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2/14
Ken — You've done a remarkable job. My comments are offered for consideration during the process of fine tuning.
Craig Fuller

(Khachigian) 176 February 14, 1981

SPEECH MATERIALS: ADDRESS TO JOINT SESSION OF CONGRESS
February 18, 1981

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

One month ago, ~~I was~~ as your guest in this historic Capitol Building, ~~and~~ I pledged to you ~~my cooperation~~ I would strive to ~~in~~ do~~ing~~ what is right for this Nation we all love so much.

I return tonight ~~in that same spirit~~ to renew that pledge with a program designed to renew the American economy.

I have come ~~not to lecture you on your responsibilities, but~~ also to reach out my hand and to share with you the great promise that is within our reach if we ~~continue to~~ work together.

~~But~~ Let~~'~~ ~~us~~ first begin with the truth. I must repeat to you the situation that I regretfully outlined to the American people two weeks ago: We are burdened by~~, at this moment,~~ ~~in~~ the worst economic mess since the Great Depression.

All Americans ~~Our people~~ are suffering from a dangerously troubled economic system in need of urgent repair. ~~Here are the~~ The plain truth is that we have no choice but to take drastic and immediate action now to revive the economy. We have no choice

Consider the tragic dimensions of this crisis:

-- The Federal budget is out of control, and we face a total deficit of nearly $80 billion in the budget year ending this September 30th.

inflation 1st

-- We have suffered two years of back-to-back, double-digit inflation -- the first time this has happened in more than six decades. Its ~~ruinous effects eat at~~ heavy burden is felt by individual Americans as we as our cities, our states, ~~large~~ businesses and ~~as well as~~ small. Inflation eats at the very heart of our economy. ethnic groups

-- Seven million people are out of work. Despair dominates their lives. They yearn to be productive again.

-- Interest rates have reached absurd levels of more than 20 percent. Mortgages today are over 15 percent. New homes sit empty.

-- Our national debt is pushing against a level of one trillion dollars. This year alone our citizens will pay $86 billion in interest on that debt.

-- The average weekly take-home pay of American workers has fallen from a high of $122 in 1972 to $105 in 1980 (as measured in 1972 dollars). In the last four years, Federal personal taxes for the average family of four have increased by 58 percent.

-- Excessive regulation has acted as a drag on the productive capacity of American industry, and piled on some $100 billion in costs to our consumers.

-- American productivity, once the envy of the entire world, is now among the lowest of all industrial nations.

-- Government at every level has expanded in leaps, and not often enough with corresponding benefits to the people.

It is no longer a time to talk. It is, without question, a time to act. to renew America — we have no choice

Tonight, I will outline for you and the American people a new ~~framework for national economic policy~~ -- a beginning for an American economic renewal --

comprehensive package of proposals to restore the economic strength and vitality of the United States. I shall be submitting these proposals to the Congress over the next few weeks.

Though our current situation is grim, I assure you that we can act in hope. We can do so because 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. Instead, the cause of our failures is a series of false national economic policies:

-- That government in Washington could indefinitely satisfy our major social needs from the public treasury; that social problems could be solved by programs and regulations; and that all local and regional needs could be remedied in a distant capital.

-- That tax and transfer payments, designed to redistribute national income, would improve the lot of the less fortunate at no cost to the economic well-being of all Americans.

-- That more government spending and borrowing would stimulate demand, economic growth, jobs, and living standards without extracting a corresponding distortion within an essential private economy.

-- That the Federal Reserve System was obligated to "accommodate" excessive Federal spending and deficits by simply printing money to cover the massive borrowing demands of the U.S. Treasury.

-- That our rush toward a new agenda of environmental, safety, and health protection could be pursued full-throttle by the issuance of new regulatory mandates without reference to economic costs or the need to balance competing national goals.

These are the economic principles that have proven to be tragically erroneous. The new direction I present tonight represents a clean departure from these errors but still rests on a reaffirmation of our basic strengths. We seek to restore the sound principles of fiscal management, monetary policy, Federal-State relations, private sector incentive and efficiency, wealth creation for all, and limited government.

There are four components to our program, working together to raise us from our troubles.

First is a strong, new spending control~~s~~ effort aimed at reducing the rate of increase of Federal expenditures ~~drop reference~~ so that we can ~~aim at~~ (achieve our ultimate goal of) a balanced budget~~, by 1984~~.

Second is an incentive tax policy to lessen the tax burdens of every working American and to encourage new investments in plant and equipment for industrial expansion.

The third component is a regulatory reform program which will be designed to reduce the cost of unnecessary government regulations both to the Federal Government and State and local governments as well as to private business.

Finally, we will encourage a consistent monetary policy designed to provide a steady and responsible decline in the growth of our money supply over time.

Let us begin with spending controls.

My Budget Savings Plan calls on the government to do precisely what the American family must do -- live within its means. Because excessive government spending, with its massive deficits, is the principal cause of inflation, ~~then~~ gaining control of spending is the first step to slowing inflation.

The dangerous condition of our economy and the years and years of budget-breaking demand that we act boldly. This time our measures must be effective and not merely temporary.

Therefore, I ~~will~~ ask the Congress to join with me in cutting _____ billion out of the increase in the fiscal 1982 budget. So that we are not misunderstood: next year's budget will not be less than this year's budget. In fact, it will still be _____ percent larger than it is this year. ~~We will spend $ _____ billion more next year than this year.~~ And, it will continue to grow each year of my program. But instead of growing at a rate which feeds inflation, the budget will grow reasonably and sensibly -- expanding to meet the real needs of our society while cutting back to accomplish our goals.

This is unfortunately, a frequently misunderstood point about Federal spending. To help the ~~funds~~ needed, to accomplish important national goals, the federal government will spend more next year than it will spend this year. Remember that. In fact, think for a minute how much you would allow our federal budget to grow. My administration is proposing the most aggressive spending control program ever attempted. There is no choice. We must succeed — but, the budget will still grow by $20 billion dollars.... $20 Billion. Was that more than your figure? I urge you to remember this number — $20 Billion — when various interest groups accuse us of cutting to deeply. Remember ~~that~~ 20 Billion when your union, your association or your company suggests we should spend more, Before I outline some of the major cuts in the spending control program, it is important for the Congress and the American people to know the programs that we will not cut. I have seen exaggerated accounts of how these budget cuts will fall most heavily on those with the greatest need. That is not true. To suggest that would be irresponsible.

Ours is a humane and compassionate society. We ~~will~~ can continue to fulfill the obligations that spring from our national conscience. We ~~will not remove~~ can avoid removing the essential social safety net necessary for the existence of the elderly, our veterans, disadvantaged young people, and those who are poor for reasons they cannot control. Therefore, I have ordered a number of important programs exempted from cutbacks to insure we help those who truly need help. As I mention these programs, remember that these programs are protected only if our other spending controls are accepted. If special interests block our fair and equitable program it will jeopardize these programs which are needed most.

It is our plan to: -- ~~We will~~ guarantee the full retirement benefits of the more than 31 million recipients of social security. We will also continue their annual cost of living adjustments. Eliminating this cost of living adjustment would have saved $30 billion a year by 1983, but it would also have meant a 25 percent reduction in the standard of living for our elderly, many of whom already live on the edge of poverty and suffer disproportionately from government-caused inflation.

-- Medicare will not be cut.

-- Supplemental income for the blind, aged, and disabled will not be cut.

-- Funding for disabled veterans and for veterans' pensions will not be cut.

-- School breakfasts and lunches for the low income and low middle income children will not be cut.

-- Project Head Start and Summer Youth Jobs will not be cut.

-- Nutrition for the aging and other special services to the aging will not be cut.

-- Job training programs under CETA, about $3.5 billion of funding, will not be cut.

-- We will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.

In total, more than $216 billion in ~~safety net~~ benefits that serve as an economic safety net through ~~provided in~~ some 20 programs have been maintained at present growth levels in the budget I am proposing. As we debate these great issues in the weeks ahead, let us remember that the most deserving in our society will continue to receive the full and complete benefits they now enjoy~~.~~ if the spending control program I'm proposing stays intact.

At the same time, my fiscal reform plan asks that the more fortunate in our society and especially the more affluent accept their end of a bargain: the price, and it seems to me a fair one, f ~~In return for~~ lower taxes, lower inflation, higher living standards, and expanded economic opportunities, ~~it~~ will be ~~necessary to~~ the reduction or elimination of nonessential benefits. ~~provided to many better-off Americans~~.

~~Therefore, in making these essential cuts in the growth of spending levels, I have established eight general principles to guide us.~~

During these past several weeks, all of us in this administration have searched for ways to reduce the growth of spending. ~~with a sense of~~ I must tell you the more we learned, the more we realized that Americans have no choice — we must reduce spending. We looked for savings in — categories.

(1) Government support should go only to those in need; those who are not deserving should be removed from the programs.

(2) Government should not subsidize middle and upper income groups.

(3) Subsidies should not be given to particular business interests.

Stockman's new list

(4) Subsidies to regional and local government -- paid by national tax revenues -- should be reduced and limited to those cases of greatest need.

(5) Duplication should be eliminated from Federal programs.

(6) Categorical grant programs should be converted into block grants to cut overhead and eliminate waste.

(7) Programs whose benefits are not cost-effective should be reformed.

(8) We should terminate ineffective and counterproductive policies.

These are the basic principles which have guided us in reforming an out-of-control budget. Each principle in turn serves one overriding principle: we should help those who are deserving, and should not help those who are not deserving.

In the context of ~~these~~ basic principles, here are some of the major spending controls I will be submitting to the Congress:

First, because government support should go only to those in need, several changes will be made in the food stamp program. The food stamp program will be reformed to do what was originally intended -- and that is to assist those Americans without resources to purchase sufficient nutritious food for a minimal standard of living. No one truly depend~~ing~~ent on food stamps will be cut. Only those who have abused this program or who are less in need will be cut out. We will save $2.6 billion in this effort. But remember, ~~we~~ you and your fellow taxpayers will still be spending more than $10 billion on this next year -- more than adequate for essential needs.

We will tighten up the welfare program so as to take into consideration all sources of support and income for the recipients. We will impose stronger ~~and~~ more effective work requirements. This will save us $671 million next year.

Another example of serving only those in need is to cut school meals out for those students whose families can fully afford to pay for them, saving $1.2 billion.

Our second guiding principle is to get the government out of the business of subsidizing middle and upper income groups. The Corporation for Public Broadcasting, the National Endowment for the Arts, and the National Endowment for the Humanities are examples of programs which fill useful cultural roles in American society. And when the economy is returned to strength and stability we can restore some of their program funding for worthy projects.

-- by using Extremely scarce revenues.

In the meantime, it is clear that these programs are not designed to help those in great need, In fact, continued funding would only jeapordize those in great need. ~~and~~ Large subsidies to these programs ~~to them~~ are really substitutes for private and philanthropic support which I strongly encourage. We will save $128 million in cutting back these subsidies.

The third principle I have set down is to cut back subsidies to particular business interests. The synthetic fuels program is the perfect example of an unnecessary subsidy to large businesses. Our free marketplace has already developed incentives for businesses to build plants which make fuel from our abundant coal resources. It makes no sense for the taxpayers to give them billions of dollars to support those projects. My goal is to get energy decisions out of the political arena (and the bureaucracy) and into the free marketplace with its innovation which is where such judgements ~~they~~ belong. This will save the taxpayer _____ billion dollars. Still ~~Yet,~~ we will continue the useful support of research and ~~the~~ development aimed at ~~of synthetic fuel processes and research into~~ new technologies which promise to me our energy needs,

Another major business subsidy is the Export-Import Bank. I will ask Congress ~~you~~ to reduce the direct loan authority of the Bank by 33 percent in 1982. The primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them substantial, profitable corporations. It will be cut back.

Another principle is to reduce regional and local subsidies and limit them to areas of real need. We will try to cut back on these continuing regional special interests.

There was a time when Rural Electrification programs were essential to rural development, but now we can reduce the loans to this program and increase the interest rates for the loans which are still made. I think the recipients of REA loans will understand the fairness of this action because it simply puts them into the same position as all other Americans. These changes will save us more than $2 billion in 1981 and 1982 and some $15 billion through 1985.

is ~~Perhaps~~ one of ~~the greatest~~ examples of how we cannot make the people better off by taxing everyone and creating massive subsidy programs. ~~is~~ the Economic Development Administration. I am proposing that we terminate funding for it which would save nearly $300 billion in 1982 and more than $2 billion through 1985. ?

Today there is a lack of consistent and convincing evidence that the EDA and its Regional Commissions have been effective in creating new jobs. I am confident that by stimulating the economy ~~We will do better through the~~ economic expansion and job creation ~~which~~ will occur in the private sector without massive public expenditures. ~~come with my other economic measures~~. ~~In addition, this is one program which also~~ hugely benefits an army of planners, grantsmen, and other professional middlemen. I think we can do a better job while saving hundreds of millions of dollars.

Our next principle is to eliminate duplication. For example, the Farmers Home Administration duplicates several other Federal lending programs. I am asking that we trim 25 percent from the direct lending activities of this agency in order to remove this needless duplication. We can save $105 million in 1982.

We have also found even greater waste and duplication in the Trade Adjustment Assistance program. These benefits, intended to help our unemployed when increases in imports have taken their jobs, can now be received concurrently with unemployment benefits, and that's not fair. It also has a higher benefit ceiling than for unemployment insurance. These beneficiaries will simply be asked to be on the same footing as all other recipients of unemployment benefits, and we will save $1.15 billion this way.

We will save another $204 million by ending or reducing neighborhood housing programs which duplicate other such programs in the Department of Housing and Urban Development.

The sixth principle which we followed is to convert categorical grant programs into block grants which shift resources and decision-making authority to State and local governments. We can reduce spending by cutting administrative overhead and eliminate waste caused by ineffective targeting. We can consolidate programs which are now strewn throughout the Federal bureaucracy. States will be better able to plan and coordinate their own service programs and establish their own priorities. This brings government closer to the American people -- right where it belongs. We will save over $5 billion over the next five years by taking these steps.

Any program which is not cost-effective should be reformed. This is the next principle which guided our actions. This is especially necessary when we are faced with such difficult economic dislocations as we are today.

One such program is Medicaid. Right now, the Federal Government provides States with unlimited matching payments for their expenditures. This eliminates most incentives for the States to reduce the cost of the low-income insurance programs. We will place a cap on Federal contributions to gain more efficiency at the State level. And we will allow States more flexibility in managing and structuring their programs to promote more cost-effective reforms. We can save $1 billion in 1982 with these reforms.

You might want to strengthen since Space will be in the news due to Shuttle rocket firing on 2/18

While the space program has been important to America, we will ask for a reordering of NASA's priorities. We will make sure that our efforts in space will be aimed at helping those here on Earth. ~~to focus on the most important and cost-effective parts of its programs.~~ I believe We can save a quarter of a billion dollars in this fashion and still benefit from the important technological advancements we have enjoyed through the space program.

The U.S. Postal Service has been consistently unable to live within its operating budget and still depends on large Federal subsidies. I propose to reduce these subsidies to force the Postal Service to become more effective. These changes will save $632 billion next year.

Finally, our eighth principle is that we should simply terminate ineffective and counterproductive policies.

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 used to run the oil price control program, until I ordered the decontrol of oil. With these regulations gone, we can save several hundreds of millions of dollars in the coming years.

In the Department of Housing and Urban Development there is a loan guarantee 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 will save $275 million next year and more than a billion dollars through 1985.

These are only examples of _____ programs which can be cut, reformed, steamlined, and eliminated in order to save the American economy. We will work to return to standards of genuine need and ensure that original program intentions are met. Excesses and abuses must be stopped. We ~~can no~~ could never afford and we will no longer tolerate the squandering of billions and billions of taxpayer dollars in misdirected programs, many of ~~whose~~ which are continued ~~existence~~ ~~depends~~ simply by habit without stringent review.

Well, one thing we can do is to break our bad habits. We want to keep the programs which work. We'll fix the ones that need fixing. And the ones that don't work and we don't need -- let's just get rid of them.

Before I leave this discussion of spending controls, I want to mention briefly the one budget we will not be able to cut. National defense is the only area where I am obligated by my duties as President to recommend increases in spending in the coming years. The need for this effort is driven by the marked deterioration in the international climate and our failure in recent years to come to grips with our defense requirements.

Since 1970, the Soviet Union has invested $300 billion more in its military forces than we have. This prolonged period of Soviet investment has left them with a militarily significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery, and anti-aircraft defense. To allow this dangerous situation to persist will endanger the security of our Nation.

To restore the military balance after several years of neglect will require a major national effort. By making the financial sacrifice in the early years of this decade, we will avoid a far more costly "crash" program that will inevitably be necessary during the latter half of this decade. I have determined that the defense program I have proposed is the effort we must make if our security and the security of our allies as well as smaller nations is to be preserved.

Yet, the Department of Defense is not free of waste and inefficiency, either, and it will not be spared the obligation to make significant reductions over the coming years. I have directed that _____ billion dollars be cut from the five-year defense program I inherited when I took office. I expect to identify and terminate additional defense programs and operating practices which are inefficient or poorly managed, or contribute little to our defense posture. I intend to provide a defense program that provides the greatest effectiveness at the least possible cost.

The second integral component of this comprehensive economic plan is reform of our tax structure to make America productive again. It's time to create new jobs, build our industry, and give the American people room to do what they do best.

I am proposing a 10 percent across-the-board cut in the tax rates for all individual income taxpayers beginning July 1 with additional 10 percent installments in each of the next two years for a total of 30 percent in cuts.

This program is a departure from the past because it restores private incentives and awakens untapped reservoirs ~~new~~ ~~resources~~ of growth in our national economy. It rewards individual ~~work~~ effort, work savings, entrepreneurial activity, and technological and managerial innovation.

Due to these tax rate reductions during the next five years, $500 billion will be kept rather than paid over to the Treasury by tens of millions of American producers.

Unlike past programs, this does not merely shift wealth between classes of taxpayers, making some better off and some worse off. My proposal for equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

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

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

We are also proposing to reform business tax depreciation, retroactive to January 1, so that American industry will have the incentives to retool, expand, and create eight million new jobs between now and 1985.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. It forces business to replace worn-out plants and machinery at today's high prices from capital recovery allowances based on yesterday's low costs. My proposals will stop the liquidation of industry capital and start the flow of after-tax profits needed for revitalization. In calendar year 1982, additional funds available for investment would exceed $10 billion, growing to $45 billion in 1985.

Let's quit thinking that "profits" is a dirty word. This past year some of our best companies had no profits, and hundreds of thousands of people had no jobs. I think it's time we saw the relationship between the two.

Without my tax proposals, Federal taxes would just keep eating more and more of the people's income -- rising to a full 24 percent after 1985. By contrast, my plan would reduce the Federal tax rate on workers to ~~20 percent in 1982 and~~ 19 percent by 1985. Yet, because the economy would be rapidly growing, Federal revenues in that period would still expand by nearly $200 billion in that period, allowing us to take care of the programs that government needs to do.

I recognize that there are many other desirable changes in the tax laws such as indexing fixed dollar amounts, expanding Individual Retirement Accounts, correcting the marriage penalty and tuition tax credits, among others. But our revitalization plan is so urgently needed, that I am asking Congress to act on today's proposals first, and then

I pledge to work with you to achieve some of these goals ~~at an early date~~ in ~~the~~ future legislation.

The third component of our comprehensive plan is regulatory reform.

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.

For the most part, this torrent of regulation has ~~caused~~ contributed little except higher prices, less employment, and lower productivity. Higher costs borne by business are passed on to consumers. Overregulation causes entrepreneurs to defer or terminate plans for expansion.

We have no intention of dismantling the necessary regulatory agencies -- especially those ~~necessary~~ designed 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.

It ~~have~~ was important to move swiftly to deal with the problem. First, I asked the Vice President 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 ill-conceived "midnight" regulations issued during the last days of the previous Administration so that they can be evaluated on a more rational basis. 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 my Administration 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. I made regulatory reform a major commitment in the recent campaign, and I assure you I mean to keep that promise.

The fourth and final aspect of this comprehensive plan is that it requires a national monetary policy which does not allow the rates of 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 monetary base.

I fully recognize the independence of the Federal Reserve System. I will do nothing to undermine that independence. However, I plan to 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~~ my proposal ~~for rescuing the American~~ to America for economic renewal. ~~economy.~~ I do not want it to be simply ~~the~~ my 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~~ new beginning ~~to~~ toward national economic renewal. Our task is ~~not to make things easy; our task is to make things better.~~ one of the most challenging ever faced in our history -- is to rescue the American economic system -- a system that has rewarded the very best in people and given us all that we cherish.

Can we ~~do the job?~~ succeed? ~~The answer is yes.~~ We have no choice -- we must! ~~But~~ There ~~will~~ can be no waiting, because 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, and especially in the past few years.

We are in control here. and with the help of all Americans ~~There is nothing wrong with America that we can't fix.~~ We have discovered the problems and I firmly believe, with your help, we can apply the solutions. 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.

Over the next few weeks, these proposals will be presented in detail to the Congress, and under our Constitution a great national debate will begin. I encourage people across America to participate. ~~in this debate, and I hope they will be able to support these essential steps.~~ I think that when this program is considered carefully, most Americans will support it. Those adversly affected ~~will support~~ may well pause -- but I ask you to consider the alternatives. If you discover better ideas, share them. Please, though, recognize that more of the same cannot continue.

Experienced interest groups have spent years developing many of the programs I want to reduce.

~~However.~~ I've already seen indications that some narrow interests have a~~lread~~y determined that they will oppose many of the measures we are instituting to gain control of wild government spending. I ~~too~~ wish they would recognize, now that they can examine the entire package, that it is designed to improve the condition of all Americans.

The question is whether or not we are simply going to go down the same path that has been ~~done~~ traveled 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 of us~~ deserve. I think, instead, that the American people are ready to support leaders with the courage to do what needs to be done, what must be done to ~~be~~ begin a period of economic renewal. ~~are ready to return to the source of our strength~~.

In our economy we should remember the most fundamental principle of them all. The government does not create wealth, even with the best of policies. Tragically, though, by over spending, government has fostered inflation which strips people of their economic well-being. ~~Government is merely a servant and a steward.~~

~~The substance and prosperity of our Nation is built by~~ ~~the wages brought home from the factories and mills. They are the income produced by farmers who feed us and the world. They are the services provided in ten thousand corners of America. They are 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 the people the incentive to strive for more, while at the same time we've allowed inflation to erode what they have. ~~decisions on how to dispose of what they created.~~ We have strayed from first principles, and now we must alter our course. Return to basic principles. Bring spending, taxing and regulation under control and renew our national economy.

It is truly time for a new beginning -- a time for economic renewal.

I hope and pray you in Congress and the majority of Americans

Categories for spending recontrol:

1 maintain essen safetynet

2. revise entitlement unintended benefits

3. reduce middle grp benefit

4. user costs

5. sound criteria to subs

6. stretch or retarget

7. impose fiscal rest on non-priority nat'l programs

8. Consolidat cat prog

9. reduce overhead & personnel cost

(Khachigian) February 14, 1981

SPEECH MATERIALS: ADDRESS TO JOINT SESSION OF CONGRESS
February 18, 1981

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

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

I return tonight in that same spirit.

I have come not to lecture you on your responsibilities, but to reach out my hand and to share with you the great promise that is within our reach if we continue to work together.

But let us first begin with the truth. I must repeat to you the situation that I regretfully outlined to the American people two weeks ago: We are, at this moment, in the worst economic mess since the Great Depression.

Our people are suffering from a dangerously troubled economic system in need of urgent repair. Here are the tragic dimensions of this crisis:

-- The Federal budget is out of control, and we face a total deficit of nearly $80 billion in the budget year ending this September 30th.

-- We have suffered two years of back-to-back, double-digit inflation -- the first time this has happened in more than six decades. Its ruinous effects eat at the very heart of our economy.

-- Seven million people are out of work. Despair dominates their lives. They yearn to be productive again.

-- Interest rates have reached absurd levels of more than 20 percent. Mortgages today are over 15 percent. New homes sit empty.

-- Our national debt is pushing against a level of one trillion dollars. This year alone our citizens will pay $86 billion in interest on that debt.

-- The average weekly take-home pay of American workers has fallen from a high of $122 in 1972 to $105 in 1980 (as measured in 1972 dollars). In the last four years, Federal personal taxes for the average family of four have increased by 58 percent.

-- Excessive regulation has acted as a drag on the productive capacity of American industry, and piled on some $100 billion a year in costs to our consumers.

-- American productivity, once the envy of the entire world, is now among the lowest of all industrial nations.

-- Government at every level has expanded in leaps, and not often enough with corresponding benefits to the people.

It is no longer a time to talk. It is, without question, a time to act.

Tonight, I will outline for you and the American people a new framework for national economic policy -- a comprehensive package of proposals to restore the economic strength and vitality of the United States. I shall be submitting these proposals to the Congress over the next few weeks.

Though our current situation is grim, I assure you that we can act in hope. We can do so because 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. Instead, the cause of our failures is a series of false national economic policies:

-- That government in Washington could indefinitely satisfy our major social needs from the public treasury; that social problems could be solved by programs and regulations; and that all local and regional needs could be remedied in a distant capital.

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-- That more government spending and borrowing would stimulate demand, economic growth, jobs, and living standards without extracting a corresponding distortion within an essential private economy.

-- That the Federal Reserve System was obligated to "accommodate" excessive Federal spending and deficits by simply printing money to cover the massive borrowing demands of the U.S. Treasury.

-- That our rush toward a new agenda of environmental, safety, and health protection could be pursued full-throttle by the issuance of new regulatory mandates without reference to economic costs or the need to balance competing national goals.

These are the economic principles that have proven to be tragically erroneous. The new direction I present tonight represents a clean departure from these errors but still rests on a reaffirmation of our basic strengths. We seek to restore the sound principles of fiscal management, monetary policy, Federal-State relations, private sector incentive and efficiency, wealth creation for all, and limited government.

There are four components to our program, working together to raise us from our troubles.

First is strong, new spending controls aimed at reducing the rate of increase of Federal expenditures so that we can aim at a balanced budget by 1984.

Second is an incentive tax policy to lessen the tax burdens of every working American and to encourage new investments in plant and equipment for industrial expansion.

The third component is a regulatory reform program which will be designed to reduce the cost of unnecessary government regulations both to the Federal Government and State and local governments as well as to private business.

Finally, we will encourage a consistent monetary policy designed to provide a steady and responsible decline in the growth of our money supply over time.

Let us begin with spending controls.

My Budget Savings Plan calls on the government to do precisely what the American family must do -- live within its means. Because excessive government spending, with its massive deficits, is the principal cause of inflation, then gaining control of spending is the first step to slowing inflation.

The dangerous condition of our economy and the years and years of budget-breaking demand that we act boldly. This time our measures must be effective and not merely temporary.

Therefore, I will ask the Congress to join with me in cutting _____ billion out of the increase in the fiscal 1982 budget. So that we are not misunderstood: next year's budget will not be less than this year's budget. In fact, it will still be _____ percent larger than it is this year. We will spend $ _____ billion more next year than this year. And it will continue to grow each year of my program. But instead of growing at a rate which feeds inflation, the budget will grow reasonably and sensibly -- expanding to meet the real needs of our society while cutting back to accomplish our goals.

Before I outline some of the major cuts, it is important for the Congress and the American people to know the programs that we will not cut. I have seen exaggerated accounts of how these budget cuts will fall most heavily on those with the greatest need. That is not true. To suggest that would be irresponsible.

Ours is a humane and compassionate society. We will continue to fulfill the obligations that spring from our national conscience. We will not remove the essential social safety net necessary for the existence of the elderly, our veterans, disadvantaged young people, and those who are poor for reasons they cannot control. Therefore, I have ordered a number of important programs exempted from cutbacks.

-- We will guarantee the full retirement benefits of the more than 31 million recipients of social security. We will also continue their annual cost of living adjustments. Eliminating this cost of living adjustment would have saved $30 billion a year by 1983, but it would also have meant a 25 percent reduction in the standard of living for our elderly, many of whom already live on the edge of poverty and suffer disproportionately from government-caused inflation.

-- Medicare will not be cut.

-- Supplemental income for the blind, aged, and disabled will not be cut.

-- Funding for disabled veterans and for veterans' pensions will not be cut.

-- School breakfasts and lunches for the low income and low middle income children will not be cut.

-- Project Head Start and Summer Youth Jobs will not be cut.

-- Nutrition for the aging and other special services to the aging will not be cut.

-- Job training programs under CETA, about $3.5 billion of funding, will not be cut.

-- We will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.

In total, more than $216 billion in safety net benefits provided in some 20 programs have been maintained at present growth levels in the budget I am proposing. As we debate these great issues in the weeks ahead, let us remember that the most deserving in our society will continue to receive the full and complete benefits they now enjoy.

At the same time, my fiscal reform plan asks that the more fortunate in our society and especially the more affluent accept their end of a bargain: In return for lower taxes, lower inflation, higher living standards, and expanded economic opportunities, it will be necessary to reduce or eliminate nonessential benefits provided to many better-off Americans.

Therefore, in making these essential cuts in the growth of spending levels, I have established eight general principles to guide us.

(1) Government support should go only to those in need; those who are not deserving should be removed from the programs.

(2) Government should not subsidize middle and upper income groups.

(3) Subsidies should not be given to particular business interests.

(4) Subsidies to regional and local government -- paid by national tax revenues -- should be reduced and limited to those cases of greatest need.

(5) Duplication should be eliminated from Federal programs.

(6) Categorical grant programs should be converted into block grants to cut overhead and eliminate waste.

(7) Programs whose benefits are not cost-effective should be reformed.

(8) We should terminate ineffective and counterproductive policies.

These are the basic principles which have guided us in reforming an out-of-control budget. Each principle in turn serves one overriding principle: we should help those who are deserving, and should not help those who are not deserving.

In the context of these principles, here are some of the major spending controls I will be submitting to the Congress:

First, because government support should go only to those in need, several changes will be made in the food stamp program. The food stamp program will be reformed to do what was originally intended -- and that is to assist those Americans without resources to purchase sufficient nutritious food for a minimal standard of living. No one truly depending on food stamps will be cut. Only those who have abused this program or who are less in need will be cut out. We will save $2.6 billion in this effort. But remember, we will still be spending more than $10 billion on this next year -- more than adequate for essential needs.

We will tighten up the welfare program so as to take into consideration all sources of support and income for the recipients. We will impose strong and effective work requirements. This will save us $671 million next year.

Another example of serving only those in need is to cut school meals out for those students whose families can fully afford to pay for them, saving $1.2 billion.

Our second guiding principle is to get the government out of the business of subsidizing middle and upper income groups. The Corporation for Public Broadcasting, the National Endowment for the Arts, and the National Endowment for the Humanities are examples of programs which fill useful cultural roles in American society. And when the economy is returned to strength and stability we can restore some of their program funding for worthy projects.

In the meantime, it is clear that these programs are not designed to help those in great need, and large subsidies to them are really substitutes for private and philanthropic support which I strongly encourage. We will save $128 million in cutting back these subsidies.

The third principle I have set down is to cut back subsidies to particular business interests. The synthetic fuels program is the perfect example of an unnecessary subsidy to large businesses. Our free marketplace has already developed incentives for businesses to build plants which make fuel from our abundant coal resources. It makes no sense for the taxpayers to give them billions of dollars to support those projects. My goal is to get energy decisions out of the political arena and into the free marketplace where they belong. This will save the taxpayer _____ billion dollars. Yet, we will continue support of the development of synthetic fuel processes and research into new technologies.

Another major business subsidy is the Export-Import Bank. I will ask you to reduce the direct loan authority of the Bank by 33 percent in 1982. The primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them substantial, profitable corporations. It will be cut back.

Another principle is to reduce regional and local subsidies and limit them to areas of real need. We will try to cut back on these continuing regional special interests.

There was a time when Rural Electrification programs were essential to rural development, but now we can reduce the loans to this program and increase the interest rates for the loans which are still made. I think the recipients of REA loans will understand the fairness of this action because it simply puts them into the same position as all other Americans. These changes will save us more than \$2 billion in 1981 and 1982 and some \$15 billion through 1985.

Perhaps one of the greatest examples of how we cannot make the people better off by taxing everyone and creating massive subsidy programs is the Economic Development Administration. I am proposing that we terminate funding for it which would save nearly \$300 billion in 1982 and more than \$2 billion through 1985.

Today there is a lack of consistent and convincing evidence that the EDA and its Regional Commissions have been effective in creating new jobs. We will do better through the economic expansion and job creation which will come with my other economic measures. In addition, this is one program which also hugely benefits an army of planners, grantsmen, and other professional middlemen. I think we can do a better job while saving hundreds of millions of dollars.

Our next principle is to eliminate duplication. For example, the Farmers Home Administration duplicates several other Federal lending programs. I am asking that we trim 25 percent from the direct lending activities of this agency in order to remove this needless duplication. We can save $105 million in 1982.

We have also found even greater waste and duplication in the Trade Adjustment Assistance program. These benefits, intended to help our unemployed when increases in imports have taken their jobs, can now be received concurrently with unemployment benefits, and that's not fair. It also has a higher benefit ceiling than for unemployment insurance. These beneficiaries will simply be asked to be on the same footing as all other recipients of unemployment benefits, and we will save $1.15 billion this way.

We will save another $204 million by ending or reducing neighborhood housing programs which duplicate other such programs in the Department of Housing and Urban Development.

The sixth principle which we followed is to convert categorical grant programs into block grants which shift resources and decision-making authority to State and local governments. We can reduce spending by cutting administrative overhead and eliminate waste caused by ineffective targeting. We can consolidate programs which are now strewn throughout the Federal bureaucracy. States will be better able to plan and coordinate their own service programs and establish their own priorities. This brings government closer to the American people -- right where it belongs. We will save over $5 billion over the next five years by taking these steps.

Any program which is not cost-effective should be reformed. This is the next principle which guided our actions. This is especially necessary when we are faced with such difficult economic dislocations as we are today.

One such program is Medicaid. Right now, the Federal Government provides States with unlimited matching payments for their expenditures. This eliminates most incentives for the States to reduce the cost of the low-income insurance programs. We will place a cap on Federal contributions to gain more efficiency at the State level. And we will allow States more flexibility in managing and structuring their programs to promote more cost-effective reforms. We can save $1 billion in 1982 with these reforms.

While the space program has been important to America, we will ask for a reordering of NASA's priorities to focus on the most important and cost-effective parts of its programs. We can save a quarter of a billion dollars in this fashion.

The U.S. Postal Service has been consistently unable to live within its operating budget and still depends on large Federal subsidies. I propose to reduce these subsidies to force the Postal Service to become more effective. These changes will save $632 billion next year.

Finally, our eighth principle is that we should simply terminate ineffective and counterproductive policies.

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 used to run the oil price control program, until I ordered the decontrol of oil. With these regulations gone, we can save several hundreds of millions of dollars in the coming years.

In the Department of Housing and Urban Development there is a loan guarantee 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 will save $275 million next year and more than a billion dollars through 1985.

These are only examples of _____ programs which can be cut, reformed, steamlined, and eliminated in order to save the American economy. We will work to return to standards of genuine need and ensure that original program intentions are met. Excesses and abuses must be stopped. We can no longer tolerate the squandering of billions and billions of taxpayer dollars in misdirected programs, many of whose existence depends simply on habit.

Well, one thing we can do is to break our bad habits. We want to keep the programs which work. We'll fix the ones that need fixing. And the ones that don't work and we don't need -- let's just get rid of them.

Before I leave this discussion of spending controls, I want to mention briefly the one budget we will not be able to cut. National defense is the only area where I am obligated by my duties as President to recommend increases in spending in the coming years. The need for this effort is driven by the marked deterioration in the international climate and our failure in recent years to come to grips with our defense requirements.

Since 1970, the Soviet Union has invested $300 billion more in its military forces than we have. This prolonged period of Soviet investment has left them with a militarily significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery, and anti-aircraft defense. To allow this dangerous situation to persist will endanger the security of our Nation.

To restore the military balance after several years of neglect will require a major national effort. By making the financial sacrifice in the early years of this decade, we will avoid a far more costly "crash" program that will inevitably be necessary during the latter half of this decade. I have determined that the defense program I have proposed is the effort we must make if our security and the security of our allies as well as smaller nations is to be preserved.

Yet, the Department of Defense is not free of waste and inefficiency, either, and it will not be spared the obligation to make significant reductions over the coming years. I have directed that _____ billion dollars be cut from the five-year defense program I inherited when I took office. I expect to identify and terminate additional defense programs and operating practices which are inefficient or poorly managed, or contribute little to our defense posture. I intend to provide a defense program that provides the greatest effectiveness at the least possible cost.

The second integral component of this comprehensive economic plan is reform of our tax structure to make America productive again. It's time to create new jobs, build our industry, and give the American people room to do what they do best.

I am proposing a 10 percent across-the-board cut in the tax rates for all individual income taxpayers beginning July 1 with additional 10 percent installments in each of the next two years for a total of 30 percent in cuts.

This program is a departure from the past because it restores private incentives and awakens new resources of growth in our national economy. It rewards work effort, savings, entrepreneurial activity and technological and managerial innovation.

Due to these tax rate reductions during the next five years, $500 billion will be ~~kept~~ rather than paid over to the Treasury ~~by~~ tens of millions of American producers.

Unlike past programs, this does not merely shift wealth between classes of taxpayers, making some better off and some worse off. My proposal for equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

My advisers forecast that with full implementation of this tax program and other elements of our plan, by 1985 our real production of goods and services will grow by $400 billion ~~higher than~~ above today's level. The average worker's wages will rise by _____ percent in after-inflation dollars, and the average American family will enjoy _____ more in after-tax purchasing power. 30%

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

We are also proposing to reform business tax depreciation, retroactive to January 1, so that American industry will have the incentives to retool, expand, and create eight million new jobs between now and 1985.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. It forces business to replace worn-out plants and machinery at today's high prices from capital recovery allowances based on yesterday's low costs. My proposals will stop the liquidation of industry capital and start the flow of after-tax profits needed for revitalization. In calendar year 1982, additional funds available for investment would exceed $10 billion, growing to $45 billion in 1985.

Let's quit thinking that "profits" is a dirty word. This past year some of our best companies had no profits, and hundreds of thousands of people had no jobs. I think it's time we saw the relationship between the two.

Without my tax proposals, Federal taxes would just keep eating more and more of the people's income -- rising to a full 24 percent after 1985. By contrast, my plan would reduce the Federal tax rate on workers to 20 percent in 1982 and 19 percent by 1985. Yet, because the economy would be rapidly growing, Federal revenues in that period would still expand by nearly $200 billion in that period, allowing us to take care of the programs that government needs to do.

I recognize that there are many other desirable changes in the tax laws such as indexing fixed dollar amounts, expanding Individual Retirement Accounts, correcting the marriage penalty and tuition tax credits, among others. But our revitalization plan is so urgently needed, that I am asking Congress to act on today's proposals first, and then

I pledge to work with you to achieve some of these other goals at an early date in the future.

The third component of our comprehensive plan is regulatory reform.

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.

This torrent of regulation has caused higher prices, less employment, and lower productivity. Higher costs borne by business are passed on to consumers. Overregulation causes entrepreneurs to defer or ~~terminate~~ abandon plans for expansion.

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 and counterproductive regulations -- eliminate those we can and reform those we must keep.

I have moved swiftly to deal with the problem. First, I asked the Vice President 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 ill-conceived "midnight" regulations issued during the last days of the previous Administration so that they can be evaluated on a more rational basis. 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 my Administration 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. I made regulatory reform a major commitment in the recent campaign, and I assure you I mean to keep that promise.

The fourth and final aspect of this comprehensive plan is that it requires a national monetary policy which does not allow the rates of 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 monetary base.

I fully recognize the independence of the Federal Reserve System. I will do nothing to undermine that independence. However, I plan to 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 for rescuing the American economy. 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 to national economic renewal. Our task is not to make things easy; our task is to make things better.

Can we do the job? The answer is yes. But there will be no waiting, because 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, and especially in the past few years.

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.

Over the next few weeks, these proposals will be presented to Congress, and under our Constitution a great national debate will begin. I encourage people across America to participate in this debate, and I hope they will be able to support these essential steps.

However, I've already seen indications that narrow interests have already determined that they will oppose many of the measures we are instituting to gain control of wild government spending.

The question is whether or not we are simply going to go down the same path that has been done 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 of us. I think, instead, that the American people are ready to return to the source of our strength.

In our economy we should remember the most fundamental principle of them all. The government does not create wealth. Government is merely a servant and a steward.

The substance and prosperity of our Nation is built by wages brought home from the factories and mills. They are the income produced by farmers who feed us and the world. They are the services provided in ten thousand corners of America. They are 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 the people the decisions on how to dispose of what they created. We have strayed from first principles, and now we must alter our course.

We need to return to first principles. The taxing power of the government should not be used to destroy, only to build. The spending powers of government should be used only when necessary and not merely when convenient. And growth in revenues in America should come about not because the government of the United States is taking more, but because the people of the United States are producing more.

As we move toward adopting this new course for America, let us remember that these steps will hardly lessen the efforts of government throughout the United States. Next year, without our cuts, all State, local and Federal Government would be spending $1.17 trillion to service the public needs of our citizens.

Even with our reductions of $53 billion, all levels of government would still be spending some $1.12 trillion. That is only about a 4 percent cut in total government spending. Four percent is a small price to pay to bring our economic nightmare to an end. And, it shows that by any rationale measure, we will continue to be a generous people, spending handsomely to do the things truly required of our government.

Moreover, getting inflation under control will give to every man, woman, and child in America the equivalent of a cash bonus. For example, reducing the rate of inflation from 12 percent to 10 percent would give a family of four with a median income of $19,400 the equivalent of _____ dollars in extra wages annually. Reducing it to 8 percent would result in extra cash income worth _____ dollars. And reducing it to 5.5 percent would result in _____ extra dollars.

Much will be determined by the way we act in the weeks ahead. The people of America will be waiting -- and they will be watching. So, let us make this a time of unity and great purpose.

I will not fail to work with you as you reach your decisions. Nor will I fail to support you as the pressures grow to do things the old way.

I don't think the people expect miracles of us -- but I do think they expect action from us. Let us act together.

Thank you and good night.

# # #

Ed Harper - 2-13-81

- Defense spending: The Level
  civilian employment - readiness Q.
  DOD wants 50,000 civilian increase.
  75 7% real growth reasonable
  (started out at 9%)

- Revenue numbers are settled.

- Tax side:

+ Structure of accelerated ~~depreciation~~ - Business cut a little big.

+ 70-50 issue - P. probably now against - Economists against - can go 10-10-10 down to 50 or 51 -

UDAG - put back in? per P.

2-15-81 Economic message

WH 1.) Speech
WH 2.) Fact sheet on total program — 12
OMB 3.) Detailed budget package
WH 4.) Pres.'s economic message
~~5.) Tax~~
~~[illegible]~~
Treasury 5.) Tax Plan
OMB 6.) Reg. Reform

Can only show $38 billion for '82 –

Our budget will be, put out on 3-10.

| | 1981 | 1984 |
|---|---|---|
| defense | 158 | 260 |

deficits

| '81 | '82 | '83 | '84 |
|---|---|---|---|
| 60 | 45 | 23 | + ___ surplus |

| '82 | 83 | 84 | 85 | 86 |
|---|---|---|---|---|
| 5 | 34 | 47 | 47 | 31 |

Savings you need each year

Speech -

Take out eight principles:

Maybe just drop out p. 8 - &
say things as generally applied.

4 Standards: Weidenbaum

a.) efficiency
b.) relevance
c.) Urgency
d.) ?

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Stockman: How to make eliminations

1.) Safety net
2.) revise entitlements in order to eliminate
3.) Reduce middle & upper income programs
4.) recover ~~from~~ costs from users
5.) Sound criteria to Econ. Subsidy programs
6.)
7.) Fiscal restraint on non-priority items.
8.) Consolidate Block grants.
9.) Reduce overhead & personnel costs

---

Ease into each one rhetorically
w/ some vague kind of introduction.

p. 2

Don't be defensive -
There are no choices -

Williams ( Not apologetic - This must be done -
not it should be done.

Claim call for a change in direction.

Greenspan { Can't make the case w/ the 1st few
items -

System does not have the choice of living
w/ inflation - S+L's on the brink of
collapse.

If n/g is done we are off the
edge of the cliff.

We do not have the choice.

A G: a fiscal emergency - leading us
to where we can go over the edge.

Battle b/t Pres. + Spec. interests -

---

Lay out fact we have no choice -
up front

Benefits at end - but tie it to
whole package - not just tax package

DS: Take on special interest groups? -
Nat'l. unity campaign at first

p. 3

AG: We think this is a sufficient answer to the problem - I don't know whether s/g else will work - but I'm not prepared to take the risk.

---

1.) Shorten the laundry list on the cuts.

2.) Emphasize more on reducing inflation - More emphasis on this

3.) Benefits of program - ~~put~~ that is on p. 17 put at end of the package.

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p. 4 - Say balanced budget by earliest opportunity.

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If we do my plan we can have balanced budget - if not all bets are off. Say a "goal" by the end of my first term or sooner.

---

AG: Do not have the choice of not dealing w/ inflation.
The U.S. unlike other countries of the world cannot survive - we don't have that choice.

p. 4

p. 18 ~~tax cuts~~ reduce the percentage of taxes as % age of GNP.

~~Add the R. & D. Depreciation to the speech.~~

- Clarion call
- Mandate
- New direction
- Let's give it a try

note

1st speech had explanation of why we're going down this road - both taxes & budget cuts.

This speech needs detail & substance.

2-10-81 Speech Prep

re: TV Coverage } Nofziger: How's it feel to be an actor again.

P: "I don't mind being an actor again – except, it's a lousy part."

Gergen Deaver Nofziger Baker
Friedersdorf Brady Meese K.K.

Gergen: Three documents –
- speech
- message
- Budget document

P: Other documents are back-up. Speech should be done to the point where they can't say it wasn't specific.

Must tell them what we're doing – explain "the why." Point out what we're not doing – saving the poor.

Cuts – plus tax cuts – bringing 70% level down. Beat them to the punch

"I know there are some who think this benefits wealthy but this stimulates productivity & produces jobs for the 7 million plus out of work.

Benefits all of us ~~for~~ gov't + to allow this to benefit the public sector.

Dof: Don't ~~think~~ you can sell it. boils to enlarge tax package

P: 70 – 50 – no way we can justify keeping 50% tax great hindrance to investment.

Dof: all editorials against us – uproar out there.

Baker: It's right decision, but might jeopardize our spending cuts.

Meese: Not so fine:

Gergen: Don't do laundry list – but set out principles + then suggest the changes w/i the context of the change.

P: It's designed to get the damn country moving again. Face the Q. head on + soften

-3-

the negatives by doing it head-on.

Meese: Talk about terminology — why have difference between earned & unearned income.

D.S.: Would have a bull market.

P: What this will actually accomplish is getting ~~these~~ people out of tax shelters & back into equity markets. Will result in increase in revenue, & create (150,000) jobs.

Deaver: Bring Russell Long in. & T.P. O'Neill — Am I going to get this thru the Congress?

P: ~~Ask~~ If they say it won't pass — self-fulfilling prophecy. Just ask for their help!

Friedersdorf: Should ask Rostenkowski, too.

P: Don't single out part of package — present it as a whole & don't show concern about ~~the whole~~ just one phase.

p. 4

P: a little leery about saying I'm worried about the one phase.

DOF: Every place in speech - sell as hard as it can be sold. People out there lying in the weeds.

P: "I've never thought a/g about this job was going to be easy."

D.S.: Get the history of Ike cuts + Kennedy cuts.

D.G. 10-10-10 - Fair
70-50 - only certain gain from it

D.S: will make some arguments against 10-10-10 anyway.

P: We've seen auto workers show they're ready to take a cut.
There's s/g different out there. People out there among the unemployed want s/g done.

p.5

P: If that cut stays in — we hit it head-on.

DS: More sentiment on Hill for cutting 70-50 than for 10-10-10.

Friedersdorf: What was good was what is not being cut.

P: Right up front — mention things that won't be cut.

P: Length — 30 minutes w/ applause
25 minutes w/o applause.

Other emphasis:

?( When we speak of cutting, we're not reducing any program to less than what it was.

( D.S.: No - some programs are being cut back in real terms.

Defense: also use to show that we're cutting waste etc. Then segue into saying there is one budget wh/ can't be cut.

6.

K.K. idea – How much gov't spend in '82 + '83 – compared to now (e.g. 50 billion more).

~~then~~ show total amount of money spent by gov't non defense – state – local – + Fed.

We are a generous people.

2-12-81

Dick Wirthlin
briefing

2000 voters — by telephone

Establishing strategic objectives & meeting them — As in campaign —

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greatest problems facing people

- inflation — 43%
- The Economy — 19
- Unemployment — 6

68%

- Decline in morality 4
- Energy — 4
- War/peace 3 → note small concern.
- High taxes 2
- Crime 2
- Energy shortages — 2
- All others — 15

---

- 47% think they are worse off than a year ago.
- 34 better off
- 18 same.

Lot of credibility that GOP/RR viewed as party of elite

---

2.

Things can get better, if . . .

Hope

52% think they'll be better off next year

33% think they'll be worse off

84% think ~~next~~ this year still one of econ. difficulty

16% - prosperity.

i.e. no expectations of quick fixes

Econom expectations

86% think energy will cost more
67% harder time making ends meet
66% - postponing major purchases

Shows people are getting more optimistic on this, however

58% - think inflation will be better after a while

42 - inflation a fact of life

p. 3

59% welfare
62% food stamps
More than 50% want cuts rather than tax increase

social security
Energy strategy
national Education system
would prefer to raise more taxes than make cuts

rising crime 50 21
raise taxes - no cuts -

Latent issue that this admin. will have to deal with.

cynicism:
govt. serves special interests such as business - (high cynicism)

most people think, the way govt. is organized, we can't deal w/ our problems.

But people think RR will be able to cut inflation & reduce govt. waste.

note * lead element must be cutting waste & spending:

Like most about RR
strong leader — 14
outspoken / straightforward — 8
honest / sincere — 7

etc.

GOP party viewed more
favorably as institution than
Dems — 1st time

RR story in working lunch
2-13-81

Errol Flynn. 3:00 a.m.
t was George Custer he
was Jeb Stuart —
cold — we were
scene w/ lady telling
our fortunes —

Said s/g like we're
all in the same uniform —
Standing behind Flynn —
on a downhill slope —

Very unseeing & +
Flynn had covered
up RR — while rehearsing
RR was building mound
& when action started,
RR stepped up on his
mound & could be seen.
"I was the tallest man
in the cavalry."

President et al

Working lunch 2-13-81

4% real growth in '82 to 5% in '83 —
inflation down to 5% in '86

developing a growth path wh/ is a healthy growth path — not up & down — just steady.

Our projections are even a little conservative. Don't want to shift the debate over on to credibility of the numbers.

Our #'s are still optimistic, but they are credible.

Will generate more revenues & help reduce the deficit

per Max Friedersdorf [Forego a pay raise at this time — Maybe a line in the speech.

— 70-50 — decision?

Econ. advisers think we're making an exception for one group — Would hurt politically.

p. 2

Tune:

No more effective way to slow down tax shelters than to lower 70 to 50 — no Q. of this very strong shift out of the shelters —

People at 70% — are most sensitive to changes at the margin. Be very good effect on those people & producing new money!

Not lowering 70 to 50 — but lowering it the way we do e/g else — i.e.: lower 10% each year on unearned income

70% — 63% to 56.7% to 51%

note

Treasury says — in speech say there will be a second tax bill in wh/ we will consider putting certain other desirable tax cuts.

Stockman: But Dems will add on goodies to 1st bill b/c of popularity back home.

Say: there are other critically necessary structural changes in the tax bill that we will take up at a certain date.

- J - J

don't specify time

May 22 - send up 2nd bill.

July 1 - personal cuts
(Jan 1) - retroactive for business cuts.

mention this in speech so businessmen know.

---

Faster recovery for R. & D.
P: Fine "I'm for that."

---

Do a 60 day study on "Tax expenditures" + decide on this later.

Speech reference to 2nd Bill

"I recognize that there are many other desirable changes in the tax laws such as ______

but I think we need these recovery plans as soon as possible, but I pledge to work w/ ~~the~~ the Congress to achieve some of these goals at an early date in the future."

---

U.D.A.G. Language - Massage it carefully.

p. 4

In speech - put "spending controls" first & then tax rate cuts.

---

For '81 - our cut in budget authority will be more than
$13 billion 2% - But actual outlays, the cut will be only about 1% ($6 or 7 billion)

Outlays depend on when Congress acts.

Budget Working Group 2/12/81

D.O.E. –

Synfuels: 2 Programs
1.) good one
2.) bad one

(Our proposals – budget goes up (or is cut – from the level of current services adjusted for inflation + normal growth)

D.S.: Cancel whole program in D.O.E. + go w/ better program in the Synfuels Corp. Gets decisions out of porkbarrel criteria – also P. appoints Bd. w/ our people – Bd. can conduct like investment banking corp, directing investments to best area.

Stop the multiplying direct subsidi + shift over to Synfuels Corp. – largely financed by debt + equity capital from private sector.

1.) Gov't wouldn't spend a dime over next few years.
2.) Tech. viable projects would get a nudge forward –

Would develop a prosp private Synfuels industry based on free markets + sound economics.

John Edwards: Hill pressure for demonstration project – SRC-II project.

p. 2

recommends that P. still support SRC-II — helps w/ Japan re/ships
J.E. agrees w/ D.S. on e/g else.

D.S.: SRC project (Liquifaction plant) estimate $1.4 billion (old figures) — But probably be $2 to 3 billion Fed. Share would be 100% on the overrun. Perhaps a billion dollars or more — straight to Gulf Oil Co. — Can't justify profit to Gulf on this basis.

Not sure this is the best technology —

Int'l. agreement — project promoters brought in Germans & Japs in order to protect it domestically — i.e. agreement that can't be broken. Thinks Germans don't think it's so hot ~~tgt~~ either.

If it's so good, then let Synfuels Corp vote on it — if Gulf et al. can raise capital & then Corp. gives loan guarantees.

Meese: Use Corp. if Fed. money can be used to leverage private money.

J. Edwards: Are we going to send wrong signals to Saudis — that we're not going to support synfuels? Mkt place won't be driving force here in next 10 years.

p. 3.

P: Like to explore tax incentives to support programs like SRC-II

D.S.: Overhead at DOE —
save $125 m. in '82

P: "O.K. fine — turn the page quick."

Energy Regulation

What you have left is residual regulation by FERC.

J.E.: P. wants me to dismantle —
But we'll move methodically —

When you deregulate crude oil, you get rid of a whole lot of people.

Energy Conservation

$70 million for conservation

But:
1.) mkt. dictating conservation
2.) already have tax credits for insulation
3.) Extra 10%. credit for business on top of inv. tax credit.

Want to rely on mkt. forces + tax credits.

re: oil companies raising price of gasoline.

P: "I liked them better when they had price wars."

p. 4

D.S.- Cut back Fed. in solar -
let taxes + private do it.

P: note for speech

Unemployed: Say First - we're taking care of legitimate claimants + then say where we'll cut.

no one who is in straits will have it taken away - then we move from there to strengthen the rest of the program

Servicemen getting unemp. insurance. get 24 weeks after service w/ states - but Fed- reimburses. Change it so it goes according to ~~[illegible]~~ current rules in state.
It's almost like severance pay.

Black lung:

New entitlement - totally out of control. Trust fund running deficit of $400 million a year. By 1990 a $9 billion deficit if goes the same.

Want a thorough reform of Black lung program.
1.) Direct med evidence
2.) Raise tax on coal to pay for it.

p. 5

Just tighten the entitlement.
need to reform it – not remove
it.
Black lung is totally separate
from social security – can
get it along w/ S.S.

P:
Sellis principle victims of this program
are the legitimate victims
of Black Lung. Want to help
those critically in need.

---

CETA:
Phase them out – for public
sector jobs – by 1982 – save
$4 billion make-work –
Keeps the job training program.

Once we get tax program + other
elements it will take up
this slack!

---

Young adult conservation –
summer jobs for middle income
people.
$12,000 per slot

---

EDA
eliminate by 1982 – all
of EDA – grew became obsolete
Taken over by Congressional porkbarrel

p. 6

High proportion of EDA goes to planners + consultants.

Subsidies to Maritime Industry
terminate assistance to U.S. ships —
W/ enormous defense build up, there will be ample demand in our shipyards.

p. I've really got some problems here — we're competing on unequal terms w/ foreign.
But what about national security considerations? I worry about that.

Partial Transcript
Meeting w/ President Reagan 2-10-81

. . . I'm talking about the union leaders, I'm talking about the blue collar workers, I just have a hunch, sir, that every newspaper in this country except the Wall Street Journal is going to editorialize against us. I just think that you're gonna set off such an uproar out there that it's really seriously going to give a lot of these people up on the Hill a chance to say we will not go along. I'm sorry I came in late on this, but . . .

REAGAN: Well, I've . . .

I think you're absolutely right, Mr. President, in terms of the stimulating effect on the economy. I think it was right to go for it. I share Lyn's concern that we might jeopardize our whole package, not so much the tax package as the spending cuts, if we go for that. You're committed, from the campaign, to three 10% reductions across-the-board now, and you're committed to accelerated depreciation for business. And to send those two things up as a clean package fulfills fully the campaign commitments. The minute you hang any wrinkle in there, then everybody up on the Hill is going to feel like, I'm afraid, that it's open season on amendments. I'm not so concerned about that as I am concerned that the public opinion, which is now totally with you, will shift away from support for the spending cuts which were going to be at the very least very difficult to get through. And if we hang on top of those a reduction in rates that favors high-level taxpayers at the expense of middle-level taxpayers, I think we jeopardize the chances.

Well, I'm not sure that's true. I'm not sure that statistically it's mostly high-level taxpayers you're talking about.

Well, if you reduce the 70% rate to 50%, and 10% across the board the people are going to . . .

A lot of middle-level people, but the point I was about to make here is, this session is to work on the speech. If we start debating these points in the program which we have work sessions tomorrow and Thursday and Friday to work on, we're not going to get to the speech. It seems to me that you've outlined what you want to say in the speech at least as a start. Can we talk a little bit about any thematic approaches you want to make or that somebody would suggest that we make?

Well, it seems to me that, Mr. President, in terms of the speech itself, the one thing you want to avoid is a long laundry list . . . this to this program, that to that program. I think to the extent that we can develop principles and a guided development program, and then tie in the programmatic changes within the principles so that people can follow simple lines, like this was done for the intention of protecting the truly needy, we're doing these things to make sure that happens, or this was done to insure fairness . . . I think to the extent that we have guiding principles that people can identify with, it's going to make it much easier to deal with.

REAGAN: There's only two choices you've got. There's no sense in us arguing about whether we should have a 70% cut. It's in there and I think the Cabinet has all agreed that we're going to have it. Isn't that right?

No, no.

REAGAN: I mean the cut from 70 to 50. Now, I had proposed . . . what?

No, no. Nothing is agreed on until you make that decision. And that decision is one of the things that has to be decided in the next three days.

REAGAN: Yes, but no one that I heard in the Cabinet had any disagreement.

No. But one of the reasons for the next three days, Mr. President, and to have these in working groups, is to get the input from Lyn and from Liddy Dole and from people who are representing constituencies that aren't necessarily represented in your Cabinet, namely political legislative press and public, and so I don't think we should, I think it's entirely appropriate that we consider at that time, in those work sessions, these kinds of considerations before you make your final decisions which have to be done by Friday.

REAGAN: Well, it would be very hard for me to retreat from that one because I think it's a very important part of what we're trying to do. This tax program is not designed to simply reduce the burden of tax on the people; it's designed to get the damn country moving again. And, frankly, that has got to, probably has a better effect on that than some of the other things that we're doing. But maybe I'm wrong to suggest, Dave, you came in late, what I had suggested was that I thought in my speech, this is what we're supposed to be talking about, that if I took the lead in frankly stating that this tax, now some might say that this is benefitting the rich and so forth, but here's why it's there and what we're doing, maybe then, on the other hand, you just simply talk about a package of business of tax cuts to stimulate business and industry and productivity including depreciation allowances and simply just say setting a ceiling on unearned income at 50% instead of the present 70%, but I grant you that the people who hear me speak are not going to pay any attention to that, they're not even going to know what that means. But the next day, not only some Congressmen but some editorial writers and others are going to make damn sure that the people understand what it is and they're going to paint it as a tax benefitting the rich. Now, what is the best? For me to slide over it, as I said, or for me to face it head-on and take away, soften them by saying it first?

If you're going to take that route than you better go hit it head-on. I agree absolutely with you. I disagree on . . . the route. But if that's the way you're going, hit it head-on. (inaudible)

Well, one of the things we ought to find out is: what is the composition of the taxpayer group? And if, for example, you have X% of taxpayers who are paying under, I don't even know whether these figures are available, but there are an awful lot of widows and older people who are in the so-called unearned income, get their income in the form of unearned income, namely, . . .

They're not up in the 70% bracket.

Not over 50%.

What?

Not over 50%.

REAGAN: See, the only people who pay that, huh?

(inaudible)

REAGAN: See, they're not in those brackets, that's true.

But, what I'm trying to do is talk about treating all income, you know, there's a distinction between earned and unearned income is one put in by the people who want to keep the status quo. What you're talking about is you're talking about treating all income alike, and I think part of it is in the terminology that I talked about.

Yes. Not to get into the substance of it, but I was going to say that if you propose seriously, one thing you're going to need is momentum. The day after that speech is given things have to start to happen. And I am absolutely certain that if you propose on a Wednesday night that there would be a wild bullmarket . . .

REAGAN: There'd be what?

The wildest bullmarket, just enormous increases in stocks and bonds. There would be recovery in the long-term capital markets in the country that would start everything improving from day one if you propose it. And once that started, it would begin to have effects throughout the economy (inaudible) Part of the sickness in our economy is right in the bonds and equity markets and if you propose to lower the tax (inaudible) it would start going either way fast, and that would make believers, start to make believers in the economy . . .

(inaudible) until people started doubting whether or not you could get it through the Congress, and then . . .

Don Regan said it was going to create more than $150,000.

REAGAN: What?

Secretary Regan said it would create something like $150,000 . . . we should use those numbers.

REAGAN: That's very good.

We would have a capital gain, and John believes this too, that with the increased revenue to government we could just bring all that money out of municipal bonds.

REAGAN: That's right, because we ought to also put in here, here's the thing we mentioned the other day, that what this will actually accomplish is taking many of these same people, out of, who are not paying it because they had chosen tax shelters to pay no tax at all and so forth, rather than investing in the open market, and so we believe that this, and we could say that we're convinced this would result in an increase in revenue, and it has been estimated that this could be responsible for creating 150,000 jobs.

. . . before we do this, it seems to me it would be a good idea . . . and sit down and say look, I may be new here in town but I'm convinced from what I've learned over the last three weeks (inaudible) here's the way I want to go and I want to ask directly now, between you and me, if I've got a China's chance of getting this through the Senate, and I'd do the same thing with Tip O'Neill. And I'd say, if they say, they generally had to say, look you guys can have all the credit as far as I'm concerned, but I think . . . the history of the country where we have to, as Americans, say this is what has to be done . . . one on one with these fellows.

REAGAN: Well, my guess, and I'd like to help sell them. One thing to ask them whether any can pass, if one of them says, no it can't, he's now put himself in a position where he's going to make sure that that prophecy comes true.

If you will support it. Will they help you.

REAGAN: I'd rather ask their help on it.

Will you help me? In that way, you get a feel for what kind of resistance or more support you might receive up there if you went up with that kind of proposal.

REAGAN: Well, I don't know whether they're back or not to

Most of the people aren't here.

REAGAN: . . . from their holiday. But I think you can do it before you, you can have it in the speech, but they don't have to know that. You do it before the 18th, at least.

You ought to have that experience before you solicit . . .

REAGAN: Absolutely.

There's another one, too, that you should talk to might would be _______________. I think he's absolutely critical. And Ross Konkowsky being a new chairman probably doesn't have certainty . . . bills . . . how the votes are going to fall. But I think if Tip goes behind it and Ross Konkowsky got behind it and Long

THE WHITE HOUSE
WASHINGTON

Thought –
Strong Nat'l. defense
section to justify
leaving DoD budget

Be up front about
it.

Be more offensive –
Truly needy have
n/g cut. List of
programs not touched.

THE WHITE HOUSE
WASHINGTON

Do profiles of people:
1.) Ghetto dweller –
destitute – woman
w/ 7 children –
n/g cut.

2.) Old pensioner –
widow – eg. n/g cut?

3.) Unemployed
steelworker
family of 4 –
what's he lose

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Come up w/ name -

Reagan Econ. Program"

KEN

I suggest we talk about the "Economic Program" with a:

- Tax package
- Fiscal package
- Regulatory Reform "
- Monetary package.

Also, I would suggest we work in the language that this is a "Framework for the Future".

T

Dave Stockman — 2-9-81

Documents for 2/18/81

3 documents

1.) President's address

2.) President's message - details - Functional equivalent of the delivered address

"The Economic Plan"

(a) details

(b) Econ. policy framework & theory

- include details
- Tax plan
- reg. plan
- summary of budget - cuts
- mini - on monetary

Would be:

Message - Econ address - mini - Budget.

3.) Budget Reform Plan

outlining the key changes in e/g - How we're revising entitlements - of reducing overhead - How to shift resources.

New principles of Fiscal policy - a larger new philosophy of gov't. I.e. puts e/g into perspective.

Budget & appropriations committees - start hearings on Thursday

Procedure.

1.) Drafts by Thursday from working groups

2.) Review by WH Staff et al. to polish.

p. 2

Fiscal

Seven or
Nine principles on how to integrate
what gov't does. How it was done
w/o hurting poor etc.

70 major items

Then can name certain cuts & explain
where it is w/i the principles

~~Late~~ Thursday – basic documents come in
Friday ~~a.m.~~ morning drafts – of
basic documents

Policy & politics review
Starts.

Economic forecast is locked –
numbers will be basically the same.

2-9-81 Working ~~meeting~~ lunch w/ President - etc.
Economic plan

Drop of cap. gains tax -
70 - 50

Can create 150,000 jobs.

Note: Need to get data.

P: should try on the basis not to relieve individual tax burden but to get economy moving again.

Stockman: Redistributional idea has evaporated

Makes tax shelter a lot less attractive
Can demonstrate that.

---

James Burnham
when operating on a Dem. problem even the most skillful surgeon cannot separate deaggin[illegible] from (responsible) tissue w/o jeopardizing the life of the patient.

---

~~Cap gains~~ ~~[illegible]~~ tax on unearned income - drop is more than 10%. - pol. problem

---

Ask Cong. to complete package by May 22nd & after that other proposals

P:

ask Cong. to take no other legis. action except necessary ones.

Just do tax & budget cuts.

P: Table 4 — taxes —
These don't stimulate the economy as much.

But we give some tax cuts & then want to remove other tax benefits eg. depletion allowance — isn't this against supply-side economics.

Stock: Some of these are tax subsidies

P: "I went through a few dry holes myself — But we were dreaming of the income that would have come ~~from that~~ — tax free."

(Pres. very reluctant to cut these incentive - inducing points.

D.S.: Under this program as outlined get Balanced Budget by '84

p. 3 -

Re: Budget cuts

P: "Don't be too timid - As long as we're ~~take~~ taking the dive - It's going to be cold water when we hit it - n/g can be done about that."

Discuss cutting industrial Development Bonds

- 67% of Ex-Im money goes to American Companies - Boeing, G.E. etc.

- reduce subsidy for free lunch for middle + upper income.

- Syn fuels - take $2 billion from only oil.
and others like this - Where we're paying them for energy programs.

DS: Always try to improve politics of getting this through.

Only 1 tax bill this year + if we have goodies for our supporters, will have to go into this tax bill.

Cabinet Meeting 2-10-81
10:04 a.m.

NBC cameras in "Day in Life of P."

Agenda Details of the economic program
We'll try not to smile too much

Pen James: re: pace of hiring — also minorities & women.

Ed Harper IG's

Try to enhance effectiveness of Inspectors General. Council on Integrity and Efficiency.

Economic Program.

D.S. — "We're almost there."

P's goals:

1) To provide for substantial & permanent tax reduction
2) Additional resources to build defense
3) Balanced budget by '83 or '84
4) Protect all essential programs on which truly needy depend.

72% of the savings achieved to make $53 billion reduction target.

93% of the way there

Have almost $50 billion in savings in '82. Only $3.4 billion to go p-2

R.S: Tough choices - Everyone knew it would be tough. Now - can say that we've been able to oppose any cuts wh/ harm the truly needy.

$150 billion 1.) Proposing no reductions in COC adjustments for social security & disabled. Not to change.

2.) Proposed to fully fund breakfast & lunch program for low income children 7 1/2 million youngsters - nutritional support.

$45 billion 3.) No reduction in medicare - ensure that elderly have full protection.

4.) Headstart - No reductions low income - ghetto etc. compensate for what's missing from home. Not cut

5.) Supplemental Security income program. 4.1 million blind, elderly & disabled. Fully funded. Our commitment to decent standards of living.

6.) Summer youth employment program.

600 + thousand jobs this summer.

p. 3

great pressure on us to retreat on some of the reductions — If we retreat, can't make other goals.

Cap Weinberger: Defense has not been exempted. Cutting back to reduce the amount we need to increase. Have to re-arm America — but do it consistent w/ budgeting goals.

P: legislators meeting — said they knew the necessity of cutting back. Impact aid — one wanted to keep it. — But P. said "I looked ~~him~~ in the eye, & ~~I~~ smiled & said I'd look~~ed~~ into it."

Don Regan: Tax Policy

Bring greater productivity & incentives.

Fed must provide steady slow monetary growth. If we monetize the deficit we'll be back in the soup again.

Regan would like to go w/2 bills

Try to go w/ a clean bill at first w/ budget cuts — then maybe a combination bill come later.

p. 4

The first tax bill is not a traditional tax bill — It's an Economic Recovery Plan.

P: re: loopholes — "We're not going to talk like previous administration. These so-called loopholes — some of these are holding entire tax system together. We're begining to say 'tax cut here,' but put it back on here."

anger in voice

"Middle class have paid the freight all these years — could confiscate all the money of the rich & it wouldn't run the gov't ~~for~~ a week."

"See, I'm still talking about government as "they.""

Document No. ______________

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 | ☐ | ☑ | WEIDENBAUM | ☑ | ☐ |
| STOCKMAN | ☑ | ☐ | ~~CANZERI~~ | ☐ | ☐ |
| ALLEN | ☑ | ☐ | FULLER *(For Cabinet)* * | ☑ | ☐ |
| ANDERSON | ☑ | ☐ | HICKEY | ☐ | ☐ |
| BRADY | ☑ | ☐ | HODSOLL | ☐ | ☐ |
| DOLE | ☑ | ☐ | MC COY | ☐ | ☐ |
| FIELDING | ☐ | ☐ | THOMAS | ☐ | ☐ |
| FRIEDERSDORF | ☑ | ☐ | WILLIAMSON | ☑ | ☐ |
| GERGEN | ☑ | ☐ | VON DAMM | ☐ | ☐ |
| HARPER | ☑ | ☐ | REGAN/MCNAMAR* | ☑ | ☐ |

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 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 <u>average</u> weekly <u>take home pay</u> 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 breakdown in the human, technological, and natural resources upon which the economy is built.

I am proposing a four part program to renew the America economy

Based on ~~this~~ my 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, in every sense of the ~~word~~, word, rescue or economy; ~~to get our economy moving again;~~ to increase productivity and thus create the jobs our people must have. It is, more than anything a plan to lift the present day economic burdens off the backs of all Americans. And, it is our only alternative.

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 those dependent on grant and benefit programs for their livelihood. 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 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

as an economic safety net for the truly needy.

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 wholeheartedly 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 subsidy 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.

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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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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 (treats/?) 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.

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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 was, like every other Cabinet member, asked to find budget savings. He

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

I believe my duty as President requires that I recommend increases in defense spending over the coming year. Since 1970 the Soviet Union has invested $300 billion more in its military forces than we have. They 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 sacrifice 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. The aim will be to provide the most effective defense for the lowest possible cost.

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 tax payers 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 deterioration of the economy in the months since 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 reductions will be July 1st.

~~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 everyones' 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 don't 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 to $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. And, most importantly, 12M American's will be put back to work. 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, materials, 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 _____ year write-off for tools; a _____ year write-off for machinery; _____ years for 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.

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 entrepreneurs 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. 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.

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 monetary base.

I fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. However, I plan to 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. 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, Even with these reductions, the federal government will spend $20 B more next yr than it spent this year. I think that is enough. These reductions plus the reduction in tax rates will ~~put an end to inflation.~~ lift the dual and deadly burdens of the inflation and taxation from the backs of all Americans

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.

Document No. ______________

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 | ☐ | ☑ | WEIDENBAUM | ☑ | ☐ |
| STOCKMAN | ☑ | ☐ | CANZERI | ☐ | ☐ |
| ALLEN | ☑ | ☐ | FULLER *(For Cabinet)* * | ☑ | ☐ |
| ANDERSON | ☑ | ☐ | HICKEY | ☐ | ☐ |
| BRADY | ☑ | ☐ | HODSOLL | ☐ | ☐ |
| DOLE | ☑ | ☐ | MC COY | ☐ | ☐ |
| FIELDING | ☐ | ☐ | THOMAS | ☐ | ☐ |
| FRIEDERSDORF | ☑ | ☐ | WILLIAMSON | ☑ | ☐ |
| GERGEN | ☑ | ☐ | VON DAMM | ☐ | ☐ |
| HARPER | ☑ | ☐ | REGAN/MCNAMAR* | ☑ | ☐ |

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,~~ Less Than a month ago, I was your guest in this historic building at my Inauguration. ~~and~~ I pledged to you then 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."

Quote is VAGUE + lost.

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 like to borrow to buy a home~~. All across this land one can see ~~newly built~~ homes standing vacant, unsold because of mortgage interest rates that are now over 15%.

~~Almost~~ About ~~8~~ 7 1/2 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 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%.

define ?

Can we who man the ship of state deny it is out of control? Our National debt ~~is~~ will soon be $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~~ 3 inches high would make you a million. A billion is 240 feet. A trillion dollars would be a stack of $1,000 bills 45 miles high.

150-$1000 = 1"

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, state & local governments professionals and major industry that adds $100 billion to the price of things we buy and reduces our ability to produce competitively. 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.

check ?

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 ~~a~~ NO breakdown in the human, technological, and natural resources upon which the economy is built.

I have ~~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 will now outline ~~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 and reducing inflation.

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 FY 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 those dependent on grant and benefit programs for their livelihood. 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 programs they depend on are exempt from any cuts.

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 Let me give you an example of how permanent programs and government subsidies did work together to perpetuate an out of date program.

The Rural Electrification program came into being at a time when rural America was almost totally without electric power. A program of low interest loans to rectify this made sense then. I believe the recipients today of R.E.A. loans will understand the fairness of switching to the private capital market and borrowing at the commercial interest rate. Doing this will save the ~~taxpayers~~ gov't from borrowing $2 billion in 1981 and '82 with ongoing savings of $15 billion through 1985.

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Tim's insert

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.

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The Dept 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.

I believe my duty as President requires that I recommend increases in defense spending over the coming year. Since 1970 the Soviet Union has invested $300 billion more in its military forces than we have. They 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.

changes

Need new word for fin. sacrifice

Notwithstanding our economic straits, making the financial sacrifice ~~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. The aim will be to provide the most effective defense for the lowest possible cost.

Tim insert

Concurrent ~~Marching in lockstep~~ with the ~~whole program of~~ ~~budget reform~~ reductions in spending is the equally important policy ~~program~~ of reducing 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.

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I had hoped we could make this retroactive to January 1st but the deterioration of the economy + The budget in the months since September has ruled that out. We also learned that making it retroactive would work a hardship on some 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 reductions will be July 1st.

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)~~ so called tax reforms this is not ~~merely a shift of wealth~~ redistribution of income between different sets of taxpayers. This proposal for an equal reduction in everyones' 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 ~~don't agree~~ disagree. 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 to $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 ACTING on our complete program of tax cuts and spending reductions being implemented right away.

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~~ accelerated cost recovery system 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, materials, 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 _____ year write-off for tools; a _____ year write-off for machinery; _____ years for 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.

This entire Plan will create 18 million new 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 incentives for savings and investment 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.

Need another word

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 ~~entrepreneurs~~ business 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~~ Should 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. 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.

Redundant W/ pg 15 #2

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 ~~monetary base~~ money supply.

I fully recognize or support the independence of the Federal Reserve System, ~~and will do nothing to undermine that independence. However,~~ However I plan to 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 <u>our</u> plan. Together, we can embark on this road not to make things easy, but to make things better.

Change ?

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.

Implies big gov't

? We are in control here. There is nothing wrong with America that we working together 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 ~~[illegible]~~ 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.

VAGUE

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

vague ?

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~~ ~~reduc~~ Reductions in 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~~ the reduction in tax rates will put an end to inflation only if accompanied by a stable monetary policy.

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.

stet

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.