

Ronald Reagan Presidential Library

Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Speechwriting, White House Office of:
Speech Drafts: Records

Folder Title: Address to Joint Session/Economy
(Khachigian) (02/18/1981) Chronological Drafts & Final (1
of 2)

Box: 3

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library Inventories, visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

Last Updated: 03/25/2025

THE WHITE HOUSE

WASHINGTON

February 17, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: KEN KHACHIGIAN

SUBJECT: Remarks: Address to Joint Session

Herewith a clean copy of your speech. It is now going through final staff review. No changes will be made by the staff except for major policy corrections or factual adjustments.

Let me explain some changes you will note since the time of our meeting yesterday.

(1) Page 2. Stack of thousand dollar bills. The correction, to 67 miles, comes from Treasury. Obviously, we think this is still an extraordinarily graphic description. Incidentally, a billion dollars would stack up to 357 feet, in case you want to add that.

(2) Page 5. Bottom of page -- oil. Phrase, "independence from foreign oil," a strong reference per Wirthlin.

(3) Page 6. Ex-Im Bank. I've added the sentence from the original draft regarding most beneficiaries being profitable corporations -- Dick Wirthlin believes this is strong. It is a change from your draft.

(4) The reference to the REA loans has been cut out. First, it is an off-budget item. Second, there were actually nothing like the savings we had suggested. Third, the loans are really only being raised from 2 percent to 5 percent. Stockman, et al. agree it should be cut.

(5) Page 10. Bottom, note the new reference to waste and fraud. We're checking the numbers to make sure. But it was believed that we should take a strong position on this per the campaign.

(6) Page 13. Bottom, write-offs on various things. We've got the numbers, but dropped tools because I'm told that the time on them has actually been extended from 3 to 5 years with the auto industry not that pleased about it.

(7) Page 17. Reference to Federal aid to education. At this point in your speech, you are coming on to the peroration, and Dick Wirthlin believes (and I agree) that this is a jarring reference which gets you back to the budget cuts. If you agree, this can be moved up to page 5 in between the first and second paragraphs -- it fits pretty well there.

After you have had an opportunity to review this, please return it to me with any additional changes you might have, and I'll begin putting it into reading copy.

I am attaching a separate memorandum from Dick Wirthlin in which he outlines some additional thoughts regarding the speech.

ADDRESS TO THE JOINT SESSION OF THE CONGRESS, FEBRUARY 18, 1981

MR. SPEAKER, MR. PRESIDENT, DISTINGUISHED MEMBERS OF
CONGRESS, HONORED GUESTS, AND FELLOW CITIZENS:

ONLY A MONTH AGO, I WAS YOUR GUEST IN THIS HISTORIC
BUILDING AND I PLEDGED TO YOU MY COOPERATION IN DOING WHAT IS
RIGHT FOR THIS NATION WE ALL LOVE SO MUCH.

I AM HERE TONIGHT TO REAFFIRM THAT PLEDGE AND TO ASK
THAT WE SHARE IN RESTORING THE PROMISE THAT IS OFFERED TO
EVERY CITIZEN BY THIS, THE LAST, BEST HOPE OF MAN ON EARTH.

ALL OF US ARE AWARE OF THE PUNISHING INFLATION WHICH HAS, FOR THE FIRST TIME IN SOME 60 YEARS, HELD TO DOUBLE-DIGIT FIGURES FOR TWO YEARS IN A ROW. INTEREST RATES HAVE REACHED ABSURD LEVELS OF MORE THAN 20 PERCENT AND OVER 15 PERCENT FOR THOSE WHO WOULD BORROW TO BUY A HOME. ALL ACROSS THIS LAND, ONE CAN SEE NEWLY-BUILT HOMES STANDING VACANT, UNSOLD BECAUSE OF MORTGAGE INTEREST RATES.

ALMOST 8 MILLION AMERICANS ARE OUT OF WORK. THESE ARE PEOPLE WHO WANT TO BE PRODUCTIVE. BUT, AS THE MONTHS GO BY, DESPAIR DOMINATES THEIR LIVES. THE THREATS OF LAYOFF AND UNEMPLOYMENT HANG OVER OTHER MILLIONS, AND ALL WHO WORK ARE FRUSTRATED BY THEIR INABILITY TO KEEP UP WITH INFLATION.

ONE WORKER IN A MIDWEST CITY PUT IT TO ME THIS WAY: HE SAID, "I'M BRINGING HOME MORE DOLLARS THAN I THOUGHT I COULD EVER EARN BUT I SEEM TO BE GETTING WORSE OFF." WELL, HE IS.

HOURLY EARNINGS, OF THE AMERICAN WORKER, AFTER ADJUSTING FOR INFLATION, HAVE DECLINED 5 PERCENT OVER THE PAST FIVE YEARS. AND, FURTHERMORE, IN THE LAST FIVE YEARS, FEDERAL PERSONAL TAXES FOR THE AVERAGE FAMILY INCREASED 67 PERCENT.

WE CAN NO LONGER PROCRASTINATE AND HOPE THINGS WILL GET BETTER. THEY WILL NOT. IF WE DO NOT ACT FORCEFULLY, AND NOW, THE ECONOMY WILL GET WORSE.

CAN WE WHO MAN THE SHIP OF STATE DENY IT IS OUT OF CONTROL? OUR NATIONAL DEBT IS APPROACHING \$1 TRILLION. A FEW WEEKS AGO, I CALLED SUCH A FIGURE -- A TRILLION DOLLARS -- INCOMPREHENSIBLE. I'VE BEEN TRYING TO THINK OF A WAY TO ILLUSTRATE HOW BIG IT REALLY IS. THE BEST I COULD COME UP WITH IS TO SAY THAT A STACK OF \$1,000 BILLS IN YOUR HAND ONLY FOUR INCHES HIGH WOULD MAKE YOU A MILLIONAIRE. A TRILLION DOLLARS WOULD BE A STACK OF \$1,000 BILLS 67 MILES HIGH.

THE INTEREST ON THE PUBLIC DEBT THIS YEAR WILL BE OVER \$90 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 IS ESTIMATED TO ADD \$100 BILLION TO THE PRICE OF THINGS WE BUY AND REDUCES OUR ABILITY TO PRODUCE. THE RATE OF INCREASE IN AMERICAN PRODUCTIVITY, ONCE ONE OF THE HIGHEST IN THE WORLD, IS AMONG THE LOWEST OF ALL MAJOR INDUSTRIAL NATIONS. INDEED, IT HAS ACTUALLY DECLINED THE LAST THREE YEARS.

I HAVE PAINTED A GRIM PICTURE BUT I BELIEVE I HAVE PAINTED IT ACCURATELY. IT IS WITHIN OUR POWER TO CHANGE THIS PICTURE AND WE CAN ACT IN HOPE. THERE IS NOTHING WRONG WITH OUR INTERNAL STRENGTHS. THERE HAS BEEN NO BREAKDOWN IN THE HUMAN, TECHNOLOGICAL, AND NATURAL RESOURCES UPON WHICH THE ECONOMY IS BUILT.

BASED ON THIS CONFIDENCE IN A SYSTEM WHICH HAS NEVER FAILED US -- BUT WHICH WE HAVE FAILED THROUGH A LACK OF CONFIDENCE, AND SOMETIMES THROUGH A BELIEF THAT WE COULD FINE TUNE THE ECONOMY AND GET A TUNE MORE TO OUR LIKING -- I AM PROPOSING A COMPREHENSIVE FOUR-PART PROGRAM.

I WILL NOW OUTLINE AND GIVE IN SOME DETAIL THE PRINCIPAL PARTS OF THIS PROGRAM, BUT YOU WILL EACH BE PROVIDED WITH A COMPLETELY DETAILED COPY OF THE PROGRAM IN ITS ENTIRETY.

THIS PLAN IS AIMED AT REDUCING THE GROWTH IN GOVERNMENT SPENDING AND TAXING, REFORMING AND ELIMINATING REGULATIONS WHICH ARE UNNECESSARY AND COUNTERPRODUCTIVE, AND ENCOURAGING A CONSISTENT MONETARY POLICY AIMED AT MAINTAINING THE VALUE OF THE CURRENCY.

IF ENACTED IN FULL, OUR PROGRAM CAN HELP AMERICA CREATE 13 MILLION NEW JOBS, NEARLY 3 MILLION MORE THAN WE WOULD WITHOUT THESE MEASURES. IT WILL ALSO HELP US GAIN CONTROL OF 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. THIS PLAN WILL GET OUR ECONOMY MOVING AGAIN, INCREASE PRODUCTIVITY GROWTH, AND THUS CREATE THE JOBS OUR PEOPLE MUST HAVE.

I AM ASKING THAT YOU JOIN ME IN REDUCING DIRECT FEDERAL SPENDING BY \$41.4 BILLION IN FISCAL YEAR 1982, ALONG WITH \$7.7 BILLION IN USER FEES AND OFF-BUDGET SAVINGS FOR A TOTAL SAVINGS OF \$49.1 BILLION. THIS WILL STILL ALLOW AN INCREASE OF \$40.8 BILLION OVER 1981 SPENDING.

I KNOW THAT EXAGGERATED AND INACCURATE STORIES ABOUT THESE CUTS HAVE DISTURBED MANY PEOPLE, PARTICULARLY THOSE DEPENDENT ON GRANT AND BENEFIT PROGRAMS FOR THEIR BASIC NEEDS.

SOME OF YOU HAVE HEARD FROM CONSTITUENTS AFRAID THAT SOCIAL SECURITY CHECKS, FOR EXAMPLE, MIGHT BE TAKEN FROM THEM. I REGRET THE FEAR THESE UNFOUNDED STORIES HAVE CAUSED AND WELCOME THIS OPPORTUNITY TO SET THINGS STRAIGHT.

WE WILL CONTINUE TO FULFILL THE OBLIGATIONS THAT SPRING FROM OUR NATIONAL CONSCIENCE. THOSE WHO THROUGH NO FAULT OF THEIR OWN MUST DEPEND ON THE REST OF US, THE POVERTY STRICKEN, THE DISABLED, THE ELDERLY, ALL THOSE WITH TRUE NEED, CAN REST ASSURED THAT THE SOCIAL SAFETY NET OF PROGRAMS THEY DEPEND ON ARE EXEMPT FROM ANY CUTS.

THE FULL RETIREMENT BENEFITS OF THE MORE THAN 31 MILLION SOCIAL SECURITY RECIPIENTS WILL BE CONTINUED ALONG WITH AN ANNUAL COST OF LIVING INCREASE. MEDICARE WILL NOT BE CUT, NOR WILL SUPPLEMENTAL INCOME FOR THE BLIND, AGED, AND DISABLED. FUNDING WILL CONTINUE FOR VETERANS' PENSIONS.

SCHOOL BREAKFASTS AND LUNCHES FOR THE CHILDREN OF LOW INCOME FAMILIES WILL CONTINUE AS WILL NUTRITION AND OTHER SPECIAL SERVICES FOR THE AGING. THERE WILL BE NO CUT IN PROJECT HEAD START OR SUMMER YOUTH JOBS.

ALL IN ALL, NEARLY \$216 BILLION -- PROVIDING HELP FOR TENS OF MILLIONS OF AMERICANS -- WILL BE FULLY FUNDED. BUT GOVERNMENT WILL NOT CONTINUE TO SUBSIDIZE INDIVIDUALS OR PARTICULAR BUSINESS INTERESTS WHERE REAL NEED CANNOT BE DEMONSTRATED. AND WHILE WE WILL REDUCE SOME SUBSIDIES TO REGIONAL AND LOCAL GOVERNMENTS, WE WILL AT THE SAME TIME CONVERT A NUMBER OF CATEGORICAL GRANT PROGRAMS INTO BLOCK GRANTS TO REDUCE WASTEFUL ADMINISTRATIVE OVERHEAD AND TO GIVE LOCAL GOVERNMENT ENTITIES AND STATES MORE FLEXIBILITY AND CONTROL. WE CALL FOR AN END TO DUPLICATION IN FEDERAL PROGRAMS AND REFORM OF THOSE WHICH ARE NOT COST-EFFECTIVE.

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 8 PERCENT OF TOTAL EDUCATIONAL FUNDING. FOR THIS THE FEDERAL GOVERNMENT HAS INSISTED ON A TREMENDOUSLY DISPROPORTIONATE SHARE OF CONTROL OVER OUR SCHOOLS. WHATEVER REDUCTIONS WE'VE PROPOSED IN THAT 8 PERCENT WILL AMOUNT TO VERY LITTLE OF THE TOTAL COST OF EDUCATION. IT WILL, HOWEVER, RESTORE MORE AUTHORITY TO STATES AND LOCAL SCHOOL DISTRICTS.

HISTORICALLY, THE AMERICAN PEOPLE HAVE SUPPORTED, BY VOLUNTARY CONTRIBUTIONS, MORE ARTISTIC AND CULTURAL ACTIVITIES THAN ALL THE OTHER COUNTRIES IN THE WORLD PUT TOGETHER. I WHOLEHEARTEDLY SUPPORT THIS APPROACH AND BELIEVE AMERICANS WILL CONTINUE THEIR GENEROSITY. THEREFORE, I AM PROPOSING A SAVINGS OF \$85 MILLION IN THE FEDERAL SUBSIDIES NOW GOING TO THE ARTS AND HUMANITIES.

THERE ARE A NUMBER OF SUBSIDIES TO BUSINESS AND INDUSTRY I BELIEVE ARE UNNECESSARY. NOT BECAUSE THE ACTIVITIES BEING SUBSIDIZED AREN'T OF VALUE BUT BECAUSE THE MARKETPLACE CONTAINS INCENTIVES ENOUGH TO WARRANT CONTINUING THESE ACTIVITIES WITHOUT A GOVERNMENT SUBSIDY.

ONE SUCH SUBSIDY IS THE DEPARTMENT OF ENERGY'S SYNTHETIC FUELS PROGRAM. WE WILL CONTINUE SUPPORT OF RESEARCH LEADING TO DEVELOPMENT OF NEW TECHNOLOGIES AND MORE INDEPENDENCE FROM FOREIGN OIL, BUT WE CAN SAVE AT LEAST \$3.2 BILLION BY LEAVING TO PRIVATE INDUSTRY THE BUILDING OF PLANTS TO MAKE LIQUID OR GAS FUELS FROM COAL.

WE ARE ASKING THAT ANOTHER MAJOR BUSINESS SUBSIDY, THE EXPORT-IMPORT BANK LOAN AUTHORITY, BE REDUCED BY ONE-THIRD IN 1982. WE ARE DOING THIS BECAUSE THE PRIMARY BENEFICIARIES OF TAXPAYER FUNDS IN THIS CASE ARE THE EXPORTING COMPANIES THEMSELVES -- MOST OF THEM PROFITABLE CORPORATIONS.

AND THIS BRINGS ME TO A NUMBER OF OTHER LENDING PROGRAMS IN WHICH GOVERNMENT MAKES LOW-INTEREST LOANS, SOME OF THEM FOR AN INTEREST RATE AS LOW AS 2 PERCENT. WHAT HAS NOT BEEN VERY WELL UNDERSTOOD IS THAT THE TREASURY DEPARTMENT HAS NO MONEY OF ITS OWN. IT HAS TO GO INTO THE PRIVATE CAPITAL MARKET AND BORROW THE MONEY TO PROVIDE THOSE LOANS. IN THIS TIME OF EXCESSIVE INTEREST RATES THE GOVERNMENT FINDS ITSELF PAYING INTEREST SEVERAL TIMES AS HIGH AS IT RECEIVES FROM THE BORROWING AGENCY. THE TAXPAYERS -- YOUR CONSTITUENTS -- OF COURSE, ARE PAYING THAT HIGH INTEREST RATE AND IT JUST MAKES ALL OTHER INTEREST RATES HIGHER.

BY TERMINATING THE ECONOMIC DEVELOPMENT ADMINISTRATION WE CAN SAVE HUNDREDS OF MILLIONS OF DOLLARS IN 1982 AND BILLIONS MORE OVER THE NEXT FEW YEARS. THERE IS A LACK OF CONSISTENT AND CONVINCING EVIDENCE THAT E.D.A. AND ITS REGIONAL COMMISSIONS HAVE BEEN EFFECTIVE IN CREATING NEW JOBS. THEY HAVE BEEN EFFECTIVE IN CREATING AN ARRAY OF PLANNERS, GRANTSMEN, AND PROFESSIONAL MIDDLEMEN. WE BELIEVE WE CAN DO BETTER JUST BY THE EXPANSION OF THE ECONOMY AND THE JOB CREATION WHICH WILL COME FROM OUR ECONOMIC PROGRAM.

THE FOOD STAMP PROGRAM WILL BE RESTORED TO ITS ORIGINAL PURPOSE: TO ASSIST THOSE WITHOUT RESOURCES TO PURCHASE SUFFICIENT NUTRITIONAL FOOD. WE WILL, HOWEVER, SAVE \$1.8 BILLION IN FISCAL YEAR 1982 BY REMOVING FROM ELIGIBILITY THOSE WHO ARE NOT IN REAL NEED OR WHO ARE ABUSING THE PROGRAM. DESPITE THIS REDUCTION, THE PROGRAM WILL BE BUDGETED FOR MORE THAN \$10 BILLION.

WE WILL TIGHTEN WELFARE AND GIVE MORE ATTENTION TO OUTSIDE SOURCES OF INCOME WHEN DETERMINING THE AMOUNT OF WELFARE AN INDIVIDUAL IS ALLOWED. THIS PLUS STRONG AND EFFECTIVE WORK REQUIREMENTS WILL SAVE \$520 MILLION NEXT YEAR.

I STATED A MOMENT AGO OUR INTENTION TO KEEP THE SCHOOL BREAKFAST AND LUNCH PROGRAMS FOR THOSE IN TRUE NEED. BUT BY CUTTING BACK ON MEALS FOR CHILDREN OF FAMILIES WHO CAN AFFORD TO PAY, THE SAVINGS WILL BE \$1.6 BILLION IN FISCAL YEAR 1982.

LET ME JUST TOUCH ON A FEW OTHER AREAS WHICH ARE TYPICAL OF THE KIND OF REDUCTIONS WE HAVE INCLUDED IN THIS ECONOMIC PACKAGE. THE TRADE ADJUSTMENT ASSISTANCE PROGRAM PROVIDES BENEFITS FOR WORKERS WHO ARE UNEMPLOYED WHEN FOREIGN IMPORTS REDUCE THE MARKET FOR VARIOUS AMERICAN PRODUCTS CAUSING SHUTDOWN OF PLANTS AND LAYOFF OF WORKERS. THE PURPOSE IS TO HELP THESE WORKERS FIND JOBS IN GROWING SECTORS OF OUR ECONOMY.

AND YET, BECAUSE THESE BENEFITS ARE PAID OUT ON TOP OF NORMAL UNEMPLOYMENT BENEFITS, WE WIND UP PAYING GREATER BENEFITS TO THOSE WHO LOSE THEIR JOBS BECAUSE OF FOREIGN COMPETITION THAN WE DO TO THEIR FRIENDS AND NEIGHBORS WHO ARE LAID OFF DUE TO DOMESTIC COMPETITION. ANYONE MUST AGREE THAT THIS IS UNFAIR. PUTTING THESE TWO PROGRAMS ON THE SAME FOOTING WILL SAVE \$1.15 BILLION IN JUST ONE YEAR.

EARLIER I MADE MENTION OF CHANGING CATEGORICAL GRANTS TO STATES AND LOCAL GOVERNMENTS INTO BLOCK GRANTS. WE KNOW, OF COURSE, THAT CATEGORICAL GRANT PROGRAMS BURDEN LOCAL AND STATE GOVERNMENTS WITH A MASS OF FEDERAL REGULATIONS AND FEDERAL PAPERWORK.

INEFFECTIVE TARGETING, WASTEFUL ADMINISTRATIVE OVERHEAD -- ALL CAN BE ELIMINATED BY SHIFTING THE RESOURCES AND DECISION-MAKING AUTHORITY TO LOCAL AND STATE GOVERNMENT. THIS WILL ALSO CONSOLIDATE PROGRAMS WHICH ARE SCATTERED THROUGHOUT THE FEDERAL BUREAUCRACY. IT WILL BRING GOVERNMENT CLOSER TO THE PEOPLE AND WILL SAVE \$23.9 BILLION OVER THE NEXT FIVE YEARS.

OUR PROGRAM FOR ECONOMIC RENEWAL DEALS WITH A NUMBER OF PROGRAMS WHICH AT PRESENT ARE NOT COST-EFFECTIVE. AN EXAMPLE IS MEDICAID. RIGHT NOW, WASHINGTON PROVIDES THE STATES WITH UNLIMITED MATCHING PAYMENTS FOR THEIR EXPENDITURES.

AT THE SAME TIME, WE HERE IN WASHINGTON PRETTY MUCH DICTATE HOW THE STATES WILL MANAGE THE PROGRAM. WE WANT TO PUT A CAP ON HOW MUCH THE FEDERAL GOVERNMENT WILL CONTRIBUTE BUT AT THE SAME TIME ALLOW THE STATES MUCH MORE FLEXIBILITY IN MANAGING AND STRUCTURING THEIR PROGRAMS. I KNOW FROM OUR EXPERIENCE IN CALIFORNIA THAT SUCH FLEXIBILITY COULD HAVE LED TO FAR MORE COST-EFFECTIVE REFORMS. THIS WILL BRING A SAVINGS OF \$1 BILLION NEXT YEAR.

THE SPACE PROGRAM HAS BEEN AND IS IMPORTANT TO AMERICA AND WE PLAN TO CONTINUE IT. WE BELIEVE, HOWEVER, THAT A REORDERING OF PRIORITIES TO FOCUS ON THE MOST IMPORTANT AND COST-EFFECTIVE NASA PROGRAMS CAN RESULT IN A SAVINGS OF A QUARTER OF A BILLION DOLLARS.

COMING DOWN FROM SPACE TO THE MAILBOX -- THE POSTAL SERVICE HAS BEEN CONSISTENTLY UNABLE TO LIVE WITHIN ITS OPERATING BUDGET. IT IS STILL DEPENDENT ON LARGE FEDERAL SUBSIDIES. WE PROPOSE REDUCING THOSE SUBSIDIES BY \$632 MILLION IN 1982 TO PRESS THE POSTAL SERVICE INTO BECOMING MORE EFFECTIVE. IN SUBSEQUENT YEARS, THE SAVINGS WILL CONTINUE TO ADD UP.

THE ECONOMIC REGULATORY ADMINISTRATION IN THE DEPARTMENT OF ENERGY HAS PROGRAMS TO FORCE COMPANIES TO CONVERT TO SPECIFIC FUELS. IT HAS THE AUTHORITY TO ADMINISTER A GAS RATIONING PLAN, AND PRIOR TO DECONTROL IT RAN THE OIL PRICE CONTROL PROGRAM. WITH THESE AND OTHER REGULATIONS GONE, WE CAN SAVE SEVERAL HUNDREDS OF MILLIONS OF DOLLARS OVER THE NEXT FEW YEARS.

NOW I'M SURE THERE IS ONE DEPARTMENT YOU'VE BEEN WAITING FOR ME TO MENTION. THAT IS THE DEPARTMENT OF DEFENSE. IT IS THE ONLY DEPARTMENT IN OUR ENTIRE PROGRAM THAT WILL ACTUALLY BE INCREASED OVER THE PRESENT BUDGETED FIGURE.

BUT EVEN HERE THERE WAS NO EXEMPTION. THE DEPARTMENT OF DEFENSE CAME UP WITH A NUMBER OF CUTS WHICH REDUCED THE BUDGET INCREASE NEEDED TO RESTORE OUR MILITARY BALANCE.

THESE MEASURES WILL SAVE \$2.9 BILLION IN 1982 OUTLAYS AND BY 1986 A TOTAL OF \$28.2 BILLION WILL HAVE BEEN SAVED. THE AIM WILL BE TO PROVIDE THE MOST EFFECTIVE DEFENSE FOR THE LOWEST POSSIBLE COST.

I BELIEVE MY DUTY AS PRESIDENT REQUIRES THAT I RECOMMEND INCREASES IN DEFENSE SPENDING OVER THE COMING YEARS.

SINCE 1970 THE SOVIET UNION HAS INVESTED \$300 BILLION MORE IN ITS MILITARY FORCES THAN WE HAVE. AS A RESULT OF ITS MASSIVE MILITARY BUILDUP, THE SOVIETS NOW HAVE A SIGNIFICANT NUMERICAL ADVANTAGE IN STRATEGIC NUCLEAR DELIVERY SYSTEMS, TACTICAL AIRCRAFT, SUBMARINES, ARTILLERY AND ANTI-AIRCRAFT DEFENSE. TO ALLOW THIS IMBALANCE TO CONTINUE IS A THREAT TO OUR NATIONAL SECURITY.

NOTWITHSTANDING OUR ECONOMIC STRAITS, MAKING THE FINANCIAL CHANGES BEGINNING NOW IS FAR LESS COSTLY THAN WAITING AND ATTEMPTING A CRASH PROGRAM SEVERAL YEARS FROM NOW.

WE REMAIN COMMITTED TO THE GOAL OF ARMS LIMITATION THROUGH NEGOTIATION AND HOPE WE CAN PERSUADE OUR ADVERSARIES TO COME TO REALISTIC BALANCED AND VERIFIABLE AGREEMENTS. BUT, AS WE NEGOTIATE, OUR SECURITY MUST BE FULLY PROTECTED BY A BALANCED AND REALISTIC DEFENSE PROGRAM.

LET ME SAY A WORD HERE ABOUT THE GENERAL PROBLEM OF WASTE AND FRAUD IN THE FEDERAL GOVERNMENT. ONE GOVERNMENT ESTIMATE INDICATED THAT FRAUD ALONE MAY ACCOUNT FOR ANYWHERE FROM 1 TO 10 PERCENT -- AS MUCH AS \$25 BILLION -- OF FEDERAL EXPENDITURES FOR SOCIAL PROGRAMS. IF THE TAX DOLLARS THAT ARE WASTED OR MISMANAGED ARE ADDED TO THIS FRAUD TOTAL, THE STAGGERING DIMENSIONS OF THIS PROBLEM BEGIN TO EMERGE.

THE OFFICE OF MANAGEMENT AND BUDGET IS NOW PUTTING TOGETHER AN INTERAGENCY TASK FORCE TO ATTACK WASTE AND FRAUD. WE ARE ALSO PLANNING TO APPOINT AS INSPECTORS GENERAL HIGHLY-TRAINED PROFESSIONALS WHO WILL SPARE NO EFFORT TO DO THIS JOB.

NO ADMINISTRATION CAN PROMISE TO IMMEDIATELY STOP A TREND THAT HAS GROWN IN RECENT YEARS AS QUICKLY AS GOVERNMENT EXPENDITURES THEMSELVES. BUT LET ME SAY THIS: WASTE AND FRAUD IN THE FEDERAL BUDGET IS EXACTLY WHAT I HAVE CALLED IT BEFORE -- AN UNRELENTING NATIONAL SCANDAL -- A SCANDAL WE ARE BOUND AND DETERMINED TO DO SOMETHING ABOUT.

MARCHING IN LOCKSTEP WITH THE WHOLE PROGRAM OF REDUCTIONS IN SPENDING IS THE EQUALLY IMPORTANT PROGRAM OF REDUCED TAX RATES. BOTH ARE ESSENTIAL IF WE ARE TO HAVE ECONOMIC RECOVERY. IT IS TIME TO CREATE NEW JOBS, BUILD AND REBUILD INDUSTRY, AND GIVE THE AMERICAN PEOPLE ROOM TO DO WHAT THEY DO BEST. AND THAT CAN ONLY BE DONE WITH A TAX PROGRAM WHICH PROVIDES INCENTIVE TO INCREASE PRODUCTIVITY FOR BOTH WORKERS AND INDUSTRY.

OUR PROPOSAL IS FOR A 10 PERCENT ACROSS-THE-BOARD CUT EVERY YEAR FOR THREE YEARS IN THE TAX RATES FOR ALL INDIVIDUAL INCOME TAXPAYERS MAKING A TOTAL TAX CUT OF 30 PERCENT.

THIS THREE-YEAR REDUCTION WILL ALSO APPLY TO THE TAX ON UNEARNED INCOME LEADING TOWARD AN EVENTUAL ELIMINATION OF THE PRESENT DIFFERENTIAL BETWEEN THE TAX ON EARNED AND UNEARNED INCOME.

THE EFFECTIVE STARTING DATE FOR THESE 10 PERCENT PERSONAL INCOME TAX RATE REDUCTIONS WILL BE JULY 1ST OF THIS YEAR.

AGAIN, LET ME REMIND YOU THIS 30 PERCENT REDUCTION IN MARGINAL RATES, WHILE IT WILL LEAVE THE TAXPAYERS WITH \$500 BILLION MORE IN THEIR POCKETS OVER THE NEXT FIVE YEARS, IS ACTUALLY ONLY A REDUCTION IN THE TAX INCREASE ALREADY BUILT INTO THE SYSTEM.

UNLIKE SOME PAST TAX (QUOTE, UNQUOTE) "REFORMS," THIS IS NOT MERELY A SHIFT OF WEALTH BETWEEN DIFFERENT SETS OF TAXPAYERS. THIS PROPOSAL FOR AN EQUAL REDUCTION IN EVERYONE'S TAX RATES WILL EXPAND OUR NATIONAL PROSPERITY, ENLARGE NATIONAL INCOMES, AND INCREASE OPPORTUNITIES FOR ALL AMERICANS.

SOME WILL ARGUE, I KNOW, THAT REDUCING TAX RATES NOW WILL BE INFLATIONARY. A SOLID BODY OF ECONOMIC EXPERTS DOES NOT AGREE. AND CERTAINLY TAX CUTS ADOPTED OVER THE PAST THREE-FOURTHS OF A CENTURY INDICATE THESE ECONOMIC EXPERTS ARE RIGHT.

THE ADVICE I HAVE HAD IS THAT BY 1985 OUR REAL PRODUCTION OF GOODS AND SERVICES WILL GROW BY 20 PERCENT AND WILL BE \$300 BILLION HIGHER THAN IT IS TODAY. THE AVERAGE WORKER'S WAGE WILL RISE (IN REAL PURCHASING POWER) BY 8 PERCENT AND THOSE ARE AFTER-TAX DOLLARS. THIS, OF COURSE, IS PREDICATED ON OUR COMPLETE PROGRAM OF TAX CUTS AND SPENDING REDUCTIONS BEING IMPLEMENTED.

THE OTHER PART OF THE TAX PACKAGE IS AIMED DIRECTLY AT PROVIDING BUSINESS AND INDUSTRY WITH THE CAPITAL NEEDED TO MODERNIZE AND ENGAGE IN MORE RESEARCH AND DEVELOPMENT. THIS WILL INVOLVE AN INCREASE IN DEPRECIATION ALLOWANCES AND THIS PART OF OUR TAX PROPOSAL WILL BE RETROACTIVE TO JANUARY 1ST.

THE PRESENT DEPRECIATION SYSTEM IS OBSOLETE, NEEDLESSLY COMPLEX, AND ECONOMICALLY COUNTERPRODUCTIVE. VERY SIMPLY, IT BASES THE DEPRECIATION OF PLANT, MACHINERY, VEHICLES, AND TOOLS ON THEIR ORIGINAL COST WITH NO RECOGNITION OF HOW INFLATION HAS INCREASED THEIR REPLACEMENT COST.

WE ARE PROPOSING A MUCH SHORTER WRITE-OFF TIME THAN IS PRESENTLY ALLOWED. WE PROPOSE A FIVE-YEAR WRITE-OFF FOR MACHINERY; THREE YEARS FOR VEHICLES AND TRUCKS; AND A TEN-YEAR WRITE-OFF FOR PLANT.

IN FISCAL YEAR 1982 UNDER THIS PLAN BUSINESS WOULD ACQUIRE NEARLY \$10 BILLION FOR INVESTMENT AND BY 1985 THE FIGURE WOULD BE NEARLY \$45 BILLION. THESE CHANGES ARE ESSENTIAL TO PROVIDE THE NEW INVESTMENT WHICH IS NEEDED TO CREATE MILLIONS OF NEW JOBS BETWEEN NOW AND 1986 AND TO MAKE AMERICA COMPETITIVE ONCE AGAIN IN WORLD MARKETS. THESE ARE NOT MAKEWORK JOBS, THEY ARE PRODUCTIVE JOBS WITH A FUTURE.

I'M WELL AWARE THAT THERE ARE MANY OTHER DESIRABLE TAX CHANGES SUCH AS INDEXING THE INCOME TAX BRACKETS TO PROTECT TAXPAYERS AGAINST INFLATION. THERE IS THE UNJUST DISCRIMINATION AGAINST MARRIED COUPLES IF BOTH ARE WORKING AND EARNING, TUITION TAX CREDITS, THE UNFAIRNESS OF THE INHERITANCE TAX ESPECIALLY TO THE FAMILY-OWNED FARM AND THE FAMILY-OWNED BUSINESS AND A NUMBER OF OTHERS. BUT OUR PROGRAM FOR ECONOMIC RECOVERY IS SO URGENTLY NEEDED TO BEGIN TO BRING DOWN INFLATION THAT I WOULD ASK YOU TO ACT ON THIS PLAN FIRST AND WITH GREAT URGENCY. THEN I PLEDGE TO YOU I WILL JOIN WITH YOU IN SEEKING THESE ADDITIONAL TAX CHANGES AT AN EARLY DATE.

AMERICAN SOCIETY EXPERIENCED A VIRTUAL EXPLOSION IN GOVERNMENT REGULATION DURING THE PAST DECADE. BETWEEN 1970 AND 1979, EXPENDITURES FOR THE MAJOR REGULATORY AGENCIES QUADRUPLD, THE NUMBER OF PAGES PUBLISHED ANNUALLY IN THE FEDERAL REGISTER NEARLY TRIPLED, AND THE NUMBER OF PAGES IN THE CODE OF FEDERAL REGULATIONS INCREASED BY NEARLY TWO-THIRDS.

THE RESULT HAS BEEN HIGHER PRICES, HIGHER UNEMPLOYMENT, AND LOWER PRODUCTIVITY GROWTH. OVERREGULATION CAUSES SMALL AND INDEPENDENT BUSINESSMEN AND WOMEN, AS WELL AS LARGE BUSINESSES, TO DEFER OR TERMINATE PLANS FOR EXPANSION AND, SINCE THEY ARE RESPONSIBLE FOR MOST OF OUR NEW JOBS, THOSE NEW JOBS AREN'T CREATED.

WE HAVE NO INTENTION OF DISMANTLING THE REGULATORY AGENCIES -- ESPECIALLY THOSE NECESSARY TO PROTECT THE ENVIRONMENT AND TO ASSURE THE PUBLIC HEALTH AND SAFETY. HOWEVER, WE MUST COME TO GRIPS WITH INEFFICIENT AND BURDENSOME REGULATIONS -- ELIMINATE THOSE WE CAN AND REFORM THOSE WE MUST KEEP.

I HAVE ASKED VICE PRESIDENT BUSH TO HEAD A CABINET-LEVEL TASK FORCE ON REGULATORY RELIEF. SECOND, I ASKED EACH MEMBER OF MY CABINET TO POSTPONE THE EFFECTIVE DATES OF THE HUNDREDS OF REGULATIONS WHICH HAVE NOT YET BEEN IMPLEMENTED. THIRD, IN COORDINATION WITH THE TASK FORCE, MANY OF THE AGENCY HEADS HAVE TAKEN PROMPT ACTION TO REVIEW AND RESCIND EXISTING BURDENSOME REGULATIONS.

FINALLY, JUST YESTERDAY, I SIGNED AN EXECUTIVE ORDER THAT FOR THE FIRST TIME PROVIDES FOR EFFECTIVE AND COORDINATED MANAGEMENT OF THE REGULATORY PROCESS.

ALTHOUGH MUCH HAS BEEN ACCOMPLISHED, THIS IS ONLY A BEGINNING. WE WILL ELIMINATE THOSE REGULATIONS THAT ARE UNPRODUCTIVE AND UNNECESSARY BY EXECUTIVE ORDER WHERE POSSIBLE AND COOPERATE FULLY WITH YOU ON THOSE THAT REQUIRE LEGISLATION.

THE FINAL ASPECT OF OUR PLAN REQUIRES A NATIONAL MONETARY POLICY WHICH DOES NOT ALLOW MONEY GROWTH TO INCREASE CONSISTENTLY FASTER THAN THE GROWTH OF GOODS AND SERVICES. IN ORDER TO CURB INFLATION, WE NEED TO SLOW THE GROWTH IN OUR MONEY SUPPLY.

WE FULLY RECOGNIZE THE INDEPENDENCE OF THE FEDERAL RESERVE SYSTEM AND WILL DO NOTHING TO UNDERMINE THAT INDEPENDENCE. WE WILL CONSULT REGULARLY WITH THE FEDERAL RESERVE BOARD ON ALL ASPECTS OF OUR ECONOMIC PROGRAM AND WILL VIGOROUSLY PURSUE BUDGET POLICIES THAT WILL MAKE THEIR JOB EASIER IN REDUCING MONETARY GROWTH.

A SUCCESSFUL PROGRAM TO ACHIEVE STABLE AND MODERATE GROWTH PATTERNS IN THE MONEY SUPPLY WILL KEEP BOTH INFLATION AND INTEREST RATES DOWN AND RESTORE VIGOR TO OUR FINANCIAL INSTITUTIONS AND MARKETS.

THIS, THEN, IS OUR PROPOSAL. "AMERICA'S NEW BEGINNING: A PROGRAM FOR ECONOMIC RECOVERY." I DO NOT WANT IT TO BE SIMPLY THE PLAN OF MY ADMINISTRATION -- I AM HERE TONIGHT TO ASK YOU TO JOIN ME IN MAKING IT OUR PLAN. TOGETHER, WE CAN EMBARK ON THIS ROAD NOT TO MAKE THINGS EASY, BUT TO MAKE THINGS BETTER.

CAN WE DO THE JOB? THE ANSWER IS YES. BUT WE MUST BEGIN NOW. OUR SOCIAL, POLITICAL, AND CULTURAL, AS WELL AS OUR ECONOMIC INSTITUTIONS, CAN NO LONGER ABSORB THE REPEATED SHOCKS THAT HAVE BEEN DEALT THEM OVER THE PAST DECADES.

WE ARE IN CONTROL HERE. THERE IS NOTHING WRONG WITH AMERICA THAT WE CAN'T FIX. SO I'M FULL OF HOPE AND OPTIMISM THAT WE WILL SEE THIS DIFFICULT NEW CHALLENGE TO ITS END -- THAT WE WILL FIND THOSE RESERVOIRS OF NATIONAL WILL TO ONCE AGAIN DO THE RIGHT THING.

I'M SURE THERE WILL BE SOME WHO WILL RAISE THE FAMILIAR OLD CRY, "DON'T TOUCH MY PROGRAM -- CUT SOMEWHERE ELSE."

I HOPE I'VE MADE IT PLAIN THAT OUR APPROACH HAS BEEN EVEN-HANDED; THAT ONLY THE PROGRAMS FOR THE TRULY DESERVING NEEDY REMAIN UNTOUCHED.

THE QUESTION IS, ARE WE SIMPLY GOING TO GO DOWN THE SAME PATH WE'VE GONE DOWN BEFORE -- CARVING OUT ONE SPECIAL PROGRAM HERE AND ANOTHER SPECIAL PROGRAM THERE. I DON'T THINK THAT IS WHAT THE AMERICAN PEOPLE EXPECT OF US. MORE IMPORTANT, I DON'T THINK THAT IS WHAT THEY WANT. THEY ARE READY TO RETURN TO THE SOURCE OF OUR STRENGTH.

THE SUBSTANCE AND PROSPERITY OF OUR NATION IS BUILT BY WAGES BROUGHT HOME FROM THE FACTORIES AND THE MILLS, THE FARMS AND THE SHOPS. THEY ARE THE SERVICES PROVIDED IN TEN THOUSAND CORNERS OF AMERICA; THE INTEREST ON THE THRIFT OF OUR PEOPLE AND THE RETURNS FROM THEIR RISK-TAKING.

THE PRODUCTION OF AMERICA IS THE POSSESSION OF THOSE WHO BUILD, SERVE, CREATE, AND PRODUCE.

FOR TOO LONG NOW, WE'VE REMOVED FROM OUR PEOPLE THE DECISIONS ON HOW TO DISPOSE OF WHAT THEY CREATED. WE HAVE STRAYED FROM FIRST PRINCIPLES. WE MUST ALTER OUR COURSE.

THE TAXING POWER OF GOVERNMENT MUST BE USED TO PROVIDE REVENUES FOR LEGITIMATE GOVERNMENT PURPOSES. IT MUST NOT BE USED TO REGULATE THE ECONOMY OR BRING ABOUT SOCIAL CHANGE. WE'VE TRIED THAT AND SURELY MUST BE ABLE TO SEE IT DOESN'T WORK.

SPENDING BY GOVERNMENT MUST BE LIMITED TO THOSE FUNCTIONS WHICH ARE THE PROPER PROVINCE OF GOVERNMENT. WE CAN NO LONGER AFFORD THINGS SIMPLY BECAUSE WE THINK OF THEM.

NEXT YEAR WE CAN REDUCE THE BUDGET BY \$41.4 BILLION, WITHOUT HARM TO GOVERNMENT'S LEGITIMATE PURPOSES AND TO OUR RESPONSIBILITY TO ALL WHO NEED OUR BENEVOLENCE. THIS, PLUS THE REDUCTION IN TAX RATES, WILL HELP BRING AN END TO INFLATION.

IN THE HEALTH AND SOCIAL SERVICES AREA ALONE, THE PLAN WE ARE PROPOSING WILL SUBSTANTIALLY REDUCE THE NEED FOR 465 PAGES OF LAW, 1,400 PAGES OF REGULATIONS, AND 5,000 FEDERAL EMPLOYEES WHO PRESENTLY ADMINISTER 7,600 SEPARATE GRANTS AT ABOUT 25,000 LOCATIONS. OVER 7 MILLION MAN AND WOMAN HOURS OF WORK BY STATE AND LOCAL OFFICIALS ARE REQUIRED TO FILL OUT FEDERAL FORMS.

MAY I DIRECT A QUESTION TO THOSE WHO HAVE INDICATED UNWILLINGNESS TO ACCEPT THIS PLAN FOR A NEW BEGINNING: AN ECONOMIC RECOVERY? HAVE THEY AN ALTERNATIVE WHICH OFFERS A GREATER CHANCE OF BALANCING THE BUDGET, REDUCING AND ELIMINATING INFLATION, STIMULATING THE CREATION OF JOBS, AND REDUCING THE TAX BURDEN? AND, IF THEY HAVEN'T, ARE THEY SUGGESTING WE CAN CONTINUE ON THE PRESENT COURSE WITHOUT COMING TO A DAY OF RECKONING IN THE VERY NEAR FUTURE?

IF WE DON'T DO THIS, INFLATION AND A GROWING TAX BURDEN WILL PUT AN END TO EVERYTHING WE BELIEVE IN AND TO OUR DREAMS FOR THE FUTURE. WE DO NOT HAVE AN OPTION OF LIVING WITH INFLATION AND ITS ATTENDANT TRAGEDY, OF MILLIONS OF PRODUCTIVE PEOPLE WILLING AND ABLE TO WORK BUT UNABLE TO FIND BUYERS IN THE JOB MARKET.

WE HAVE AN ALTERNATIVE TO THAT, A PROGRAM FOR ECONOMIC RECOVERY, A PROGRAM THAT WILL BALANCE THE BUDGET, PUT US WELL ON THE ROAD TO OUR ULTIMATE OBJECTIVE OF ELIMINATING INFLATION ENTIRELY, INCREASING PRODUCTIVITY AND CREATING MILLIONS OF NEW JOBS.

TRUE, IT WILL TAKE TIME FOR THE FAVORABLE EFFECTS OF OUR PROPOSAL TO BE FELT. SO WE MUST BEGIN NOW.

THE PEOPLE ARE WATCHING AND WAITING. THEY DON'T DEMAND MIRACLES, BUT THEY DO EXPECT US TO ACT. LET US ACT TOGETHER.


THANK YOU AND GOOD NIGHT.

#

THE WHITE HOUSE
WASHINGTON

February 17, 1981

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

FROM: Kenneth L. Khachigian 

SUBJECT: President's Address to the Joint Session

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

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

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

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

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

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

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

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

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

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

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only three inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills ⁴⁵~~4~~ miles high.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Thank you and good night.

*We will fill in
the blanks with
figures mont me?
ROR*

February 17, 1981
Second Draft

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

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

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

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

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

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

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

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

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills 67 miles high.

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

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

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

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

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

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

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

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

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

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

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

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

*I thought
we were cutting
this?? (not sure)
CETA figures)
if not what
about leaving
it? checks
the college
figs? W.R.*

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

Insert paragraph from P. 17

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

← To Page 5

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

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

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

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

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

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

In the Health ^{and Social} ^{Welfare} services alone the plan we are proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations and 5000 ^{FED.} employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 mil. men & women hours of work by state & local officials are required to fill out Fed. forms

This came from Dave Stockman

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning; an
economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

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

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

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

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

Thank you and good night.

February 17, 1981
Second Draft

*We will fill in
the blanks with
figures sent me?
RR*

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

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

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

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

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

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

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

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

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills 67 miles high.

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

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

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

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

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

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

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

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

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

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

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

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

*I thought
we were cutting
this?? (not sure)
CETA figures
if not what
about leaving
it in checks -
the college for
figs? 77*

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

Insert paragraph from P. 17

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

← To Page 5

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

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

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

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

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

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

In the Health ^{and social} services ^{with} alone the plan we are proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations and 5000 ^{FED.} employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 mil. men & women have to work by state & local officials are required to fill out Fed. forms

*This came from
Dave Stockman*

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning; an economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

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

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

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

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

Thank you and good night.

February 17, 1981
Second Draft

*We will fill
the blanks with
figures next week!
RR*

(X)

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

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

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the ⁴last, best hope of man. *On earth*

(+)

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

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

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

✓ Hourly earnings of the American worker, after adjusting for inflation, have declined five percent over the past five years. And furthermore, in the last five years, Federal personal taxes for the average family increased 67 percent.

pay last year in those same 1972 dollars, he ~~only received~~
\$105. And inflation isn't the ~~only~~ cause of this. In the
last four years Federal personal taxes for the average family
increased by ⁶⁰~~58~~ percent.]

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

Can we who man the ship of state deny it is out of
control? Our National debt is approaching \$1 trillion. A
few weeks ago I called such a figure -- a trillion dollars --
incomprehensible. I've been trying to think of a way to
illustrate how big it really is. The best I could come up
with is to say that a stack of \$1,000 bills in your hand
only four inches high would make you a millionaire. A trillion
dollars would be a stack of \$1,000 bills 67 miles high.

The interest on ^{the public}~~our~~ debt this year will be ^{over \$90}~~\$75~~ 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 ^{is estimated to add}~~adds~~ \$100 billion to the price of
things we buy and reduces our ability to produce. The rate
of increase in American productivity, once ^{one of} the highest in
the world, is ~~now~~ among the lowest of all major industrial
nations. Indeed, it ^{has} actually declined ^{the last three years.}~~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.

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

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

If enacted in full, our program can help America create ¹³ ~~12~~ million new jobs, ^{nearly} three million more than we would without these measures. It will also help us gain control of inflation, ~~cutting it in half by 1984, and to less than five percent by 1986.~~

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

direct Federal spending by \$41.4 billion in fiscal year 1982, along with \$7.7 billion in user fees and off-budget savings for a total savings of \$49.1 billion.

I am asking that you join me in reducing ~~the proposed budget for 1982 by \$___ billion.~~ This will still allow an increase of \$40.8 billion over 1981 spending.

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

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

The full retirement benefits of the more than 31 million ~~Social Security~~ ^{all} 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.~~

I thought we were cutting this 75% (not sure) & CETA figures? I don't want to leave the college kids? figs? 42

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

Insert paragraph from P. 17

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

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the ^(Department of Energy) synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can ^{at least} save \$ 3.2 billion by leaving to

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

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

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

By terminating the Economic Development Administration ^(hundreds of) we can save ~~\$300~~ million ^{of dollars} in 1982 and ~~\$2~~ billion ⁵ ~~through 1985~~ ^{more over the next few years.} There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

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

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save ~~\$671~~⁵²⁰ million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be \$1.⁶~~7~~ billion ^{in FY 1982}.

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

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

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

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and State government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save ^{\$23.9}~~\$5~~ billion over the next five years.

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

(X)

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

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million ^{in 1982} to press the Postal Service into becoming more effective. *In subsequent years, the savings will continue to add up.*

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

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance. (Y) *from p. 1*

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

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs.

[These measures will save \$2.9 billion in 1982 ^{outlays} and by 1986 ^{will have been saved.}]
Total of \$28.2 billion ~~by 1986~~ The aim will be to provide the most effective defense for the lowest possible cost.]

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

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

one gon't estimate indicated
~~of Justice~~ *may* has ~~estimated~~ that fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~In the months left in this fiscal year we can reduce the budget by \$___ billion and in 1982 by \$41.4 billion, without~~
IF Next year we can reduce the budget by
harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will ~~put an~~ *help bring an* end to inflation.

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

and social work
In the Health ^{and social work} services alone the plan we are proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations and 5000 ^{FED.} employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 mil. men & women have to work by state & local officials are required to fill out Fed. forms

This came from Dave Stockman

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning; an economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

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

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

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


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

Thank you and good night.

13 14
THE WHITE HOUSE
WASHINGTON

February 17, 1981

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

FROM: Kenneth L. Khachigian 

SUBJECT: President's Address to the Joint Session

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

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