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7:00 p.m. EDT
Monday, October 20, 1975

Excerpts of remarks by the Hon. Ronald Reagan,
former Governor of California,
before the Thirteenth Annual Dinner
of the Conservative Party of New York,
Americana Hotel, New York, New York.
Monday, October 20, 1975.

"LET THE PEOPLE RULE"

"In his first Inaugural Address, nearly a century and three-quarters ago, President Thomas Jefferson defined the aims of his Administration. He said, 'A wise and frugal government which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government.' Jefferson believed the people were the best agents of their own destinies, and that the task of government was not to direct the people but to create an environment of ordered freedom in which the people could pursue those destinies in their own way. But he also knew that from the very beginning the tendency of government has been to become player as well as umpire. 'What has destroyed the liberty and the rights of men in every government that has ever existed under the sun?', Jefferson asked; and then answered, 'The generalizing and concentrating all cares and powers into one body.'

"If Jefferson could return today, I doubt that he would be surprised either at what has happened in America, or at the result. When a nation loses its desire or ability to restrain growth and concentration of power, the floodgates are open and the results are predictable.

"The Fiscal Year 1976 ends four days before our bicentennial. At the end of this fiscal year, government at all levels will have absorbed 37 percent of the Gross National Product and 44 percent of our total personal income. We destroy the value of our pensions and savings with

an inflation rate that soars to 12 percent a year, at the same time we suffer unemployment rates of eight and nine percent.

"Every minute that I speak to you here, the federal government spends another \$700,000. Now, let me make it clear, there is no connection between my speaking to you and their spending. I'd stop talking if they'd stop spending. But, Washington is spending a billion dollars every day and going into debt another billion-and-a-third dollars every week. I think it would hardly surprise Jefferson to learn that the real spendable weekly income of the average American worker is lower than it was a decade ago -- even though in these 10 years that same worker has increased his productivity by 23 percent. Now, that is taking bread from the mouth of labor -- the bread it has earned.

"If government continues to take that bread for the next 25 years at the same rate of increase it has in the last 40, the percentage of Gross National Product government consumes will be 66 percent -- two-thirds of all our output -- by the end of this century. A single proposal now before Congress, Senator Kennedy's national health insurance plan, would push that share of the Gross National Product consumed by government from 37 to more than 45 percent, all by itself. That's rather expensive 'Teddy Care'.

"This absorption of revenue by all levels of government, the alarming rate of inflation, and the rising total of unemployment all stem from a single source: The belief that government, particularly the federal government, has the answer to our ills, and that the proper method of dealing with social problems is the transfer of power from the private to the public sector, and within the public sector from state and local governments to the ultimate power center in Washington.

"This collectivist, centralizing approach, by whatever name or party label it wears, has created our economic problems. Government is not the

solution -- government is the problem. Not only does it impose an intolerable tax burden, greater than any nation in history has ever been able to survive, but then it spends over and beyond even this, creating horrendous inflation. By saddling the economy with an ever-increasing network of regulations and controls, it has raised the consumer prices, destroyed jobs and choked off the vital supplies of food and energy.

"Last year, in spite of the ambitious programs to create jobs and stimulate the economy, the private sector lost 2.3 million jobs. The public payroll increased by 715,000. Now, as if that were not enough, the crushing weight of the central government has distorted the relationship between the levels of government, and worse, between the people and their government.

"The individual feels helpless, unable to have any influence on the government he is supposed to control. The state and local communities have been demeaned into little more than administrative districts -- bureaucratic subdivisions of a big brother government in Washington. Thousands of towns and neighborhoods have seen the peace disturbed by bureaucrats and social planners, through busing, questionable educational programs and attacks on family unity.

"Even so liberal an observer as Richard Goodwin could identify what he correctly called 'the most troubling political fact of our age: that the growth of central power has been accompanied by a swift and continual reduction of significance of the individual citizen, transforming him from a wielder into an object of authority.' At this rate, we'll soon live in a land where everything that isn't prohibited is compulsory.

"Now, it isn't good enough to approach this confusion by saying that we'll try to make it more efficient or responsible; or that we'll modify an aspect here or there or do a little less of all these objectionable

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things than will the Washington bureaucrats and those who supported them. This may have worked in the past, but not any longer. The problem must be attacked at its source. All Americans must be rallied to preserve the good things that remain in our society and to restore those good things that have been lost. We can, and we must, reverse the flow of power to Washington -- not simply slow it or paper over the problem with attractive phrases or cosmetic tinkering; this would give the appearance of change but leave the basic machinery untouched.

"In fact, it reminds me of that short fable of Tolstoy's: 'I sit on a man's back, choking him and making him carry me, and yet assure myself and others that I am very sorry for him and wish to lighten his load by all possible means -- except by getting off his back.'

"What I propose is nothing less than a systematic transfer of authority and resources to the states -- a program of creative federalism for America's third century.

"Federal authority has clearly failed to do the job. Indeed, it has created more problems in welfare, education, housing, food stamps, Medicaid, community and regional development, and revenue sharing, to name a few. The sums involved and the potential savings to the taxpayer are large. Transfer of authority in whole or part in all these areas would reduce the outlay of the federal government by more than \$90 billion, using the spending levels of Fiscal 1976.

"With such a savings, it would be possible to balance the federal budget, make an initial five-billion-dollar payment on the national debt, and cut the federal personal income tax burden of every American by an average of 23 percent. By taking such a step we could quickly liberate much of our economy and political system from the dead hand of federal interference, with a beneficial impact on every aspect of our daily lives.

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"Not included in such a transfer would be those functions of government which are national rather than local in nature, and others which are handled through trust arrangements outside the general revenue structure. In addition to national defense and space, some of these areas are Social Security, Medicare, and other old-age programs; enforcement of federal law; veterans affairs; some aspects of agriculture, energy, transportation, and environment; TVA and other multi-state public-works projects; and certain types of research.

"Few would want to end the federal government's role as a setter of national goals and standards -- I doubt that anyone would want to do that. And no one would want to rule out the role for Washington in those few areas where its influence has been important and benign; crash efforts like the Manhattan and Apollo projects, and massive self-liquidating programs like the Homestead Act and the land-grant colleges. And, certainly the federal government must take an active role in assuring this nation an adequate supply of energy.

"Keeping these programs in Washington does not mean there would be no effort at reform. To the contrary.

"Regulatory agencies dealing with non-monopoly business and industries must set a date certain for ending federal price-fixing; and in the immediate years ahead should achieve an end to regulations which prevent the entry of newcomers in the various lines of business or industry, forestalling competition.

"Steps must be taken to keep spending and borrowing by off-budget agencies under control; and our major trust funds must be reformed to ensure solvency and accountability. Particularly important is the need to save Social Security from the colossal debt that threatens the future well-being of millions of our citizens, even while it overtaxes the

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workers at a growing and extravagant rate. Today, the average worker is buying Social Security -- what amounts to fifth-rate term and liability insurance -- and he is paying three or four times what he would have to pay for that same thing out on the open market.

"I think we must put a statutory limit on the growth of our money supply so that growth does not exceed the gain in productivity. This is the only way we can restore the strength and purchasing power of our anemic dollar. I can remember when we used to say that nothing could replace the American dollar -- and now it practically has.

"We must reform the tax system and we can begin by radically simplifying the method of tax collection so the average citizen can figure out what he owes in a matter of minutes without legal help. We're the only country in the world where it takes more brains to figure out the tax than it does to earn the income. Genuine tax reform would also make it more rewarding to save than to borrow. Surtax brackets should be indexed to keep government from profiting from inflation and the individual from being penalized for trying to keep pace with the increased cost of living. Such reforms, plus sharp reductions in the income tax, would vastly increase every American's purchasing power.

"Today, taxes are the biggest family expense item. It is greater than food, shelter and clothing combined. Last year, according to a study by the Joint Economic Committee of Congress, income taxes at all levels rose by 26.5 percent -- without any actual increase in the rates -- just the effect of inflation. With all our complaining about rise in prices, this increased cost of government was the sharpest-hitting increase of any item in the family budget. The bite of the personal income tax gets sharper as inflation pushes us up into higher surtax brackets. Government doesn't have to raise the rates to profit by inflation. The progressive tax is

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based on the number of dollars earned, not their actual value. With political courage instead of demagoguery, we could have a reform of business taxes that would encourage a wider ownership in American industry by the workers in those industries.

"Finally, real tax reform would set a limit on the percentage of the total earnings of the people that government could take without expressed consent of the people.

"In the months ahead, I will say more on each of these major areas of national policy. But right now, let me tell you what I think the massive transfer of federal program to the states would mean.

"It would be a giant step toward solving the problems of inflation that are sapping the strength of our economy and cheating American wage-earners and pensioners. There is no mystery about inflation. It is caused by spending money not yet earned. Without the enormous pressure of a \$60 or \$80 billion deficit, the Federal Reserve System would have no mandate to pump many dollars into the economy -- which is ultimately the only cause of inflation. Inflation, in turn, is the cause of recession. The federal deficit is the chief debaucher of our dollar.

"Some of the tax cuts I propose would be balanced by increases in taxes at the state or the local level; but still the savings would be considerable. One thing, when we begin making payments on the national debt, we make further reductions in the tax burden. Right now, we are being billed a billion dollars every ten days just to pay interest on the debt. Reducing that debt will progressively reduce the level of taxation. Senator Hubert Humphrey once was excusing government spending and rationalized what had taken place by saying, 'Well, you have to realize that a billion here and a billion there -- it adds up.' Well, it can work the other way around.

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"With the spending reduction I propose, the federal government will no longer be crowding capital markets to finance its deficits. That will make available billions of dollars in new capital for private investment, housing starts, and job creation -- and the interest rates for all of us will come down.

"The transfer I propose does not mean that the specific programs in question are not worthwhile. Many are, though in my opinion many others are not. But the point is that all these programs are losing their effectiveness because of the federal government's preemption of the levels of government that are closer to the problems, coupled with Washington's ability to complicate everything it touches.

"The decision as to whether the programs are worthwhile and whether to continue them or cancel them will be placed where it rightfully belongs: with the people in each one of our states.

"It is theoretically possible that local governments will simply duplicate some of the existing programs as they are turned over to them; and if that is what the people in that particular state want, that is exactly what should happen. The federal bureaucrats who run them now will be available -- there certainly won't be any work for them in Washington.

"Some of the more worthwhile programs will be retained essentially as they are, others will be modified, many will be dropped. But all the surviving programs will be run at a much lower cost than is presently the case.

"The present system is geared to maximize expenditure and minimize responsibility. There is no better way to promote the lavish outlay of tax money than to transfer programs and funding authority away from state and local governments to the federal level, ensuring that recipients of aid will have every reason to spend and none to conserve. They can get

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political credit for spending freely, but they don't have to take the heat for imposing the taxes. The French economist Bastiat, 100 years ago, said, 'Public funds seemingly belong to no one and the temptation to bestow them on someone is irresistible.'

"So long as the system continues to function on this basis, we are going to see expenditures at every level of government soar out of sight. The object is to reverse this: to tie spending and taxing functions together wherever feasible, so that those who have the pleasure of giving the money away will also have the pain of raising them. At the same time, we can sort out which functions of government are best performed at each level. And that process, I hope, would be going on between each state and its own local governments at the same time.

"The transfer of spending authority to Washington blurs the difference between wasteful states and prudent ones and this, too, destroys incentives toward economy. If a state spends itself into bankruptcy on welfare, under the present system it is bailed out when Washington picks up the tab. Indeed, many federal programs are geared toward encouraging this kind of behavior. The way to get more is to spend more.

"By the same token, efforts at state economy are punished under the present system. A state that keeps its fiscal house in order and, for example, prevents the welfare problem from getting out of hand will find it derives no benefits from its action. It will discover, as we did in California, that efforts to impose some common sense in welfare will run afoul of federal bureaucrats and guidelines and its citizens will be called upon to pay in federal taxes and inflation for other states that don't curb their spending.

"Another benefit of localizing these programs is that state and local governments are more accessible to the local citizen, and in most cases

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prevented by statute from going in debt. When tax increases are proposed in state assemblies and city councils, the average citizen is better able to resist and to make his influence felt. This, plus the ban on local deficits, tends to put an effective lid on spending.

"Federal financing is the spender's method of getting around these restraints. Taxes are imposed at a level where the government is far away and inaccessible to the average citizen. The connection between big spending and high taxes is hidden, and the ability to run up deficits and print more money makes the efforts to control the problem through the taxation almost meaningless.

"The proposals I have outlined will bring howls of pain from those who are benefiting from the present system, and from many more who think they are. We must turn a deaf ear to the screams of the outraged if this nation and this way of life are to survive. The simple fact is, the producing class of this nation is being drained of its substance by the non-producers -- the taxpayers are being victimized by the tax consumers. And, already in the last few weeks, we have discovered we are outnumbered. There are 71½ million Americans working and earning, producing in the private sector. They are the total source of all government revenue -- all the money must come from those 71½ million people. There are 80½ million people today receiving checks at one time or another from government. We are outnumbered by nine million.

"Many have based their political lives on appealing to this non-producing bloc -- always at the further distress of the great body of people that make this great system work. Well, the ship can't stay afloat unless we man the pumps.

"Of course, there will be those in government and elsewhere whose life style depends on consuming other people's earnings, and they'll fight to the last limousine and carpeted anteroom.

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"But if we ignore the taxers and the centralizers and do the things we know we can do, we'll do more than survive: we will inaugurate a new era of American diversity.

"Now, you take, for example, education. The United States built the greatest system of public schools the world has ever known -- not at the federal level, or even at the state level, but at the level of the local school district. Until a few years ago, the people had direct control over their schools -- how much to spend, what kind of courses to offer, whom to hire. Is it an accident that, as local control gave way to funding and control by the federal and state governments, reading and other test scores in the college entrance exams have gone down -- nosediving, actually -- in the last 10 years, and this year hitting an all-time low?

"Dr. James Coleman, of Johns Hopkins University, in what is probably the most thorough study of the public schools ever made, found that over a 20-year period, enrollment in the public schools has gone up 88 percent. The cost has risen in constant dollars 350 percent. The number of school employees has increased 203 percent. The average cost of educating a student has risen in the last decade 211 percent, while the cost of living has only gone up 57 percent. The truth is, a good education depends far more on local control than on the amount of money spent.

"There is no question but that under local agencies certain abuses did take place and certainly they needed to be cured -- sometimes by federal interference. This was certainly true of the racial segregation in the South. But now that according to some estimates the South is the most integrated area of the country -- now that there is an ongoing enforcement structure in the Department of Justice -- is there any further reason to deny local control and funding of our schools?

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"Or take welfare. For years the fashionable voices have been calling for a federal takeover of welfare. Well, they did take over the old-age portions -- and in the first 18 months, they paid out over a billion dollars by mistake! If there is one area of social policy that should be at the most local level of government possible, it is welfare. It should not be nationalized -- it should be localized. If Joe Doaks is using his welfare money to go down to the pool hall and drink beer and gamble, and the people on his block are paying for it, as they are, but if they also have a say in running the program, Joe is apt to undergo a change in his life style.

"This is an example of why our task force in California found that the smaller and more local governments become, the less they cost. The more you localize government, the less you will see a situation like the one in Massachusetts, where a mother of six is receiving from government, in cash and services, the equivalent of a \$20,000-a-year income. The average family income in Massachusetts is just one-half of that.

"The truth is that people all over America have been thinking about all of these problems for years. This country is bursting with ideas and creativity, but a government run by bureaucrats in Washington has no way to respond. If we send the power back to the states and localities, we'll find out how to improve education, because some districts are going to succeed with some ideas, others are going to fail with ideas, and the word will spread between them like wildfire. The more we let the people decide, the more we'll find out about what policies work and what policies don't work. Successful programs and good local governments will attract bright people like magnets, because the genius of our federalism -- that we have grown so far toward destroying in recent decades -- is that people can vote with their feet. If local or state governments get tyrannical and costly, the people will move. By the same token, if one of them shows up doing

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something right, people will pack up and move toward that. If the federal government is the villain, there is no escape.

"I am calling also for an end to giantism, for a return to the human scale -- the scale that human beings can understand and cope with; the scale of the local fraternal lodge, the church congregation, the block club, the farm bureau. It is the locally-owned factory, the small businessman who personally deals with his customers and stands behind his product, the farm and consumer cooperative, the town or neighborhood bank that invests in the community, the union local.

"In government, the human scale is the town council, the board of selectmen, and the precinct captain.

"It is this activity on a small, human scale that creates the fabric of community, a framework for the creation of abundance of liberty. The human scale nurtures standards of right behavior, a prevailing ethic of what is right and wrong, acceptable and unacceptable.

"Three-and-a-half centuries ago, people from across the sea began to cross to this great land, searching for freedom and a sense of community they were losing at home. The trickle became a flood, and we spread across a vast, virtually unpeopled continent and caused it to blossom with homesteads, villages, cities, great transportation systems, all the emblems of prosperity and success. And we did every bit of that without an urban renewal program or an area redevelopment plan. We became the most productive people in the history of the world.

"Two hundred years ago, when this process was just beginning, we rebelled when, in our eyes, a mother country turned into a foreign power. We rebelled not to overturn but to preserve what we had, and to keep alive the chance for doing more. We established a republic, because the meaning of a republic is that real leadership comes not from the rulers but from

the people; that more happens in a state where people are the sculptors and not the clay.

"We are losing that chance today, and we know we are losing it. Two hundred years ago it was London that turned into a foreign power. Today, it is sad to say, it is Washington, D. C. The coils woven in that city are entrapping us all, and, as with the Gordian knot, we cannot untie it. We have to cut it with one blow of the sword.

"In one reference book, cutting the Gordian knot is defined as 'solving a perplexing problem by a single bold action'. The Gordian knot of antiquity was in Phrygia, and it was Alexander the Great who cut it, thereby, according to the legend, assuring the conquest of Persia.

"Today, the Gordian knot is in Washington, and the stakes are even higher. But this is a republic, and we don't have a king with a sword, only we the people, and our sword has been fashioned into a ballot box. What applies to the role of government applies equally to the means of changing that role: leadership is necessary, but even more necessary is popular choice. The anonymous sage who defined leadership must have lived in a republic, for he said, 'He is not the best statesman who is the greatest doer, but he who sets others doing with the greatest success.'"

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