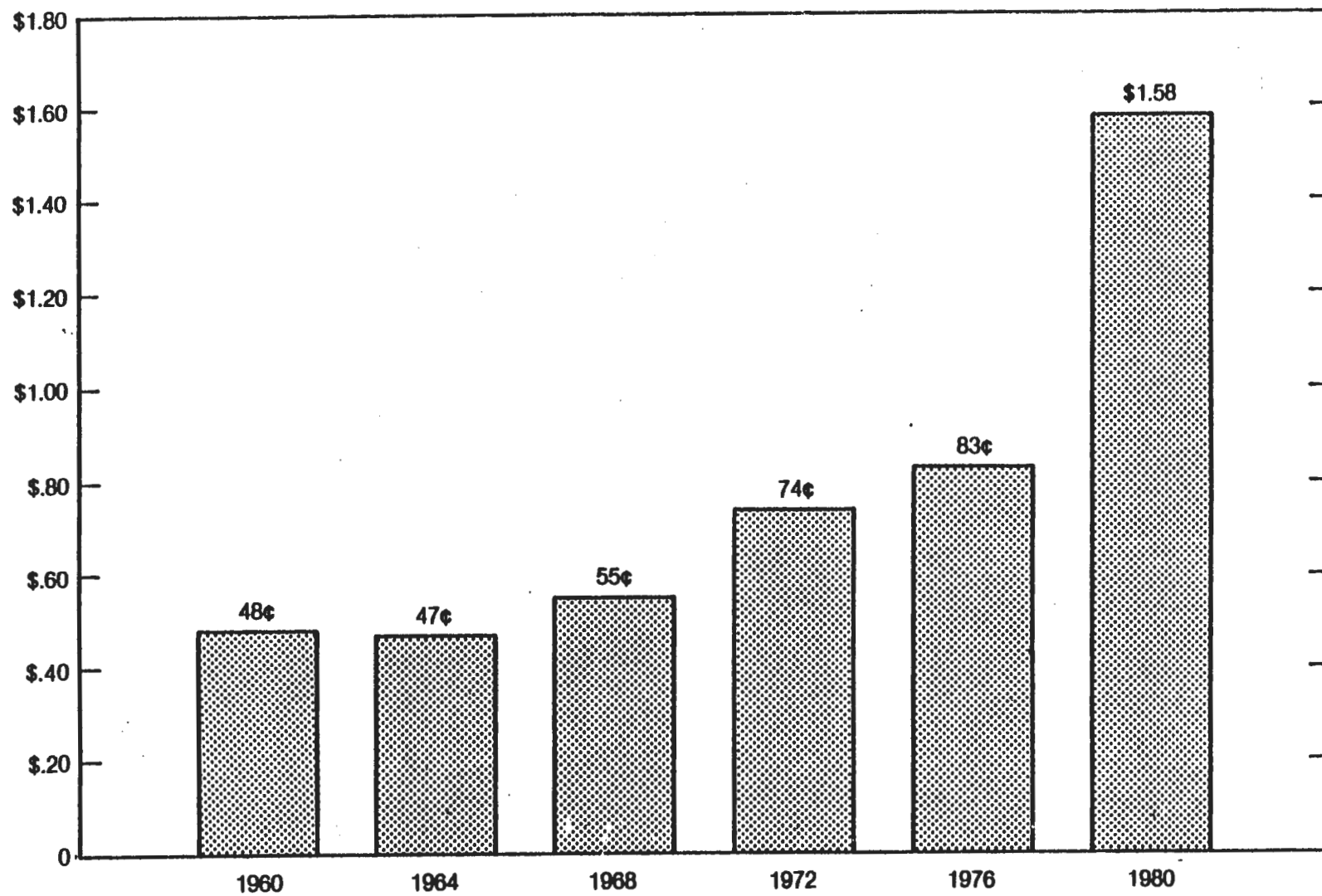
THE RISING COST OF OWNING A NEW HOME
(Portion of Typical Family Income Devoted to Monthly Payments for a New Home)



Note — Annual data. Home payments include principal, interest, taxes, and insurance for the median-priced new home.
Source: Department of Housing and Urban Development.

CHART 4

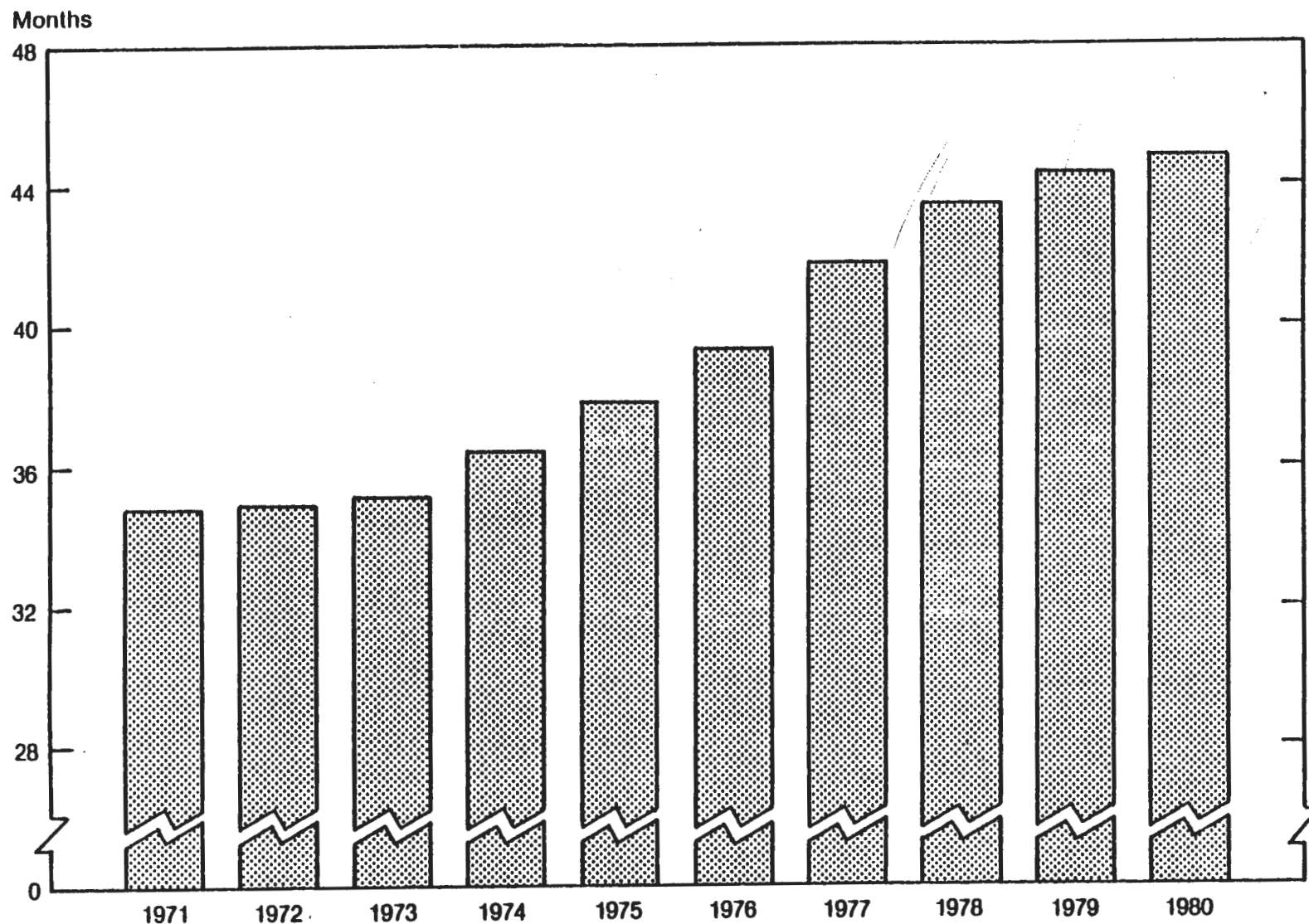
PRICE OF A POUND OF HAMBURGER



Source: Department of Agriculture

CHART 5

NUMBER OF MONTHS NEEDED TO PAY OFF A CAR LOAN

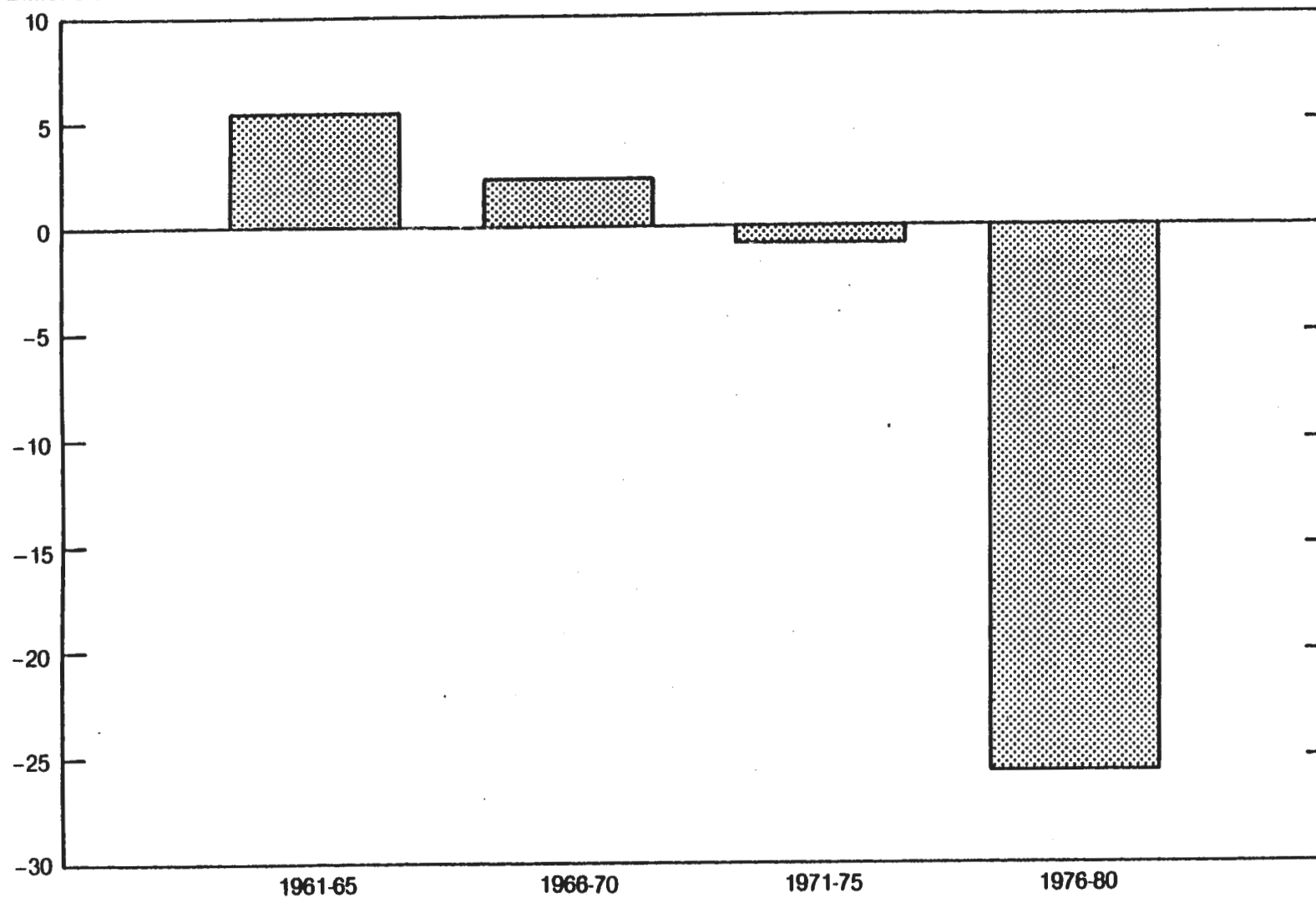


Note — End-of-year data for the average length of car loans made by major automobile finance companies. Figure for 1980 is for November.
Source: Federal Reserve.

CHART 6

U.S. MERCHANDISE TRADE BALANCE TURNS DOWN

Billions of Dollars



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

Sources: Department of Commerce and Council of Economic Advisers.

The Growth of Federal Government Spending

Twenty years ago the Federal Government took 18-1/2 percent of the gross national output; last year it took 23 percent. Yet, year after year, despite extraordinary tax burdens on the American people, the Federal Government is unable to live within its means. The Federal budget has been in deficit every year for more than a decade, and all but once in the past two decades. The deficit in the last fiscal year was the second highest on record; including off-budget spending, it was the largest.

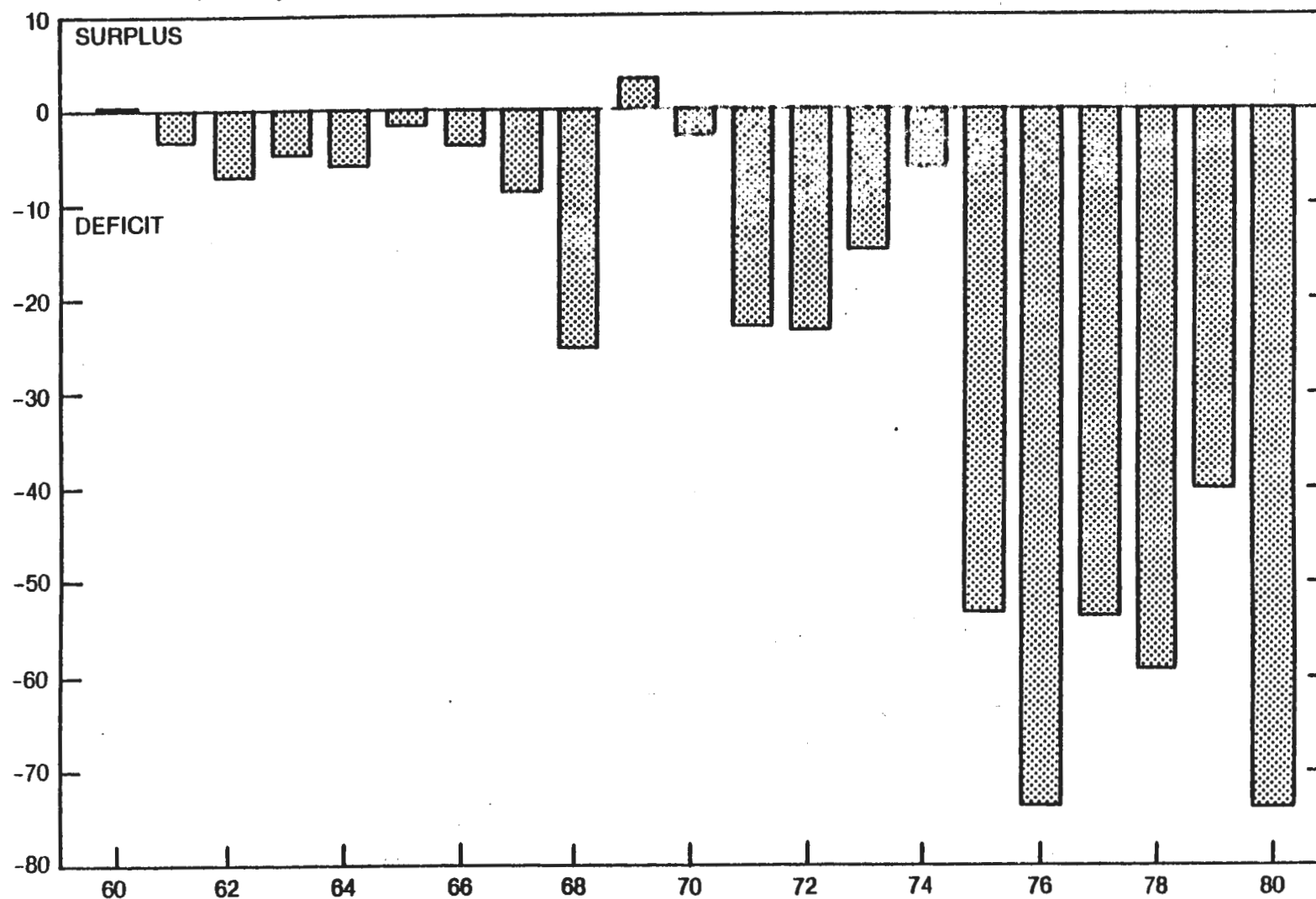
On an individual level, the figures are more staggering. The amount of Federal spending for the average household was \$5029 in 1976. It grew 46 percent to \$7329 in 1980. Even after correction for inflation this represents an 8.5 percent increase in the four-year period.

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

CHART 7

TWENTY YEARS OF INCREASING FEDERAL DEFICITS

Billions of dollars, fiscal years

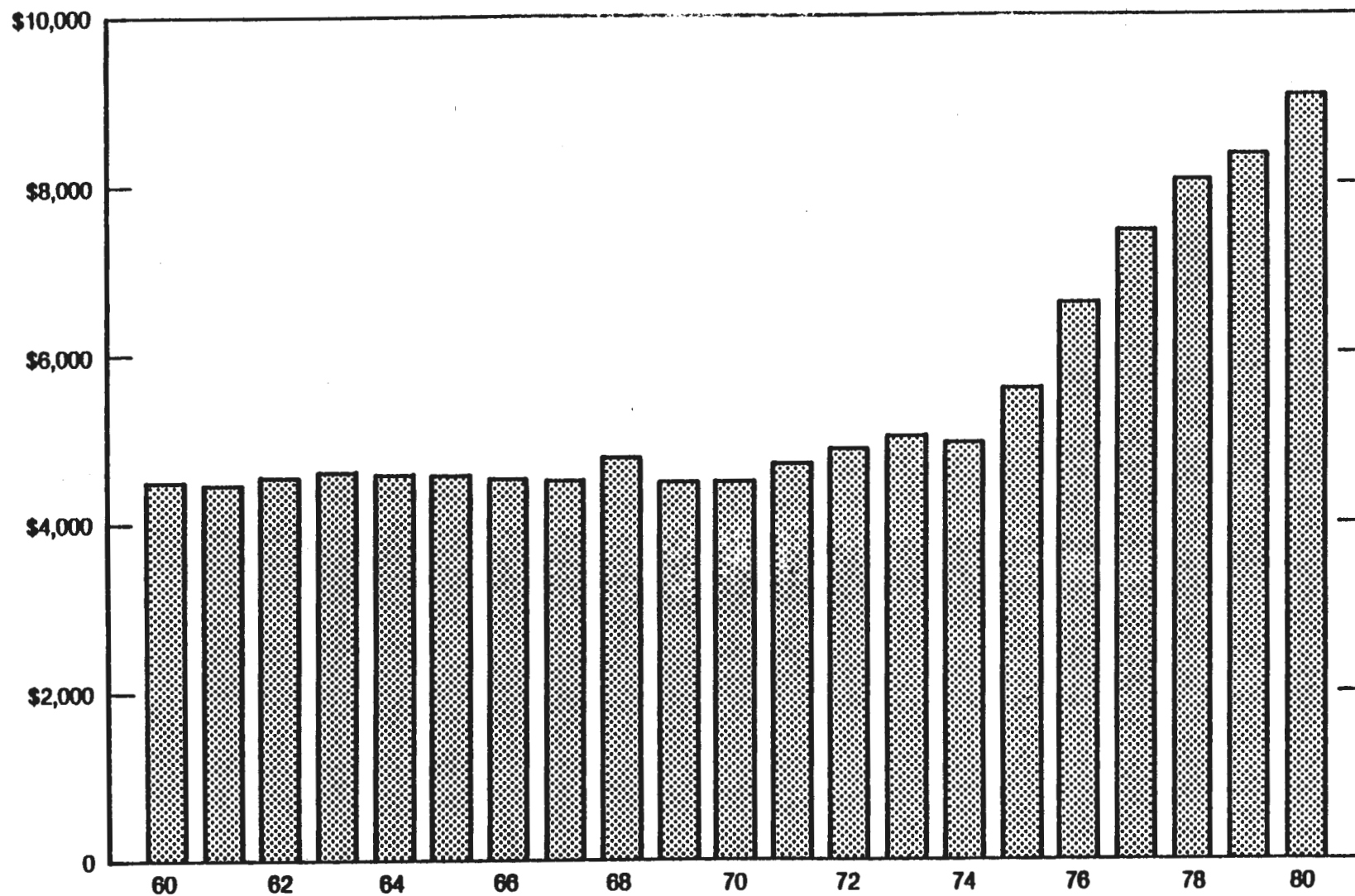


Note — Deficit is the difference between total Federal receipts and total Federal outlays including off-budget outlays.

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

CHART 8

THE GROWING BURDEN OF FEDERAL DEBT ON THE AVERAGE FAMILY



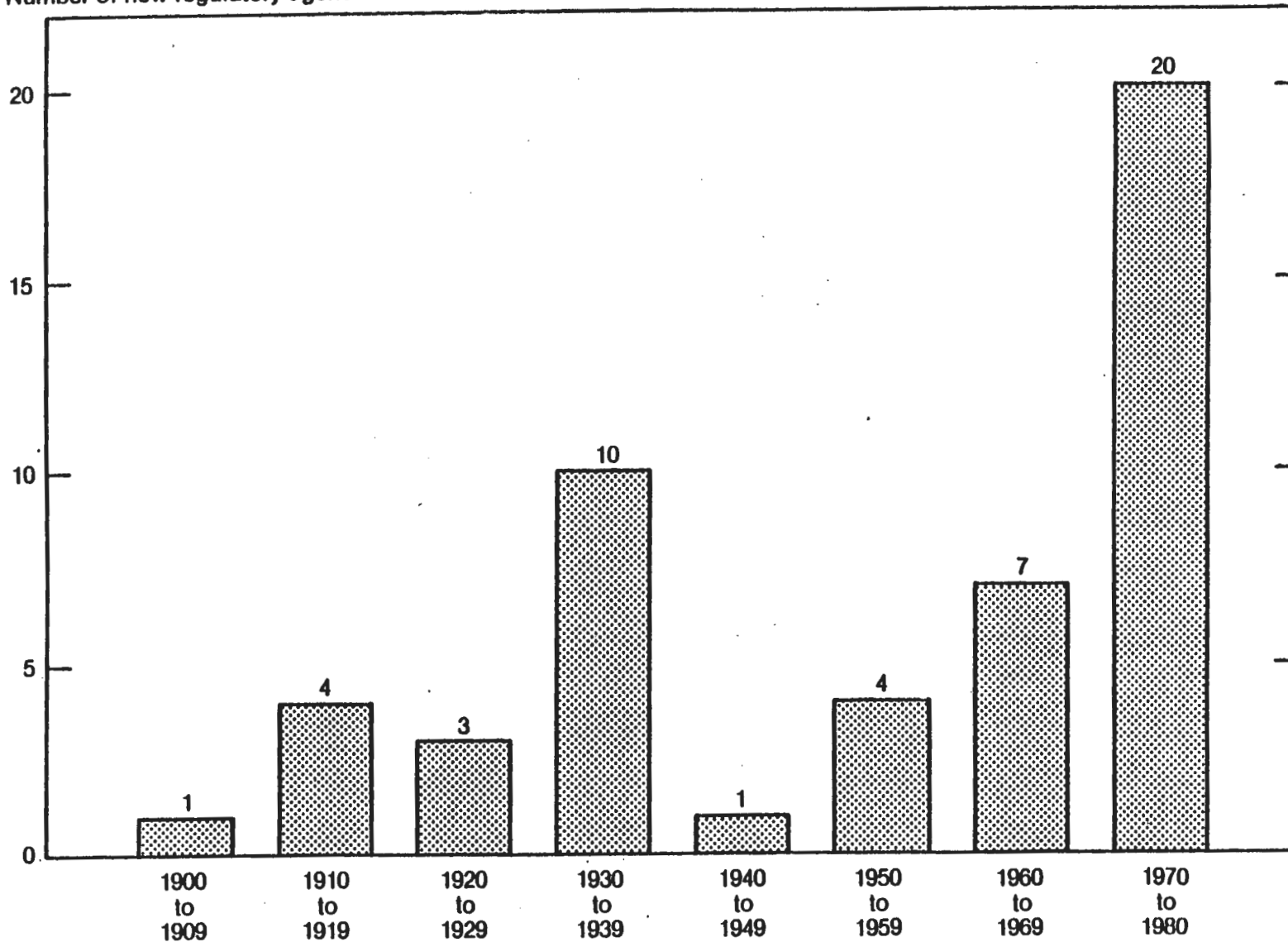
Note — Data are Federal debt held by the public at the end of each fiscal year per household.

Sources: Departments of Commerce and Treasury.

CHART 9

THE RECENT ACCELERATION OF REGULATORY GROWTH

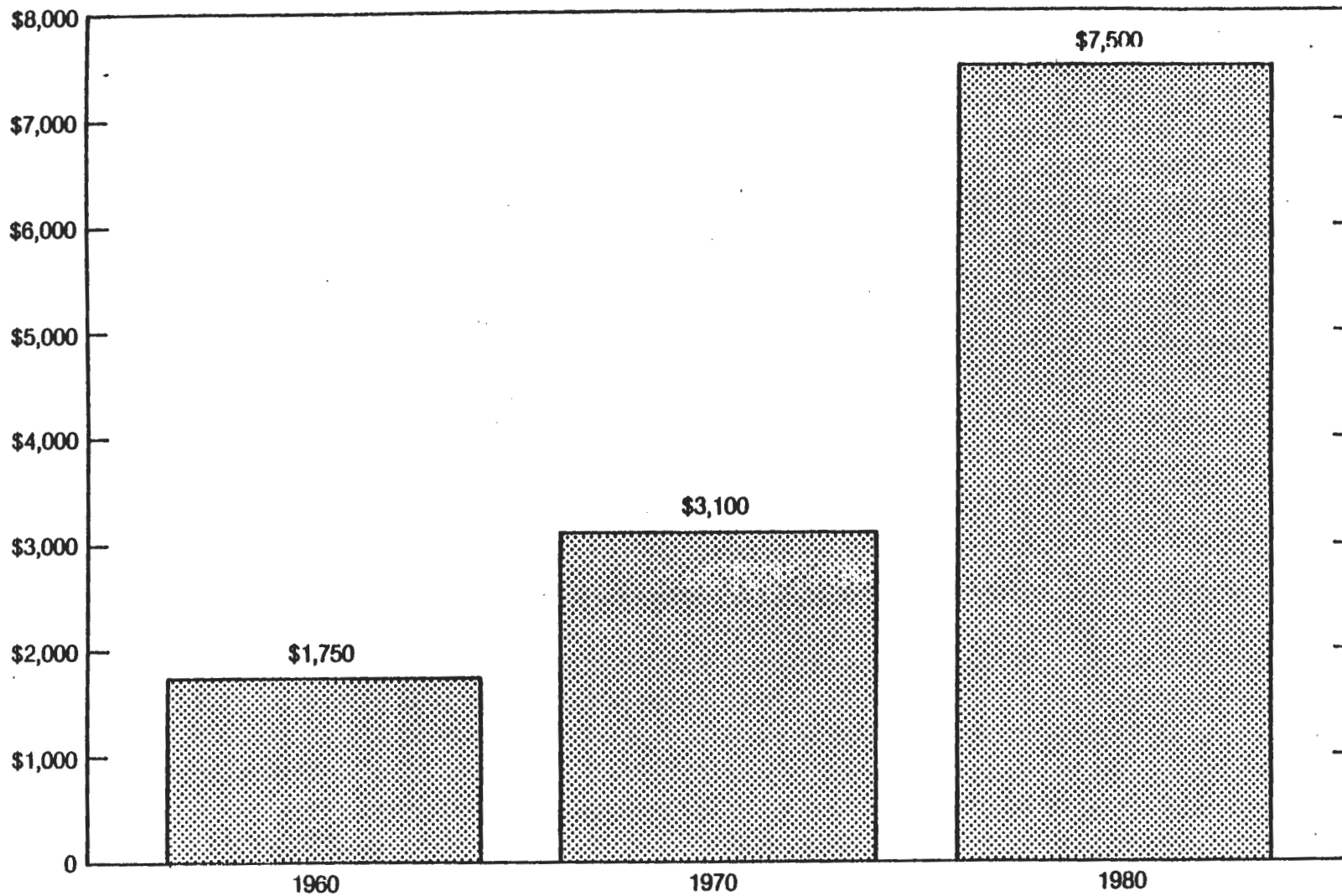
Number of new regulatory agencies



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

CHART 10

THE EXPANDING FEDERAL PRESENCE
(Total Federal Expenditures per Household)



Note — Includes on-budget outlays plus so-called "off-budget" outlays of the Federal Government.
Source: Office of Management and Budget.

Heavier Tax Burdens

The increasing burden of Federal taxes has become one of the most fundamental impediments to economic growth. The portion of the gross national product taken in taxes by the Federal Government has risen from an average of 18.7 percent over the four years ending in 1976 to 19.6 percent over the past four years. Indeed, in 1980 the government's share burgeoned to 20.3 percent, the highest of the last decade. Although a rise of 1.7 percent may not at first seem to be very significant, as a percentage of a 2-1/2 trillion dollar economy, it truly represents an important shift of resources from the private sector to the government.

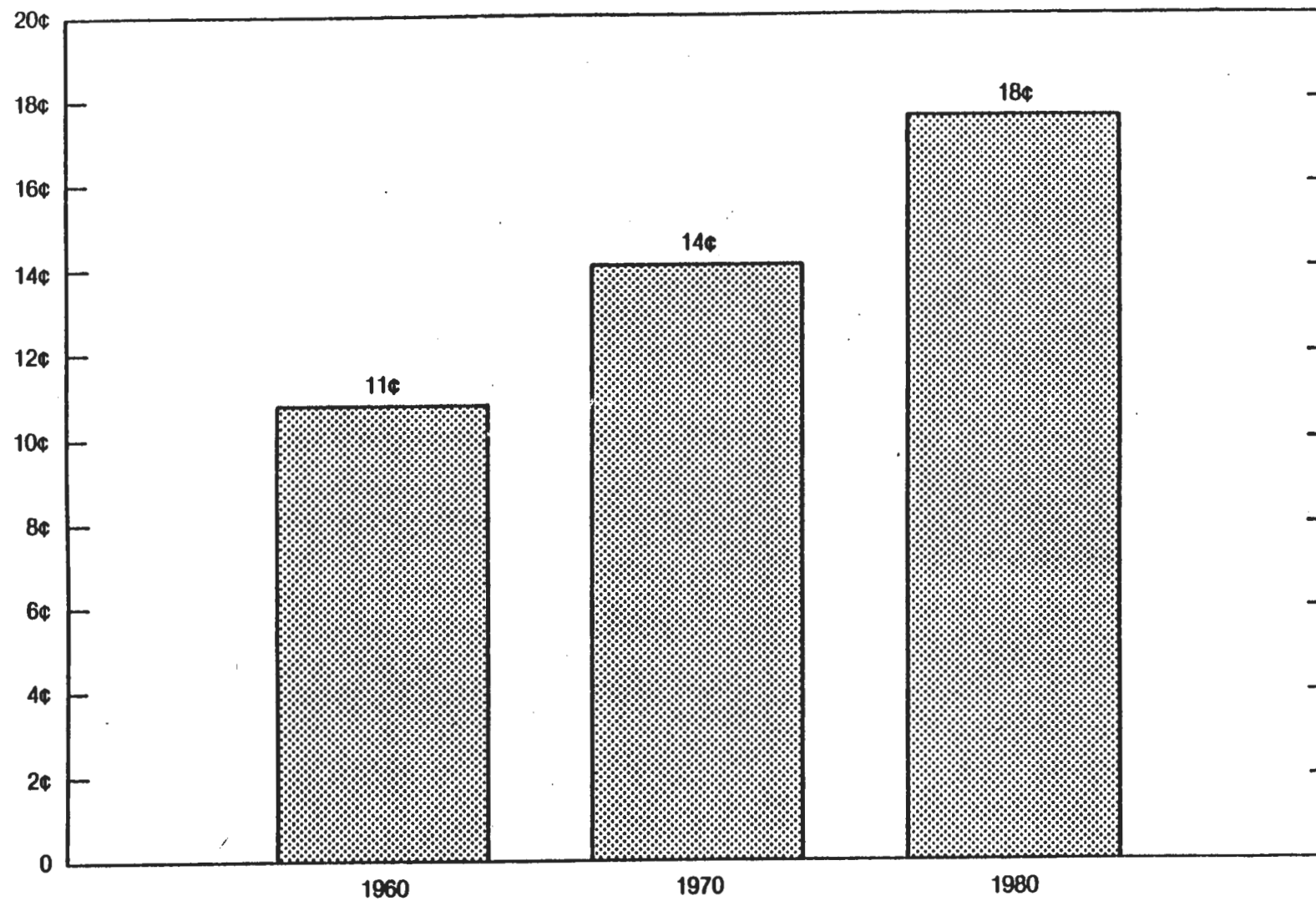
Taxes are becoming an increasing burden for families and individuals as well. Federal personal taxes for the average family of four have increased by 58 percent -- from \$2718 in 1976 to \$4296 in 1980. This corresponds to an increase in that family's average Federal tax burden from 15.7 percent of income in 1976 to 17.6 percent in 1980.

Through the progressive rate structure, the government has been profiting from inflation. When workers receive cost-of-living pay raises -- which, of course, make them no better off in real terms -- they are often pushed into higher tax brackets. The fraction of taxpayers paying more than 25 cents to the Federal Government from each additional dollar they earn has more than quadrupled in the last fifteen years.

Another way of looking at the rising burden borne by the typical taxpayer is to consider that, in 1960, the average family of four earned enough income by February 8 to pay its total federal tax bill for the year. By 1980, however, the average family had to work nearly an additional month -- until March 5 -- to earn enough income to pay the taxes it owed the Federal Government. When State and local taxes are included, the time required to pay taxes rises to an average of about 4 months.

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

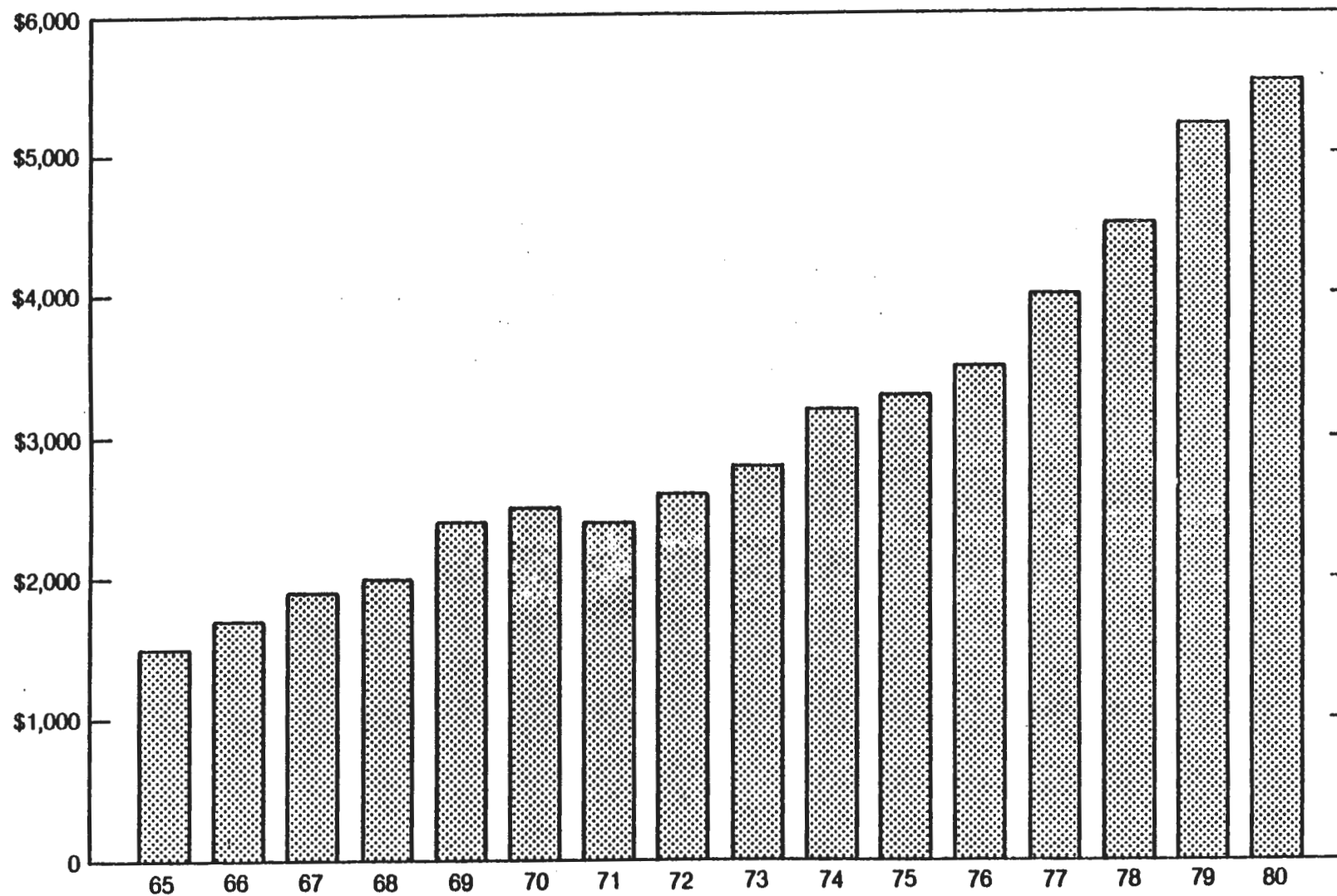
THE RISE IN AVERAGE FEDERAL TAXES PER DOLLAR OF INCOME



Note — Federal personal income and social security taxes paid by a four-person family as a percent of median income for a family of four.
Source: Department of the Treasury.

CHART 12

GROWTH IN FEDERAL PERSONAL TAXES PER FAMILY

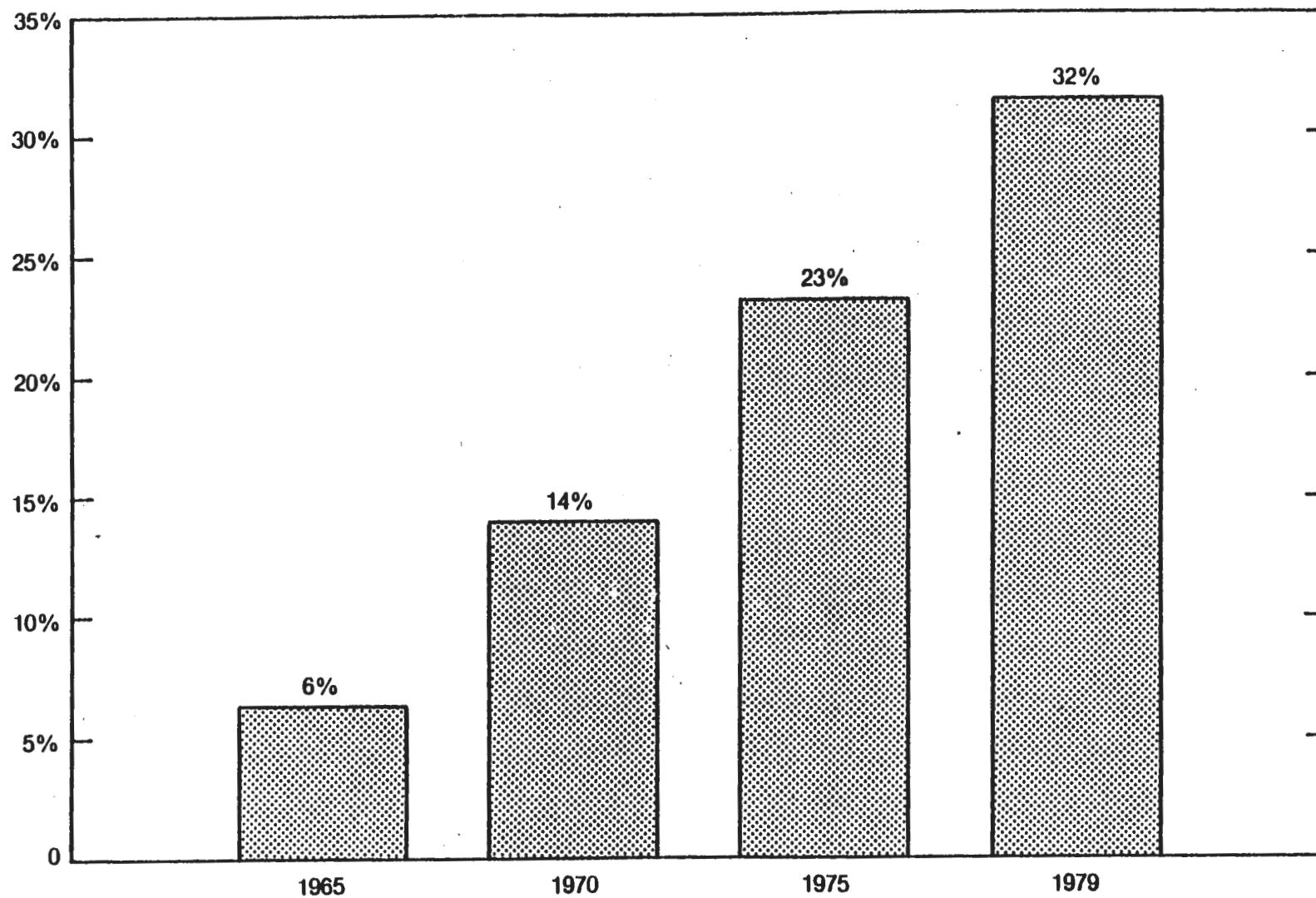


Note — Federal personal taxes include individual income taxes and employee social security and other general payments plus other Federal personal taxes.

Sources: Departments of Commerce and Treasury.

CHART 13

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



Note — Marginal tax rate is the highest rate at which a taxpayer's income is taxed. Data for 1979 are estimated.

Source: Department of the Treasury.

Escalating Interest Rates

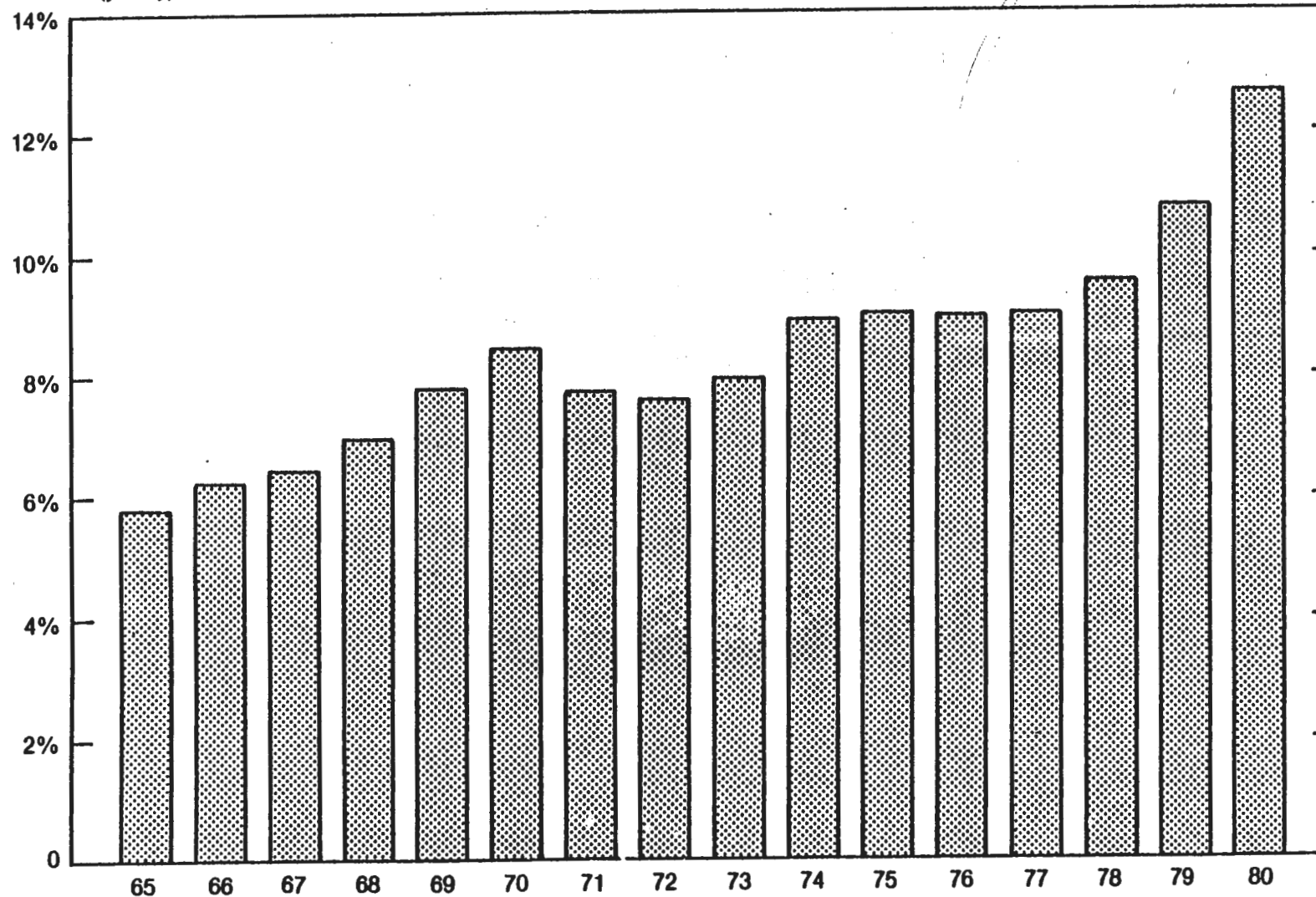
One of the most direct and devastating effects of inflation is rising interest rates. High interest rates have done more than just make it difficult for people to make purchases on credit. These rates have helped to push the cost of houses and automobiles beyond the reach of many families. This has weakened these key industries and their many suppliers.

Moreover, for many businesses, especially smaller companies, higher costs of financing are compounded by taxes, regulatory compliance expenses, and other government burdens. The consequence for many companies frequently is inadequate capital for expansion and, ultimately, bankruptcy and the destruction of jobs.

CHART 14

MORTGAGE INTEREST RATES REACH RECORD HIGH

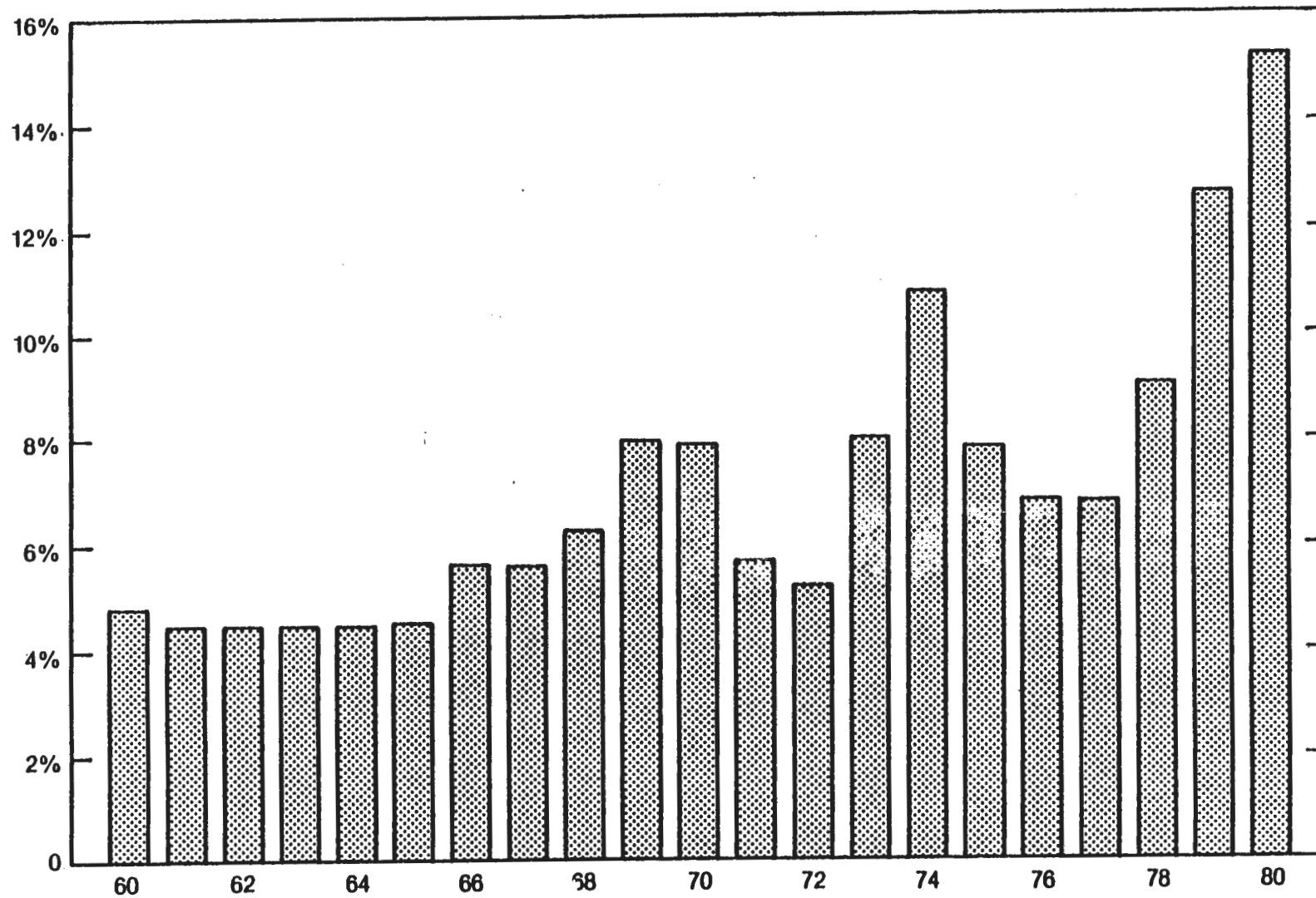
Percent (yearly)



Note — New-home mortgage rate is the effective rate on conventional mortgages paid by homebuyers.
Source: Federal Home Loan Bank Board

CHART 15

PRIME INTEREST RATE

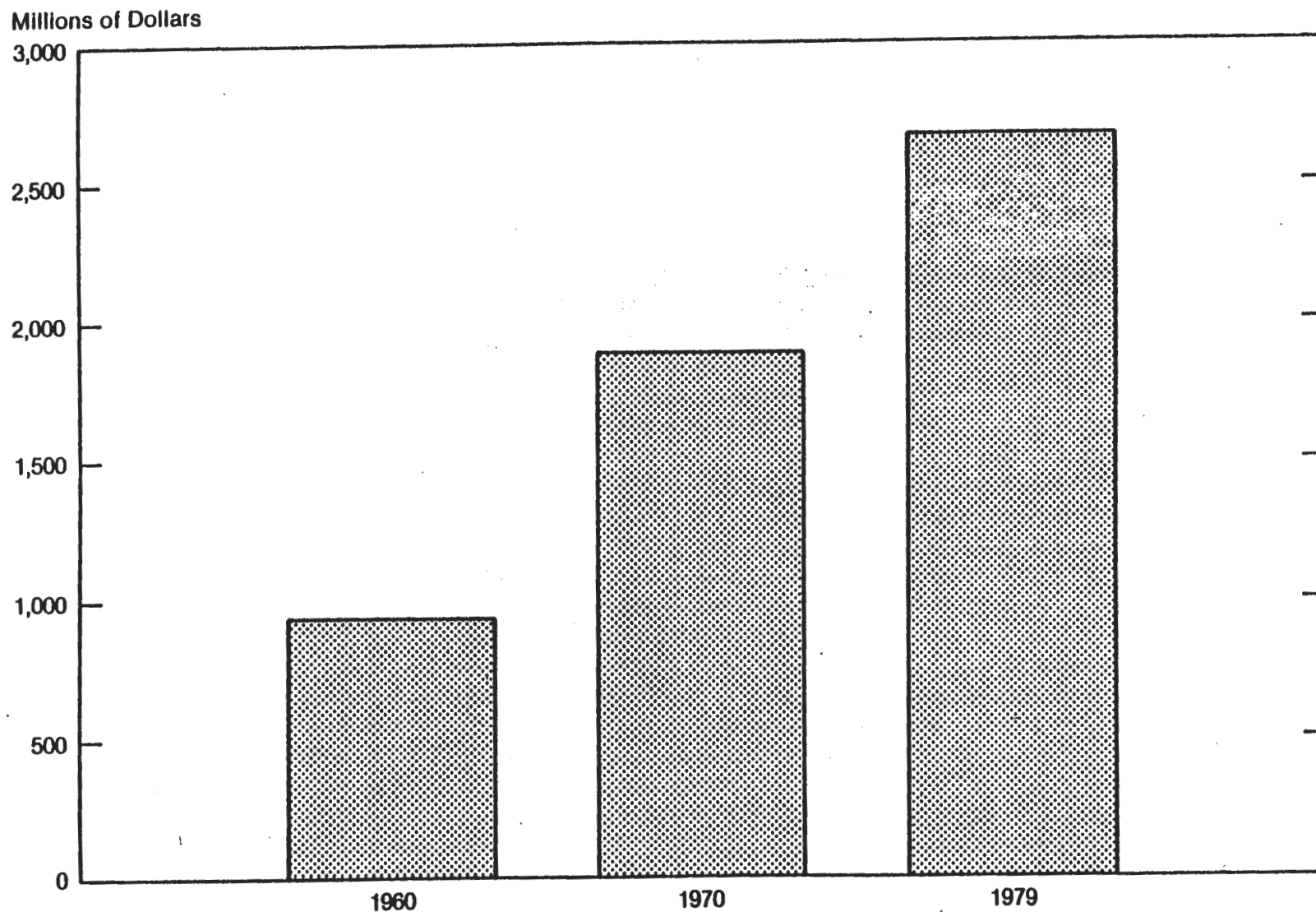


Note — The prime rate is the rate banks charge their most creditworthy business customers on short-term loans.

Source: Federal Reserve.

CHART 16

THE GROWING MAGNITUDE OF BUSINESS FAILURES



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

Source: Dun & Bradstreet, Inc.

Family and Personal Hardship

Cold statistics on inflation, taxes, or even unemployment do not adequately describe the hardship and deprivation that an inflation-racked, stagnant economy has brought to so many of our fellow citizens.

The traditional American dream has been for a family to move up the economic ladder by obtaining a good job, increasing real income, saving for the future, and seeing children provided with new and better opportunities than their parents had received. But the effects of past ill-conceived government economic policies have nearly destroyed that dream for rising numbers of our fellow citizens.

Persistent, double-digit inflation is destroying the value of savings and ruining retirement plans.

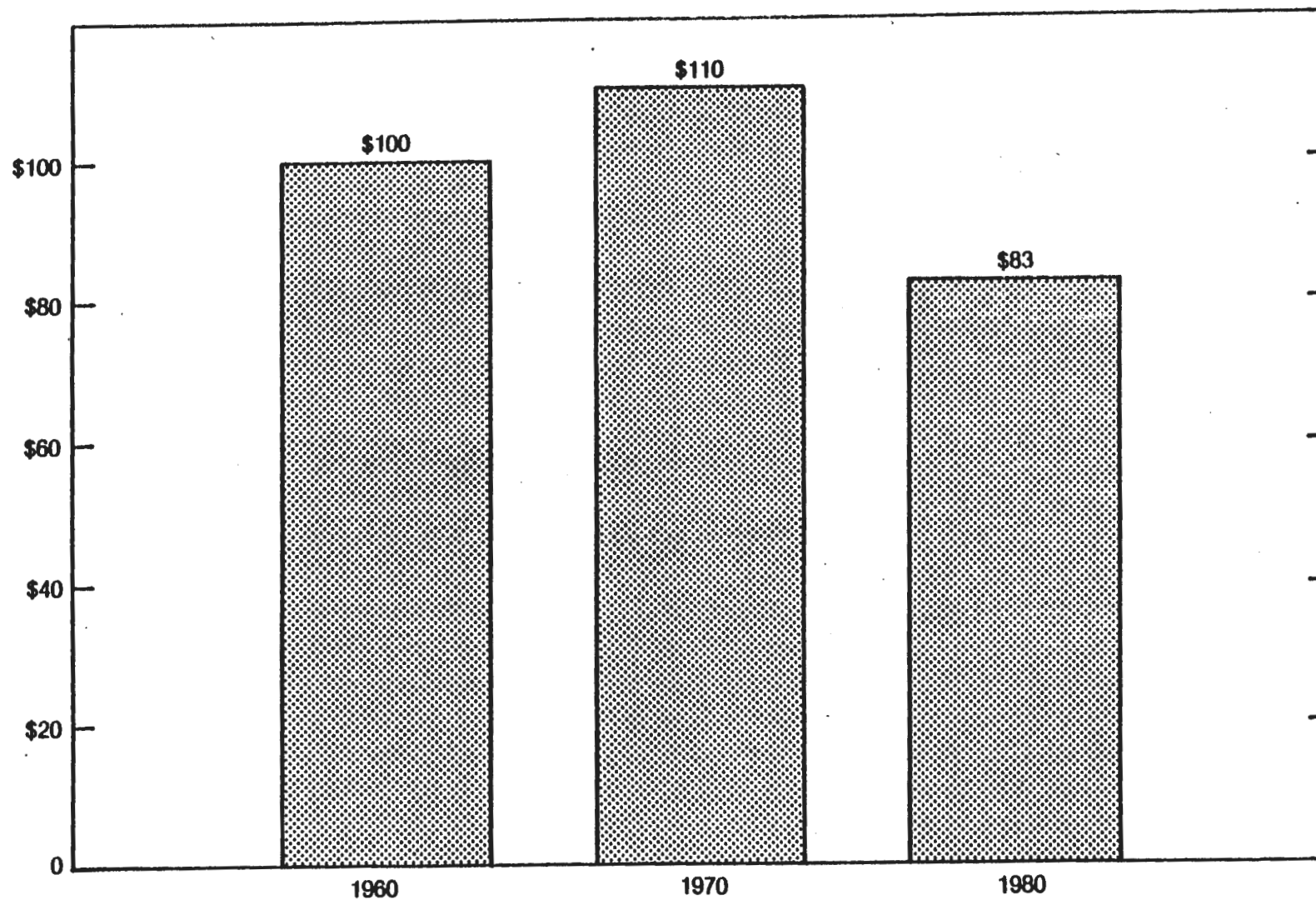
note { The average weekly take-home pay of American workers has fallen from a high of \$122 in 1972 to \$105 in 1980 (in 1972 dollars).

Those who bear perhaps the greatest burden -- an incalculable, personal one -- are those who wish to work but either are not able to find a job, or have lost the job they had.

The unemployment rate for all workers is now nearly twice the rate of 1968. The unemployment rate for minority workers is substantially higher -- and also nearly double that in 1968. And since the mid-1970's the unemployment rate has persisted at levels seldom reached in the post-war years.

Nor do these unreasonably high rates reflect neglect by the government. Federal spending has skyrocketed over the same period, with much of it targeted toward our neediest citizens.

THE FALLING BUYING POWER OF SAVINGS
(Value of a \$100 "Savings" Deposit Made in 1960, in 1960 Dollars)

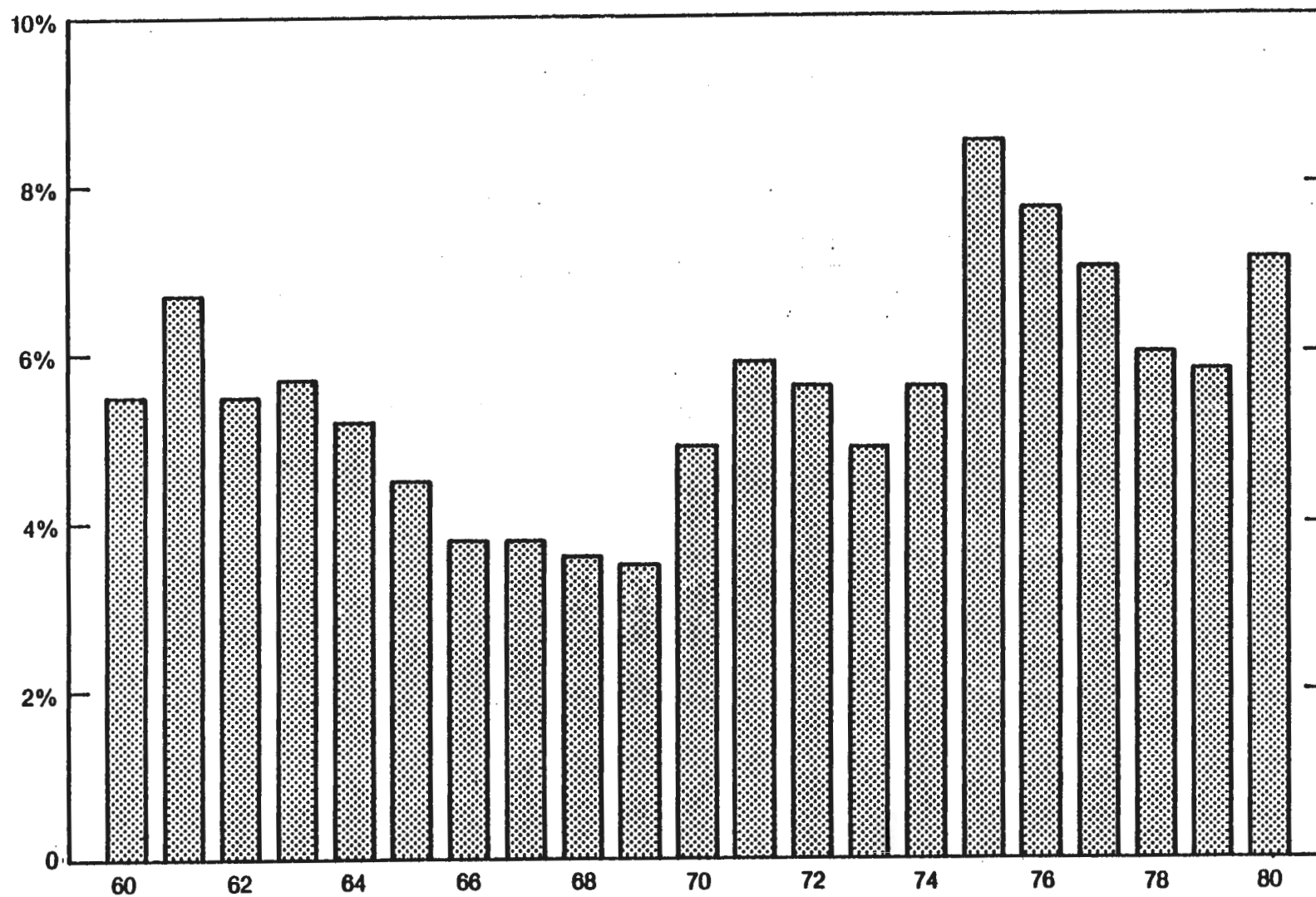


Note — End of year figures. Savings deposit shown here is at a commercial bank, earning interest at the highest rate allowed by law and compounded daily. Buying power is based on consumer price index.

Sources: Federal Reserve and Department of Labor.

CHART 18

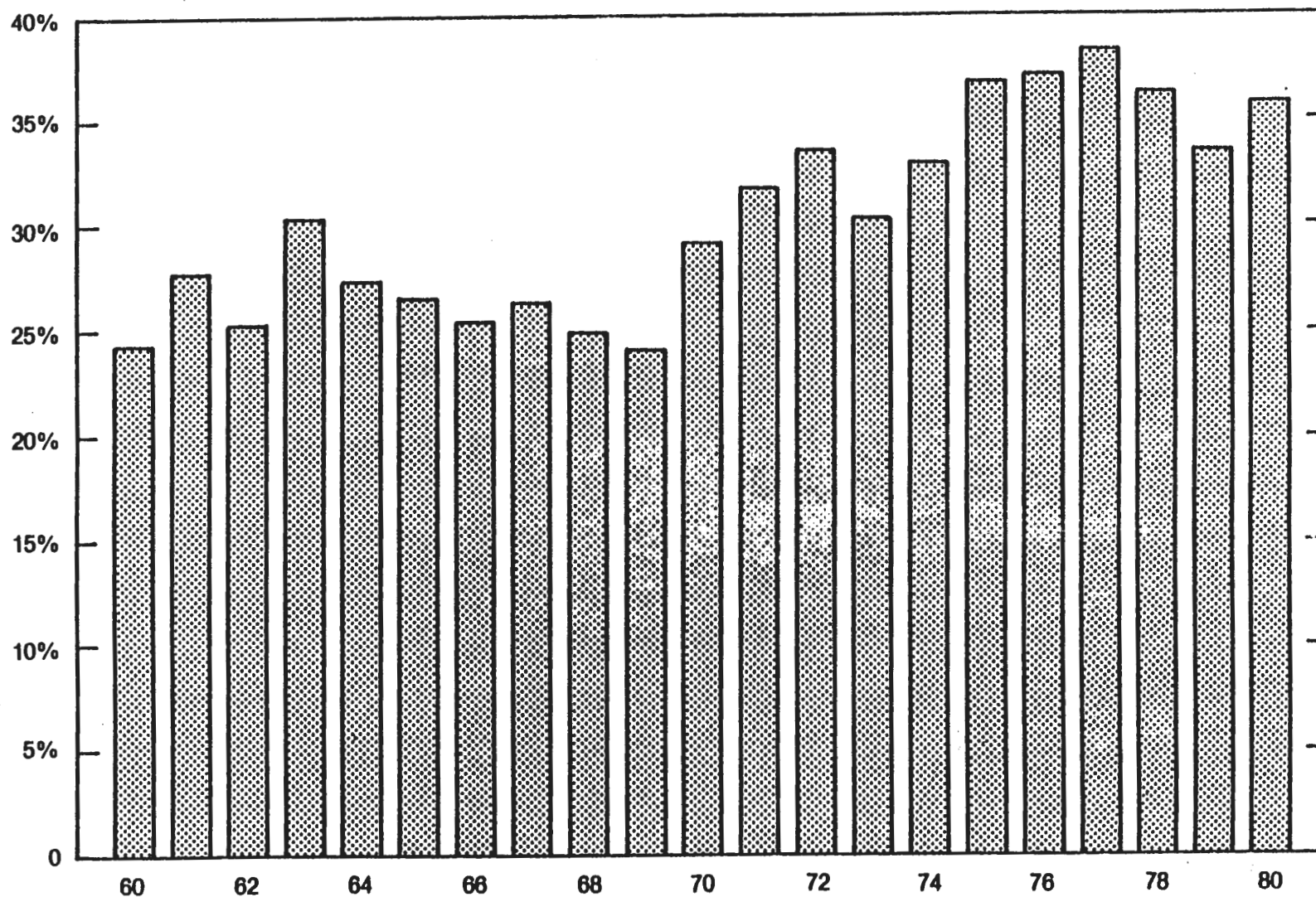
UNEMPLOYMENT RATE - ALL WORKERS



Note — Unemployment rate for persons 16 years of age and over.
Source: Department of Labor.

CHART 19

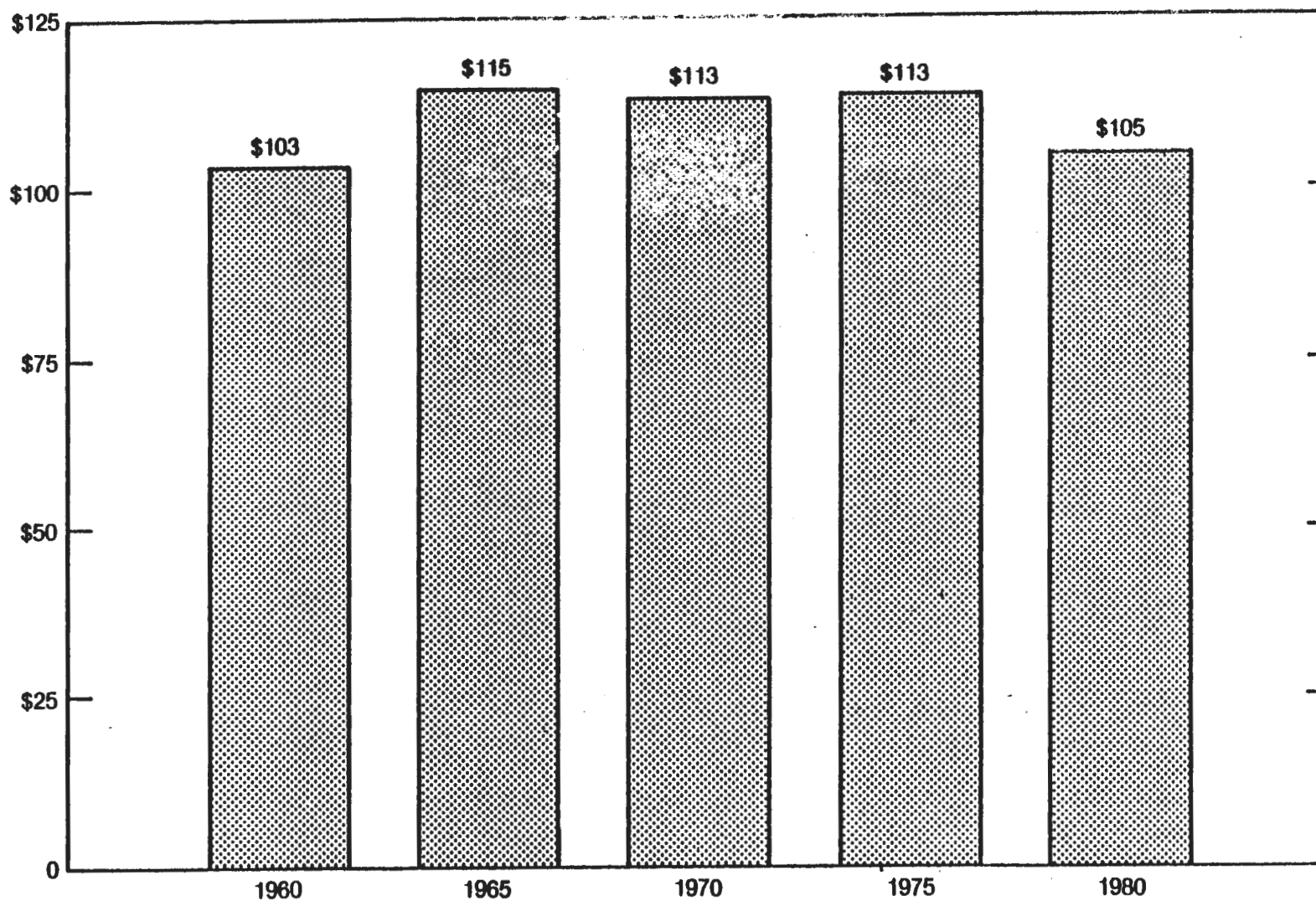
THE HIGH UNEMPLOYMENT RATE FOR MINORITY TEENAGERS



Note— Unemployment rate for black and other minority persons 16-19 years of age.
Source: Department of Labor.

CHART 20

THE DECLINE IN REAL WEEKLY TAKE-HOME PAY (1972 Dollars)



Note— Real spendable earnings; i.e., average weekly earnings reduced by social security and Federal income taxes applicable to a married worker with 3 dependents, deflated by CPI for urban wage and clerical workers. This measure does not adjust for changes in the average hours worked per week of full-time and part-time workers.

Source: Department of Labor.

Conclusion

Continuation of the policies of the past will not only make our economic future worse; it will make it dramatically worse. The economy's various difficulties are all interrelated. Any attempt to solve one of these problems -- such as inflation -- without taking into account the others -- such as unemployment -- is foredoomed to failure. In fact, the stop-and-go economic policies of the past have been a major contributor to economic instability. Only a comprehensive solution, aimed at the entire range of economic ills now facing the United States, has any prospect of success.

The failure to enact profound -- even drastic -- changes in Federal economic policies will leave one or more sectors of the economy to deteriorate. The effects of that deterioration will spread to other sectors as well. Much as current high interest rates are slowing the incipient recovery, significant economic ills left unremedied -- whether they be inflation, unemployment, or the increasing burden of taxes -- will deter a general improvement in the economy.

The time for symbolism in economic policy is over. Slight changes in current policies will at best produce slight results. The prescription must be a swift and dramatic change in direction -- toward reliance on the creativity of individuals and the free exchange of the market place as the primary overriding source of our Nation's wealth and progress.

THE WHITE HOUSE

WASHINGTON

February 17, 1981

MEMORANDUM FOR:

The Vice President
Secretary Regan
Ed Meese
Dave Stockman
Jim Baker
Mike Deaver
Murray Weidenbaum
Marty Anderson
Jim Brady
Dave Gergen
Ed Harper
Dick Darman

FROM:

Kenneth L. Khachigian 

SUBJECT:

President's Address to the Joint Session

Herewith a clean copy of the President's draft for tomorrow night. We now consider this to be final copy except for factual changes, new data, and substantive policy changes. It is especially important that the fact-checking go forward with dispatch. My researchers will be in contact with relevant offices to expedite the fact-checking.

Can you please have back to me by 4:00 p.m. today any critical text or policy changes that must be made -- they will have to be taken up with the President. My goal is to put this to bed tonight so we can go to a reading copy first thing in the morning.

February 17, 1981
Second Draft

Mr. Speaker, Mr. President, Distinguished Members of *the* X
Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the "last, best hope of *earth* ~~man~~." X

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. *(All*
K. K. Stet. ~~across this land one can see newly-built homes standing~~
~~vacant, unsold because of mortgage interest rates.~~ *)* *Percentage not that much higher than years past*

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, and all who work are frustrated by ~~their inability to keep up~~ *the difficulty of keeping* X

One worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of an American worker in 1972 was \$122 a week. If we figure his take home

new numbers

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pay last year in those same 1972 dollars, he only received \$105. And inflation isn't the only cause of this. In the last four years Federal personal taxes for the average family increased by ~~28~~⁶⁰ percent.

We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse.

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only ~~three~~^{four} inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills ~~45~~⁶³ miles high.

The interest on our debt this year will be ~~\$80~~^{almost \$80} billion. And unless we change the proposed spending for the fiscal year beginning October 1st we'll add another almost \$80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that ~~add~~^{are estimated to} \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, once ~~the~~^{one of} the highest in the world, is ~~among the lowest~~^{Productivity has} of all major industrial nations. Indeed, ~~it~~^{three years} actually declined last year.

}

333 feet would make you a trillionaire

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{

X
confused
one is interest on debt
other is deficit
X

Productivity has declined three years
in

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

EA can't substantiate
13 If enacted in full, our program can help America create ~~12~~ million new jobs, ^{only} three million more than we would without these measures. It will also help us gain control of inflation, cutting it in half by 1981 ~~and to less than five percent by 1986.~~ *X*

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

by I am asking that you join me in reducing ~~the proposed~~ ^{direct federal expenditures} budget for 1982 by \$41.4 billion. ^{in FY 1982 along w/ 7.7 billion in user fee and off-} This will still allow an increase of \$40.8 billion over 1981 spending. ^{budget X savings for a X total X}

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight. ^{of 1982, 1 will}

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

? (The full retirement benefits of the more than ³⁵ ~~21~~ million ^{al} ~~Society~~ Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions. ^X ^X

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs. ^{probable cut} There will be about \$3.6 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students. ^X ₇

Stechman may need to cut.

All in all, ^{nearly} ~~more than~~ \$216 billion in some 20 programs -- providing help for tens of millions of Americans -- will be maintained at the present growth level. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

Historically the American people have supported by voluntary contributions ^{at such levels that are in} ~~more~~ artistic and cultural activities ~~than all the~~ ^{the envy of the entire world.} other countries in the world put together.) I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of \$⁸⁵~~128~~ million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the ^{Department of Energy's} synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can ^{at least} save \$2.7 billion by leaving to

private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

[And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent and not more than 5 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- of course, are paying that high interest rate and it just makes all other interest rates higher.]

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

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confirms
figures
by OMB
date

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save ~~\$2.6~~ ^{\$1.8} billion ^{in 1982} by removing from eligibility those who are not in real need or who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion. X X

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save ~~\$611~~ ⁵¹⁹ million next year. X

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be \$1.6 billion ^{in FY 1982}. X

Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. And yet, because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are ~~laid~~ ^{laid} off due to domestic competition. Anyone must X

agree that this is unfair. Putting these two programs on the same footing will save \$1.15 billion *in FY 1982*.

Earlier I made mention of changing categorical grants to States and local governments into block grants. We know of course that categorical grant programs burden local and State governments with a mass of Federal regulations and Federal paperwork.

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and State government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save ^{\$23.9} ~~(\$1.15)~~ billion over the next five years.

Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year.

*not confirmed
very omi
as yet*

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million to press the Postal Service into becoming more effective.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan and prior to decontrol it ran the oil price control program. With these regulations gone we can save [several hundreds of millions of dollars over the next few years.] *not substantiated*

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance.

I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery ~~systems~~ ^{capabilities}, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Stop X

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs. These measures will save \$2.9 billion in 1982 and ^{outlay,} ~~and~~ ^{in outlay} \$7.5 billion by 1986. The aim will be to provide the most effective defense for the lowest possible cost.

486 + 7000
28.2 billion
in 1982
28.2 billion
in 1986

X
X

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Let me say a word here about the general problem of waste and fraud in the Federal Government. The Department

of Justice has estimated that fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud, and we are planning to appoint as inspector generals highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but the explosion of the Federal deficit since last September has ruled that out. We also learned that making it retroactive would work a hardship on States where the State income tax is tied to the Federal tax. Their budgets, already in place, would be thrown out of balance.

Therefore, the effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction, ^{in marginal rates} while it will leave the taxpayers with \$500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Strong
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3. Hard
to defend
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top - no
tax cut
w/ deficit

Some will argue, I know, that ^{reducing} (a reduced) ^{now} tax rate, will be inflationary. A solid body of economic experts does not agree. [And certainly tax cuts adopted over the past three-fourths of a century indicate the economic experts are right.) The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be ~~\$400~~ ³⁰⁰ billion higher than it is today. The average worker's wage will rise (in real purchasing power) by 8 percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

CE A
suggestion

X
X

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a five-year write-off for machinery; three years for vehicles and trucks; and a ten-year write-off for plant.

fiscal
In ~~calendar~~ year 1982 under this plan business would
acquire ^{really} \$10 billion for investment and by 1985 the figure
would be ^{nearly} \$45 billion. These changes are essential to provide
the new investment which is needed to create three million
new jobs between now and 1986 and to make America
competetive once again in world markets. These are not
makework jobs, they are jobs for the future. *X*

I'm well aware that there are many other desirable tax
changes such as indexing the income tax brackets to protect
taxpayers against inflation. There is the unjust discrimina-
tion against married couples if both are working and earning,
tuition tax credits, the unfairness of the inheritance tax
especially to the family-owned farm and the family-owned
business and a number of others. But our program for economic
recovery is so urgently needed to begin to bring down inflation
that I would ask you to act on this plan first and with
great urgency. Then I pledge to you I will join with you in
seeking these additional tax changes at an early date.

American society experienced a virtual explosion in
government regulation during the past decade. Between 1970
and 1979, expenditures for the major regulatory agencies
quadrupled, the number of pages published annually in the
Federal Register nearly tripled, and the number of pages in
the Code of Federal Regulations ~~nearly doubled~~. *X*

*has increased by nearly
two-thirds.*

The result has been higher prices, ~~less~~ ^{higher unemployment} employment, and lower productivity ~~growth~~. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

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The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply.

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only ~~10~~⁸ percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that ~~10~~⁸ percent will amount to very little of the total cost of education. It will, however, restore more authority to States and local school districts.

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X

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

In the ~~months~~ ^{year} left in this fiscal year we can reduce the budget by \$ ~~4.4~~ billion and in ^{fiscal year} 1982 by \$ ~~4.1~~ billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will put an end to inflation.

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an

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economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation ^{and a growing tax burden} will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

February 17, 1981

Second Draft

Thanks

2:15 PM

TREASURY

Mr. Speaker, Mr. President, Distinguished Members of Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the "last, best hope of man."

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent ^{for businesses} and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

Almost ^{no} eight million Americans are out of work. These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of an American worker in 1972 was \$122, ~~a week~~. If we figure his take home

NOTE: TREASURY STRONGLY OPPOSES "RECOVERY" AND FAVORS "EXPANSION" "VITALIZATION". "GROWTH", ETC.

June 9
CPI. Not on
GNP inflation
which rose at
double digit
rate in 1946
and 1947.

7.4 million
close to
7 pm 8.

pay last year in those same 1972 dollars, he only received \$105. And inflation isn't the only cause of this. In the last four years Federal personal taxes for the average family increased by 58 percent.

We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse.

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only ~~three~~ ^{four} inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills ~~1.5~~ ⁶³ miles high.

The interest on our debt this year will be \$86 billion. And unless we change the proposed spending for the fiscal year beginning October 1st we'll add another almost \$80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that adds \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, once the highest in the world, is now among the lowest of all major industrial nations. Indeed, it actually declined last year.

Not checked
Tax started
do

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, our program can help America create 12 million new jobs, three million more than we would without these measures. It will also help us gain control of inflation, cutting it in half by 1984, and to less than five percent by 1986.

50% is
GNP
DEFLATOR
NOT CPI!
It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

I am asking that you join me in reducing the proposed budget for 1982 by \$___ billion. This will still allow an increase of \$___ billion over 1981 spending.

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million ~~Society~~ ^{Social} Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs. probable cut /There will be about \$3.5 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.7

*ie will be allowed
to grow at recent rates?*

? All in all, more than \$216 billion in some 20 programs -- providing help for tens of millions of Americans -- will be maintained at the present growth level. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

Historically the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of \$128 million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save \$_____ billion by leaving to

private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent and not more than 5 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- of course, are paying that high interest rate and it just makes all other interest rates higher.

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save \$2.6 billion by removing from eligibility those who are not in real need or who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save \$671 million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be \$1.2 billion.

Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. And yet, because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are layed off due to domestic competition. Anyone must

agree that this is unfair. Putting these two programs on the same footing will save \$1.15 billion.

Earlier I made mention of changing categorical grants to States and local governments into block grants. We know of course that categorical grant programs burden local and State governments with a mass of Federal regulations and Federal paperwork.

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and State government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save ~~\$~~5 billion over the next five years.

Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million to press the Postal Service into becoming more effective.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan and prior to decontrol it ran the oil price control program. With these regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance.

I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs. These measures will save \$___ billion in 1982 and \$___ billion by 198_. The aim will be to provide the most effective defense for the lowest possible cost.

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Let me say a word here about the general problem of waste and fraud in the Federal Government. The Department

of Justice has estimated that fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud, and we are planning to appoint as inspector generals highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

*Recovery from what?
Focus is too short term -- just
like Carter.*

Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but the explosion of the Federal deficit since last September has ruled that out. We also learned that making it retroactive would work a hardship on States where the State income tax is tied to the Federal tax. Their budgets, already in place, would be thrown out of balance.

Therefore, the effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction *in marginal* ~~which it~~ will leave the taxpayers with \$500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that a reduced tax rate will be inflationary. A solid body of economic experts does not agree. And certainly tax cuts adopted over the past three-fourths of a century indicate the economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be \$400 billion higher than it is today. ~~The average worker's wage will rise (in real purchasing power) by percent and those are after-tax dollars~~ [ST & T] This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

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NO -
PEOPLE
THINK IN
NOMINAL
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2629	3163	+ 21.3	+ 5.1

\$72
+ 50

Can't
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from?

In calendar year 1982 under this plan business would acquire \$10 billion for investment and by 1985 the figure would be \$45 billion. These changes are essential to provide the new investment which is needed to create three million new jobs between now and 1986 and to make America competitive once again in world markets. These are not ~~government~~ ^{Real work in the private sector} makework jobs, they are ^{taxpaying} jobs ~~for the future.~~ ^{sector.}

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American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations nearly doubled.

The result has been higher prices, less employment, and lower productivity. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

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I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

Vague - to what does it refer?

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We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

FADOM?
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Can we do the job? The answer is yes. But we must begin now. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

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The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

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In the months left in this fiscal year we can reduce the budget by \$___ billion and in 1982 by \$___ billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus *and a consistent policy of slow and steady monetary growth* the reduction in tax rates *^* will put an end to inflation.

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an

economic ^{Expansion!} ~~recovery~~? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation ^{and a growing tax burden} will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic ~~recovery~~ ^{expansion}, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

THE WHITE HOUSE
WASHINGTON

February 17, 1981

MEMORANDUM FOR:

The Vice President
Secretary Regan
Ed Meese
Dave Stockman
Jim Baker
Mike Deaver
Murray Weidenbaum
Marty Anderson
Jim Brady
~~✓~~ Dave Gergen
Ed Harper
Dick Darman

FROM:

Kenneth L. Khachigian 

SUBJECT:

President's Address to the Joint Session

Herewith a clean copy of the President's draft for tomorrow night. We now consider this to be final copy except for factual changes, new data, and substantive policy changes. It is especially important that the fact-checking go forward with dispatch. My researchers will be in contact with relevant offices to expedite the fact-checking.

Can you please have back to me by 4:00 p.m. today any critical text or policy changes that must be made -- they will have to be taken up with the President. My goal is to put this to bed tonight so we can go to a reading copy first thing in the morning.

Ken —
A few thoughts. Speech flows
even better now & is very successful.
A great job -- again.

Dave S 2/17/81

February 17, 1981
Second Draft

Mr. Speaker, Mr. President, Distinguished Members of Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the "last, best hope of man."

KK - This
is
the
actual
line?

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of an American worker in 1972 was \$122 a week. If we figure his take home

pay last year in those same 1972 dollars, he only received \$105. And inflation isn't the only cause of this. In the last four years Federal personal taxes for the average family increased by 58 percent.

We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse. — Conceivably much ~~worse~~ worse.

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only three inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills 45 miles high.

The interest on our debt this year will be \$86 billion. And unless we change the proposed spending for the fiscal year beginning October 1st we'll add another almost \$80 billion to the debt ^{itself}.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that adds \$100 billion ^{a year} to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, once the highest in the world, is now among the lowest of all major industrial nations. Indeed, it actually declined last year.

Note: Fact
sheet on
upman says
"net
interest" is
\$64 Billion.

x

x

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am *tonight* proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency. *This program is rooted in one very simple truth: only if our government grows less can our economy grow more.*

If enacted in full, our program can help America create 12 million new jobs, three million more than we would without these measures. It will also help us gain control of inflation, cutting it in half by 198_, and to less than five percent by 1986.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

For the coming year -- fiscal year 1982 -- I am asking that you join me in achieving a total savings of \$49 billion -- \$41 of that in on-budget savings, ~~over~~ over budget for 1982 by \$ billion. This will still allow an \$5 billion in off-budget savings, and another \$2 billion ~~in~~ through increase of \$ billion over 1981 spending.

increased user charges. This is a large cut -- larger than we have

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

(OVER)

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million Society Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

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Note: Fact sheet emphasizes cuts in CETA

for
~~from~~ preceding page

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All in all, more than \$216 billion in some 20 programs -- providing help for tens of millions of Americans -- will be maintained at the present growth level. ^{TP} But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

^{through their voluntary contributions}
Historically the American people have supported ~~by voluntary contributions~~ more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of \$128 million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save \$_____ billion by leaving to

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And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent and not more than 5 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those

loaning the way extra
In this time of excessive interest rates the government finds itself ~~paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- to lose money. And all the while, of course, the of course, are paying that high interest rate and it just makes all other interest rates higher.~~ *borrowing money at one window for high interest and then the same money out at another window for low interest -- a sure fire* *everybody else.*

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

let me talk about some other changes I think should be made.

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save \$2.6 billion by removing from eligibility those who are not in real need or who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

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~~Let me just touch on a few~~ other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. And yet, because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are layed off due to domestic competition. Anyone must

agree that this is unfair. Putting these two programs on the same footing will save \$1.15 billion.

Earlier I made mention of changing categorical grants to States and local governments into block grants. We know of course that categorical grant programs burden local and State governments with a mass of Federal regulations and Federal paperwork.

x Ineffective targeting, wasteful administrative overhead -- *needless duplication*
all can be eliminated by shifting the resources and decision-making authority to local and State government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save \$5 billion over the next five years.

Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million to press the Postal Service into becoming more effective.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan and prior to decontrol it ran the oil price control program. With these regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up

with a number of cuts which reduced the budget increase needed to restore our military balance -- cuts f

\$ — in 1982 and \$ — by 1984.

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I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. ~~Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs. These measures will save \$ ___ billion in 1982 and \$ ___ billion by 198_.~~ *Our aim is* The aim will be to provide the most effective defense for the lowest possible cost.

redundant + weak flow

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic, balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

✓

Let me say a word here about the general problem of waste and fraud in the Federal Government. The Department

Note: these
is fraud in
non-social programs
too.

of Justice has estimated that fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs^{alone.} If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

are they? Has anyone signed off on this?
The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud, and we are planning to appoint as inspector generals highly-trained professionals who will spare no effort to do this job.

How about
saying
"We are
now
putting...
etc."

No administration can promise to ^{an immediate} ~~immediately~~ stop a trend that has grown in recent years as ^{so quickly} ~~quickly~~ as government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all ^{personal} ~~individual~~ ^{in States} ~~income~~ taxpayers, making a total ~~tax~~ cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but the explosion of the Federal deficit since last September has ruled that out. We also learned that making it retroactive would work a hardship on States where the State income tax is tied to the Federal tax. Their budgets, already in place, would be thrown out of balance.

Therefore, the effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction, while it will leave the taxpayers with \$500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that a reduced tax rate will be inflationary. A solid body of economic experts does not agree. And certainly tax cuts adopted over the past three-fourths of a century indicate ^{these} ~~the~~ economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be \$400 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by _____ percent and those are after-tax dollars. This, of course, is predicated on ^{by your passage enactment of} our complete program of tax cuts and spending reductions being implemented.

Not all econ. experts are right - that's for sure

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a five-year write-off for machinery; three years for vehicles and trucks; and a ten-year write-off for plant.

Can we keep the 10-5-3 order in this sentence?

In calendar year 1982 under this plan business would acquire \$10 billion for investment and by 1985 the figure would be \$45 billion. These changes are essential to provide the new investment which is needed to create three million new jobs between now and 1986 and to make America competitive once again in world markets. These are not makework jobs, they are jobs for the future.

x I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family-owned farm and the family-owned business and a number of others. But our program for economic recovery is so urgently needed ~~to begin~~ to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations nearly doubled.

The result has been higher prices, less employment, and lower productivity. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply.

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

ford line
←

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only 10 percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that 10 percent will amount to very little of the total cost of education. It will, however, restore more authority to States and local school districts.

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

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These last pages are really excellent.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

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Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

four

In the months left in this fiscal year we can reduce the budget by \$___ billion and in 1982 by \$___ billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will put an end to inflation.

by
mortgage
interest
deduction
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one building
charitable
contribution
deduction,
etc.

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning?

an

x

~~economic recovery~~? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, ^{— —} a program that will balance the budget, put us well on the road ^{toward} ~~to our ultimate objective of~~ eliminating inflation entirely, ^{that will increase} ~~increasing~~ productivity and ^{will} ~~creating~~ millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

Jim Burnham
Called with the
following language
Change —

(see attached)

K

Mr. Speaker, Mr. President, Distinguished Members of Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the "last, best hope of man."

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

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~~pay last year in those same 1972 dollars, he only received \$105. And inflation isn't the only cause of this. In the last four years Federal personal taxes for the average family increased by 50 percent.~~

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Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and State government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save \$5 billion over the next five years.

Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million to press the Postal Service into becoming more effective.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan and prior to decontrol it ran the oil price control program. With these regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance.

I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs. These measures will save \$___ billion in 1982 and \$___ billion by 198_. The aim will be to provide the most effective defense for the lowest possible cost.

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Let me say a word here about the general problem of waste and fraud in the Federal Government. The Department

of Justice has estimated that fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud, and we are planning to appoint as inspector generals highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but the explosion of the Federal deficit since last September has ruled that out. We also learned that making it retroactive would work a hardship on States where the State income tax is tied to the Federal tax. Their budgets, already in place, would be thrown out of balance.

Therefore, the effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction, while it will leave the taxpayers with \$500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that a reduced tax rate will be inflationary. A solid body of economic experts does not agree. And certainly tax cuts adopted over the past three-fourths of a century indicate the economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be \$400 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by _____ percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a five-year write-off for machinery; three years for vehicles and trucks; and a ten-year write-off for plant.

In calendar year 1982 under this plan business would acquire \$10 billion for investment and by 1985 the figure would be \$45 billion. These changes are essential to provide the new investment which is needed to create three million new jobs _____ now and 1986 and to make America competitive once again in world markets. These are not makework jobs, they are jobs for the future.

I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family-owned farm and the family-owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations nearly doubled.

The result has been higher prices, less employment, and lower productivity. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply.

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only 10 percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that 10 percent will amount to very little of the total cost of education. It will, however, restore more authority to States and local school districts.

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

In the months left in this fiscal year we can reduce the budget by \$___ billion and in 1982 by \$___ billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will put an end to inflation.

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an

economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

THE WHITE HOUSE
WASHINGTON

STAFFING MEMORANDUM

DATE: 2/16/81 ACTION/CONCURRENCE/COMMENT DUE BY: 12:45 TODAY
 SUBJECT: President's Speech (Camp David draft -- typed here at 11:00 a.m. 2/16)

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	JAMES	☐	☐
MEESE	☐	☒	MURPHY	☐	☐
BAKER	☐	☒	NOFZIGER	☒	☐
DEAVER	☐	☒	<u>WEIDENBAUM</u>	☒	☐
STOCKMAN	☒	☐	CANZERI	☐	☐
ALLEN	☒	☐	FULLER (<i>For Cabinet</i>) *	☒	☐
ANDERSON	☒	☐	HICKEY	☐	☐
BRADY	☒	☐	HODSOLL	☐	☐
DOLE	☒	☐	MC COY	☐	☐
FIELDING	☐	☐	THOMAS	☐	☐
FRIEDERSDORF	☒	☐	WILLIAMSON	☒	☐
GERGEN	☒	☐	VON DAMM	☐	☐
<u>HARPER</u>	☒	☐	<u>REGAN/MCNAMAR*</u>	☒	☐

Remarks:

Attached is the latest complete speech draft. Please provide comments/edits to me by 12:45. The President/Ken Khachigian will commence further revision in the early afternoon. I will get all comments to them by 1:00 p.m.

Richard G. Darman
Deputy Assistant to the President
and Staff Secretary
(x-2702)

Mr. Speaker, Mr. President, Distinguished Members of Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, "last, best hope of man."

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20% and over 15% for those who would borrow to buy a home. All across this land one can see newly built homes standing vacant, unsold because of mortgage interest rates.

Almost 8 million Americans are out of work. These are people who want to be productive. But as the weeks go by despair dominates their lives. The threat of layoff and unemployment hangs over other millions and all who work are frustrated by their inability to keep up with inflation.

One^e worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of American workers in 1972 was \$122 a week. If we figure their take home pay

pay last year in those same 1972 dollars they only received \$105. And inflation isn't the only cause of this. In the last 4 years Federal personal taxes for the average family increased by 58%.

Can we who man the ship of state deny it is out of control? Our National debt is \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only a few inches high would make you a million. A trillion dollars would be a stack of \$1,000 bills 60 miles high.

The interest on our debt this year will be \$86 billion. And unless we change the proposed spending for the fiscal year beginning October 1st we'll add another almost \$80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that adds \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, once the highest in the world, is now among the lowest of all industrial nations. ? Indeed, it actually declined last year.

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong

with our internal strengths. There has been ^{NO}~~NO~~ breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence and sometimes through a belief that we could finetune the economy and get a tune more to our liking, I am proposing a 4-part program. I will now outline and give in some detail the principal parts of this program but you will each be provided with a completely detailed copy of the program in its entirety.

The plan is aimed at reducing the rate of increase in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive. And encouraging a consistent monetary policy aimed at maintaining the value of our currency.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. It is a plan designed to get our economy moving again; to increase productivity and thus create the jobs our people must have.

I am asking that you join me in reducing the proposed budget for 1982 by \$_____ billion. This will still allow an increase of \$_____ billion over 1981 spending.

I know that exaggerated and inaccurate stories about the proposed cuts have disturbed many people, particularly ^{who must} ~~those~~ ^(government) dependent on grant and benefit programs for ~~these~~ ^{basics} ~~of life~~ ^{of life} livelihood. ^{job =} Some of you have heard from constituents afraid that Social Security checks for example might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderl^y, all those with true need, can rest assured that programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million Society Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs. There will be about \$3.5 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.

All in all, more than \$216 billion in some 20 programs are being maintained at the present growth level. But

government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save \$2.6 billion by removing from eligibility those who are not in real need and who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

Welfare will be tightened with more attention being given to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save \$671 million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by eliminating meals for families who can afford to pay, the savings will be \$1.2 billion.

Historically the American people have supported by voluntary contributions more artistic and cultural activities

than all the other countries in the world put together. I ~~whole~~ ^{whole}heartedly support this and believe Americans will continue to do this. Therefore, I am proposing a cut of \$128 million in the subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such is the synthetic fuels program. We will continue support of research leading to development of new technologies but we can save \$ _____ billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority be reduced by 33% in 1982. And this brings me to a number of other lending programs in which government makes low interest loans, some of them for an interest rate as low as 2% and not more than 5%. What has not been very well understood is that the Treasury Department has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers, of course, are paying that high interest rate. Government doesn't have any money of its own.

The Rural Electrification program came into being at a time when rural America was almost totally without electric power. ~~But the current program goes far beyond its original purposes. By limiting the availability of low-interest loans to remote rural areas and asking that~~ ^{other} ~~sense then. I believe the recipients today of R.E.A. loans~~ ^{with the backing of government guarantees,} will understand the fairness of switching to the private capital market and borrowing ~~at the commercial interest rate.~~ ^{we} ~~Doing this~~ will save the taxpayers \$2 billion in 1981 and '82 with ongoing savings of \$15 billion through 1985.

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

I mentioned the elimination of duplicating programs. This is true among the lending agencies. For example, the Farmers Home Administration is a duplicate of several other lending programs. By trimming its lending activities 25% we can remove the useless duplication in 1982 and save \$105 million.

Do we
want to
interpret
Zones?
other
sources
funds, e.g.
CDBA with
restrictions
removed?

part of developing industries with planning industries.

Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and lay off of workers. The purpose is to help these workers to find jobs in growing sectors of our economy. But these benefits are paid in addition to regular unemployment insurance which anyone must agree is unfair. Incidentally the Trade Adjustment payments have a higher ceiling than Unemployment Insurance. By putting both kinds of unemployment on the same footing, savings will amount to \$1.15 billion.

And yet, normal unemployment these benefits are paid out on top of

Another \$204 million can be saved by ending or reducing neighborhood housing programs which simply duplicate other such programs in the Department of Housing and Urban Development.

Earlier I made mention of changing categorical grants to states and local governments into block grants. We know of course that categorical grants fund programs mandated on local and state governments by the Federal Government accompanied by strict rules and regulations as to how the programs are to be implemented and of course with vast amounts of paperwork to comply with reporting procedures.

up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are layed off due to domestic competition. Anyone must agree that this is unfair. Putting these two programs on the same footing will save \$1.15 billion.

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and state government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save \$5 billion over the next five years.

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Too complex & wrong.

~~In the Department of Housing and Urban Development there is a loan guaranty ^{or} ~~that~~ program which encourages communities to, in effect, mortgage their block grants as security for repayment on loans to purchase and rehabilitate property. It also allows communities to exceed their own legal debt limits. We plan changes here that will save \$275 million in this coming year amounting to more than a billion through 1985.~~

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. Secretary

of Defense Weinberger came up with a number of cuts which reduced the amount of the addition we had to make in order to restore our military balance.

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Good!
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vehicles and trucks; and a _____ year write-off for plant.

Rental property would be depreciated over _____ years instead of the present _____ years.

In calendar year 1982 under this plan business would acquire \$10 billion for investment and by 1985 the figure would be \$45 billion. If one accepts \$50,000 as the investment necessary to create 1 new job \$45 billion could create 4½ million jobs.

I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family owned farm and the family owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you-I will join with you in seeking these additional tax changes at an early date.

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I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. My economic message will contain a list of over 100 additional regulations that we will be reviewing over the coming months. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

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A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only 10% of total educational funding.

For this the Federal government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that 10% will amount to very little of the total cost of education. It will, however, restore more authority to States and local schools districts.

The question is are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More importantly, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce."

For too long now we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must ^{not} be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

In the months left in this fiscal year we can reduce the budget by \$_____ billion. In 1982 by \$_____ billion without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates will put an end to inflation.

If we don't do this, inflation will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market. We have an alternative to that, a program for economic recovery. Reducing inflation from 12% just to 10 is equivalent to giving the average family of 4 \$_____ in cash. Cutting the present rate in half would be worth \$_____ to that average family. Wiping it out entirely should be our aim.

It will take time for the favorable effects of our proposal to be felt. So let us begin now.

The people are watching and waiting. They don't demand miracles but they do expect us to act. Let us act together.

Thank you and good night.