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Staff 1-14-81
12:20 PST



ABOARD AIR FORCE ONE

- 1.) Name the prime minister
re: the quote - never
- 2.) John Deere 3 or 4
parapaper cover.
- 3.) Worsh:
- promise to be loyal to
- allies
- economy
not one of several as
above.

These: need 3 political
then
1.) NOT badly organized
2.) Had, some samples &

12:20



ABOARD AIR FORCE ONE

- 2.) Must be effort of
mess operators to get
this out
- "proactive" inflation
"renewed" - repeat a
couple of times

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10:30
a.m.

Meeting w/ Pres-Elect Reagan, KK and Mike Dewar
12-16-80

Agree that it not be laundry list -
but should be injunctive &
reassure that people not govt.
that we can do these things.

- For too long we've allowed others to
do things for us -

- Bill Goini

- 1967 inaug - passage of authority
peaceful

Then turn to Carter on platform
& extend gratitude to J.C. for
his cooperation during transition
period

South Korean - naturalization ceremony
too short

From
edit

Unless we as individuals are free, we
cannot have a nation that is free.

In the discharge of my duty - be
guided by distinction 6/5

The Fed govt did not create the
states; the Fed govt was created by
the States.

4-2
The oath I've taken today
is not just for the president
it's an oath of every American -
to preserve & protect the Const.
of the United States.

from
100 [I came from among you - & I
need to keep the feel as being
among you]

Deaver: Hunger for the gov't. to be
what they always thought it
should be. For 40 years have
been waiting, yearning to be moved

RR: Careful not to take a crack
at previous admin.

Old picture (WW II) about Bataan
Frank McHugh blurted out w/
the line "we're Americans!" -
What's happening to us?

Teleprompter - let's think
about it.

Mike thinks Gov. loses himself
in teleprompter (though not w/
TV office)

P.3

- spiritual element is important -
- reach out to disaffected
- not a laundry list
- grand themes - appeals to history
- gets the theme
- { discard good ideas but save them}
- 20 minutes outside
- aim at 15

- open the door to a program wh/ hits economy, should attack conditions not people.

Vernon Jordan

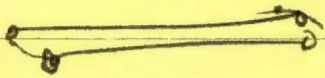
It wh/ reached out to Blacks etc. would be very valuable.

P.R. asked him for ideas - he said he would.

But it should aim at all the minorities

Generalize it to a broader group.

P. 4
where people want to help -
we will not buy their sovereignty



Message: ~~to~~

1.) Here in Western Hemisphere -
in Americas w/o interference or
ingress on their sovereignty -
look to mutually beneficial
arrangements.

& also indicate we intend
to stand by our allies.

Reassurance that by damn we
are going to accept the leadership
that has been thrust upon us.

10:00 a.m.

12:30 - 50

Gov. Reagan & K.K.

Two or three letters from the donors
Register. - just recently done.

We start w/ this thing about
a momentous occasion to ^{some} all
of us - but commonplace to all
of us.

Don't be too harsh - don't
want people in audience looking
at the another for mistakes.

Theme:

The system - if we need it
here:

It is the people - this
cremation itself is ~~orders~~
that gov't belongs to the
people.

Under that system -
rather went from peace to
war on a single morning.
- Depressions

Then the people have
all the power to solve things

Goldstone quote - Englishman
70 years after American War

Special interests -
Hews of America (Kool draft)

Polish letter -

"I would rather die than
once again live w/o such
freedom."

Optimism + hope - but not
goody-goody.

There's no reason for
America not to believe
that we have the answers to
things that are wrong -

"God lord - we've put people
in poverty that are wealthier than
some kings of 100 years ago."

AVOIDING A GOP ECONOMIC DUNKIRK

I. The Gathering Storm

The momentum of short-run economic, financial and budget forces is creating the conditions for an economic Dunkirk during the first 24 months of the Reagan Administration. These major factors threaten:

1) A Second 1980 Credit Crunch

By year end bank rates are likely to hit the 15-17 percent range, causing further deterioration in long-term capital markets for bonds and equities, a renewed consumer spending slowdown, and intensified uncertainty throughout financial markets.

There are a number of potential contributory forces. The most important is the fact that the Fed has been substantially overshooting its 1980 money supply growth goals ever since mid summer. Were Volcker to attempt to use the interregnum to impose the severe constraint necessary to get back on track, M1-B, for example, would have to be held to essentially a zero growth rate for the remainder of the year to fall within the 6.5 percent upper target for 1980.

In addition, the Treasury will impose massive financing requirements on the market through January 1, including about \$100 billion in refinancing and potentially \$25-28 billion in new cash requirements at current budget operating levels (fourth quarter). While private credit requirements are likely to soften

in response to the emerging slowdown in housing, durables and other real sectors, year-end seasonal borrowing requirements are still likely to be heavy.

In all, President Reagan will inherit thoroughly disordered credit and capital markets, punishingly high interest rates, and a hair-trigger market psychology poised to respond strongly to early economic policy signals in either favorable or unfavorable ways.

The pre-eminent danger is that an initial economic policy package that includes the tax cuts but does not contain decisive, credible elements on matters of outlay control, future budget authority reduction, and a believable plan for curtailing the Federal government's massive direct and indirect credit absorption will generate pervasive expectations of a continuing "Reagan inflation." Such a development would almost ensure that high interest rates would hang over the economy well into the first year, deadening housing and durables markets and thwarting the industrial capital spending boom required to propel sustained economic growth. Thus, Thatcherization can only be avoided if the initial economic policy package simultaneously spurs the output side of the economy and also elicits a swift downward revision of inflationary expectations in the financial markets.

2) A Double-Dip Recession in Early 1981

This is now at least a 50 percent possibility given emerging conditions in the financial markets and gathering evidence from the output side of the economy. Stagnant or declining real GNP growth in the first two quarters would generate staggering political and policy challenges. These include a further worsening of an already dismal budget posture (see below) and a profusion of "quick fix"

remedies for various "wounded" sectors of the economy. The latter would include intense pressure for formal or informal auto import restraints, activation of Brooke-Cranston or similar costly housing bailouts, maintenance of current excessive CETA employment levels, accelerated draw-down of various lending and grant aids under SBA, EDA, and FmHA, a further 13 week extension of Federal unemployment benefits, etc. Obviously, the intense political pressures for many of these quick fix aids will distract from the Reagan program on the economic fundamentals (supply side tax cuts, regulatory reform, and firm long-term fiscal discipline) and threaten to lock in budget costs and policy initiatives that are out of step with the basic policy thrust.

There is a further danger; the Federal budget has now become an automatic "coast-to-coast soup line" that dispenses remedial aid with almost reckless abandon, converting the traditional notion of automatic stabilizers into multitudinous outlay spasms throughout the budget. For instance, the estimates for FY 81 trade adjustment assistance have exploded from \$400 million in the spring to \$2.5 billion as of November, and the summer drought will cause SBA emergency farm loan aid to surge by \$1.1 billion above planned levels.

For these reasons, the first hard look at the unvarnished FY 81 and 82 budget posture by our own OMB people is likely to elicit coronary contractions among some, and produce an intense polarization between supply-side tax cutters and the more fiscally orthodox. An internecine struggle over deferral or temporary abandonment of the tax program could ensue. The result would be a severe demoralization and fractionalization of GOP ranks and an erosion of our capacity to govern successfully and revive the economy before November 1982.

3) Federal Budget and Credit Hemorrhage

The latest estimates place FY 81 outlays at nearly \$650 billion. That represents a \$20 billion outlay growth since the August estimates; a \$36 billion growth since the First Budget Resolution passed in June; an outlay level \$73 billion above FY 80; and a \$157 billion growth since the books closed on FY 79 just 13 months ago.

The table below illustrates the full dimension of the coast-to-coast soup line problem mentioned above and the manner in which it drives outlay aggregates upward at mind-numbing speed. A worsening of the informal "misery index" (i.e. higher inflation and interest rates, or lower output growth and employment rates) drives hard on entitlements, indexing, debt servicing, budget authority spend-down rates, and loan facilities spread throughout the Federal government, resulting in a surge of incremental outlays.

Between June and November, for example, Federal outlay estimates have risen from \$613 billion to \$649 billion. Of the \$36 billion growth in outlay estimates, fully \$26 billion or 72 percent is due to automatic budget responses to the mechanisms listed above.

The \$3.2 billion increment for interest outlays represents a revision of the 1981 average T-bill rate from 9.6 in June to 11.0 in the latest estimate. Similarly, the \$9.2 billion increment for trade adjustment assistance, food stamps, cash assistance, and unemployment benefits represents a revised assumption about the expected duration of high unemployment during calendar 1981. The continuing disintermediation crisis in the thrift sector will cause nearly a billion dollar draw-down from the savings and loan insurance fund. Category (4)

presents still another example of the soup line dynamic: when private sector orders soften, Federal defense and "brick and mortar" contractors tend to speed up delivery on contract work, increasing the spend-out rate against obligated authority in the pipeline -- in this case by about \$5 billion.

These illustrations drive home a fundamental point: achieving fiscal control over outlays and Treasury borrowing cannot be conducted as an accounting exercise or exclusively through legislated spending cuts in the orthodox sense. Only a comprehensive economic package that spurs output and employment growth and lowers inflation expectations and interest rates has any hope of stopping the present hemorrhage.

SOURCES OF \$36 BILLION GROWTH IN FY 81 OUTLAY ESTIMATES
BETWEEN JUNE AND NOVEMBER

<u>Program:</u>	<u>Excess Cost Over June</u> <u>(First) Budget Resolution</u>	
1) <u>Due to Higher Inflation:</u>		
<u>Indexed Benefits</u>		
Social Security	\$0.75 billion	
Pension Benefits	0.40	
<u>Specific Price Reestimates</u>		
Defense Fuel Costs	1.20	
Medicare	1.90	
Food Assistance	1.65	
<u>Subtotal</u>		\$ 5.90 billion
2) <u>Due to Higher Interest Rates:</u>		
Student Loans	0.40	
Interest on the Debt	1.30	
Rural Housing Programs	0.15	
FSLIC Outlays	0.95	
<u>Subtotal</u>		2.80
3) <u>Due to Higher Unemployment:</u>		
Medicaid	0.60	
Assistance Payments	0.75	
Unemployment Insurance	4.70	
TRA	2.10	
Food Stamps	0.30	
Federal Supplemental Unemployment Insurance Benefits	0.70	
<u>Subtotal</u>		9.15
4) <u>Due to General Economic Conditions:</u>		
Defense Department Procurement	3.35	
Non-Defense Procurement	3.25	
Corps of Engineers	0.10	
EPA Sewer Construction	0.10	
VA Construction	0.10	
SBA Disaster Loans	1.35	
<u>Subtotal</u>		<u>8.25</u>
<u>GRAND TOTAL</u>		<u>\$26.10 billion</u>

The deficit and total Federal credit activity figures are even more alarming. When the off-budget deficit is included, which it must be since most of this category represents Treasury advances to the Federal Financing Bank (which in turn are financed in the government market for bonds and T-bills), the pre-tax cut deficit for FY 81 ranges between \$50-60 billion.* This follows a closing level of nearly \$80 billion for FY 80 (including off-budget).

The vigorous tax cut package required to spur the supply side of the economy could raise the total static FY 81 deficit to the \$60-80 billion range, depending upon the timing of tax cut implementation and real GNP, employment and inflation levels during the remaining nine months of the fiscal year. These parameters make clear that unless the tax cut program is accompanied by a credible and severe program to curtail FY 81-82 outlays, future spending authority, and overall Federal credit absorption, financial market worries about a "Reagan inflation" will be solidly confirmed by the budget posture.

An alternative indication of the fiscal management crisis is given by the figures for new loan and loan guarantee activities during FY 81 by Federal agencies. These are now estimated at \$150 billion, with only \$44 billion of this amount included in the official on-budget accounts. Thus, Federal credit agencies will absorb an additional \$100 billion in available funds beyond the Treasury's requirements for financing the official deficit.

It is these spending growth trends, deficit levels, and Federal credit absorption parameters which are generating market expectations of a chronic and severe Reagan inflation: market participants simply will not accept the Federal

*This assumes current estimate revenues of \$615 billion, outlays of \$649 billion, an on-budget deficit of \$35 billion, and an off-budget deficit of \$20 billion.

Reserve's money growth and anti-inflation goals in light of this massive governmental domination of credit markets.

4) Commodity Shocks and the Final Destruction of Volcker Monetary Policy

The U.S. economy is likely to face two serious commodity price run-ups during the next 5-15 months. First, if the Iran-Iraq war is not soon terminated, today's excess worldwide crude and product inventories will be largely depleted by February or March. Under those conditions, heavy spot market buying, inventory accumulation, and eventually panic bidding on world markets will once again emerge. Indeed, unless the war combatants exhaust themselves at an early date and move quickly back into at least limited production, this outcome is almost certain by spring. Under these circumstances, OPEC contract rates will rise toward spot market levels in the \$40-50 per barrel range during the first and second quarters of 1981, with a consequent price shock to the U.S. economy. Even a \$10 per barrel increase in average U.S. refiner acquisition cost would add \$50-60 billion annually to aggregate national petroleum expenditures (assuming full decontrol).

Similarly, the present rapid draw-down of worldwide feed grain and protein oil reserves could turn into a rout by the fall of 1981, if the Soviets have another "Communist" (i.e. poor) harvest and production is average-to-below-average elsewhere in the world. Under an adverse 1981 harvest scenario, but not an improbable one, \$4-5 corn, \$6-7 wheat, and \$10-11 soybeans are a distinct possibility.

The problem here is that demand for these basic commodities is highly inelastic in the very short run; and this generates strong credit demands from

both the business and household sectors to finance existing consumption levels without cutting back on other expenditures. If the Federal Reserve chooses to accommodate these commodity price/credit demand shocks, as it has in the past, then in the context of the massive Federal credit demand and financial market disorders described above, only one result is certain: the already tattered credibility of the post-October 1979 Volcker monetary policy will be destroyed. The Federal Reserve will subsequently succumb to enormous internal strife and external pressure, and the conditions for full-scale financial panic and unprecedented global monetary turbulence will be present. The January economic package, therefore, must be formulated with these probable 1981 commodity shocks and resulting financial market pressures clearly in mind.

5) Ticking Regulatory Time Bomb

Unless swift, comprehensive and far-reaching regulatory policy corrections are undertaken immediately, an unprecedented, quantum scale-up of the much discussed "regulatory burden" will occur during the next 18-40 months. Without going into exhaustive detail, the basic dynamic is this: During the early and mid 1970's, Congress approved more than a dozen sweeping environmental, energy and safety enabling authorities, which for all practical purposes are devoid of policy standards and criteria for cost-benefit, cost-effectiveness, and comparative risk analysis. Subsequently, McGovernite no-growth activists assumed control of most of the relevant sub-Cabinet policy posts during the Carter Administration. They have spent the past four years "tooling up" for implementation through a mind-boggling outpouring of rule-makings, interpretative guidelines, and major litigation -- all heavily biased toward maximization of regulatory scope and burden. Thus, this decade-long process of regulatory evolution is just now reaching the stage at which it will sweep through the

industrial economy with near gale force, preempting multi-billions in investment capital, driving up operating costs, and siphoning off management and technical personnel in an incredible morass of new controls and compliance procedures.

In the auto manufacturing sector, for example, new or substantially tougher regulations in the following areas will impact the industry during 1981-84: passive restraint standard (airbags)...1981 passenger tailpipe standard (including an unnecessary 3.4 gram/mile CO limit)...unproven 5 mph bumper standards...final heavy duty engine emission standards...vast new audit, enforcement and compliance procedures, and a new performance warranty system...light duty diesel particulate and NO_x standards...heavy duty truck noise standards... model year 83-85 light duty truck emission standards...MY 83-85 light duty truck fuel econo standards... bus noise standards... ad infinitum. These measures alone will generate \$10 to \$20 billion in capital and operating costs while yielding modest to non-existent social benefits.

Similarly, a cradle-to-grave hazardous waste control system under RCRA will take effect in 1981 at an annual cost of up to \$2 billion. While prudent national waste disposal standards are clearly needed, the RCRA system is a monument to mindless excess: it treats degreasing fluids and PCB's in the same manner; and the proposed standards and controls for generators, transporters and disposers, along with relevant explanations and definitions, encompass more than 500 pages of the Federal Register.

Multi-billion overkill has also bloomed in the regulatory embellishment of the Toxic Substances Control Act, which threatens to emulate FDA "regulatory lag" on new chemical introductions. The proposed OSHA generic carcinogen standard and the technology based BACT, RACT, LAER and NSPS standards under the

Clean Air Act also represent staggering excess built upon dubious scientific and economic premises. Three thousand pages of appliance efficiency standards scheduled for implementation in 13 categories of home appliances in 1981 also threaten to create multi-billion dollar havoc in the appliance industry.

There are also literally dozens of recently completed or still pending rule-makings targeted to specific sectors of the industrial economy as follows: proposed NSPS standards for small industrial boilers (10 to 250 million BTU per hour) are estimated at \$1-2 billion over 1980-85; proposed utility sector standards for bottom ash, fly ash and cooling water control could cost \$3.3 billion; pending OSHA hearing conservation standards, \$500 million; abrasive blasting standards, \$130 million; and asbestos control standards, up to \$600 million. New industrial waste water pretreatment standards...EPA's proposed fluorocarbon-refrigerant control program... the CAA stage II vapor recovery and fugitive hydrocarbon control program...the vehicle inspection and maintenance program...all have price tags in excess of \$1 billion. Moreover, most of the country will fail to meet the 1982 compliance deadline for one or more regulated air pollutants, thereby facing a potential absolute shut-down on the permitting of new or modified industrial sources. All told, there are easily in excess of \$100 billion in new environmental safety and energy compliance costs scheduled for the early 1980's.

II. The Threat of Political Dissolution

This review of the multiple challenges and threats lying in ambush contains an inescapable warning: things could go very badly during the first year, resulting in incalculable erosion of GOP momentum, unity and public confidence.

If bold policies are not swiftly, deftly and courageously implemented in the first six months, Washington will quickly become engulfed in political disorder commensurate with the surrounding economic disarray. A golden opportunity for permanent conservative policy revision and political realignment could be thoroughly dissipated before the Reagan Administration is even up to speed.

The specific danger is this: If President Reagan does not lead a creatively orchestrated high-profile policy offensive based on revision of the fundamentals -- supply side tax cuts and regulatory relief, stern outlay control and Federal fiscal retrenchment, and monetary reform and dollar stabilization -- the thin Senate Republican majority and the de facto conservative majority in the House will fragment and succumb to parochial "fire-fighting as usual" in response to specific conditions of constituency distress.

For example, unless the whole remaining system of crude oil price controls, refiner entitlements, gasoline allocations, and product price controls is administratively terminated "cold turkey" by February 1, there is a high probability of gasoline lines and general petroleum market disorder by early spring. These conditions would predictably elicit a desultory new round of Capitol Hill initiated energy policy tinkering reminiscent of the mindless exercises of Summer 1979. Intense political struggles would develop over implementation of the stand-by conservation programs, extension of EPAA controls and allocations, and funding levels for various pie-in-the-sky solar, conservation, synfuels and renewables programs. The Administration would lose the energy policy initiative and become engulfed in defensive battles, and frenetic energy legislating would preempt Hill attention from more important budget control, entitlement reform, and regulatory revision efforts. In short, if gas lines are permitted to erupt due to equivocation on revocation of controls, debilitating legislative, and

political distractions will be created.

Similarly, failure to spur early economic expansion and alter financial market inflation expectations will result in a plethora of Capitol Hill initiatives to "fix up" the housing, auto and steel sectors, hype up exports, subsidize capital formation, provide municipal fiscal relief, etc. Again, the Administration would be thrown on the defensive. Finally, persistence of "misery index" driven budget deficits, high interest and inflation rates, and continued monetary policy vacillation at the Fed would quickly destroy the present GOP consensus on economic policy, pitting tax cutters against budget cutters and capital formation boosters against Kemp-Roth supporters.

To prevent early dissolution of the incipient Republican majority, only one remedy is available: an initial Administration economic program that is so bold, sweeping and sustained that it --

- totally dominates the Washington agenda during 1981;
- holds promise of propelling the economy into vigorous expansion and the financial markets into a bullish psychology;
- preempts the kind of debilitating distractions outlined above.

The major components and tenor of such an orchestrated policy offensive are described below.

III. Emergency Economic Stabilization and Recovery Program

In order to dominate, shape and control the Washington agenda, President Reagan should declare a national economic emergency soon after inauguration. He

should tell the Congress and the nation that the economic, financial, budget, energy, and regulatory conditions he inherited are far worse than anyone had imagined. He should request that Congress organize quickly and clear the decks for exclusive action during the next 100 days on an Emergency Economic Stabilization and Recovery Program he would soon announce. The Administration should spend the next two to three weeks in fevered consultation with Hill Congressional leaders and interested private parties on the details of the package.

Five major principles should govern the formulation of the package:

1) A static "waste-cutting" approach to the FY 81 outlay component of the fiscal hemorrhage will hardly make a dent in the true fiscal problem. Persisting high "misery index" conditions in the economy will drive the soup line mechanisms of the budget faster than short-run, line-item cuts can be made on Capitol Hill. Fiscal stabilization (i.e. elimination of deficits and excessive rates of spending growth) can only be achieved by sharp improvement in the economic indicators over the next 24 months. This means that the policy initiatives designed to spur output growth and to lower inflation expectations and interest rates must carry a large share of the fiscal stabilization burden. Improvement in the "outside" economic forces driving the budget is just as important as success in the "inside" efforts to effect legislative and administrative accounting reductions.

2) For this reason, dilution of the tax cut program in order to limit short-run static revenue losses during the remainder of FY 81 and FY 82 would be counter-productive. Weak real GNP and employment growth over calendar 1981 and 1982 will generate soup line expenditures equal to or greater than any static revenue gains from trimming the tax program.

3) The needed rebound of real GNP growth and especially vigorous expansion in the capital spending sector of the economy can not be accomplished by tax cuts alone. A dramatic, substantial recision of the regulatory burden is needed both for the short-term cash flow relief it will provide to business firms and the long-term signal it will provide to corporate investment planners. A major "regulatory ventilation" will do as much to boost business confidence as tax and fiscal measures.

4) High, permanent inflation expectations have killed the long-term bond and equity markets that are required to fuel a capital spending boom and regeneration of robust economic growth. Moreover, this has caused a compression of the financial liability structure of business into the short-term market for bank loans and commercial paper, and has caused a flight of savings into tangible assets like precious metals, land, etc. The result of this credit market dislocation and inversion is that super-heated markets for short-term credits keep interest rates high and volatile and make monetary policy almost impossible to conduct.

The Reagan financial stabilization plan must seek to restore credit and capital market order and equilibrium by supporting monetary policy reform and removing the primary cause of long-term inflation pessimism: the explosive growth of out-year Federal liabilities, spending authority, and credit absorption.

This points to the real leverage and locus for budget control: severe recession of entitlement and new obligational authority in the Federal spending pipeline, which creates outlay streams and borrowing requirements in FY 82, FY 83 and beyond. The critical nature of future spending authority

is dramatically illustrated by the experience during FY 1980: new budget authority increased from \$556 billion (FY 79) to nearly \$660 billion in FY 80, an increase of more than \$100 billion, or 18 percent. Much of this authority will create outlay streams and Treasury cash borrowing requirements in FY 81 and beyond.

The fiscal stabilization package adopted during the 100 day session, therefore, must be at minimum equally weighted between out-year spending and entitlement authority reductions and cash outlay savings for the remainder of FY 81. Indeed, the latter possibilities are apparently being exaggerated and over-emphasized. Of the current \$649 billion FY 81 outlay estimate, \$187 billion stems from prior year obligations or authority and cannot be stopped legally; \$97 billion represents defense spending from current obligations and should not be stopped; another \$260 billion represents permanent authority primarily for Social Security and interest. The latter can only be reduced by "outside" economic improvements, and the former would be a political disaster to tinker with in the first round. This leaves \$159 billion in controllable outlays, half of which will be spent or obligated before Congress acts in February-April. In short, \$13 billion (2 percent) in waste-cutting type FY 81 cash outlay savings must be gotten from an \$80 billion slice of the budget. Achieving this 16 percent hold-down will be tough and necessary, but if it is the primary or exclusive focus of the initial fiscal package, the ball game will be lost.

Again, the primary aim of the fiscal control component must be to shift long-term inflation expectations downward and restore bond and equity markets. Severe reductions in out-year authority and Federal credit absorption can accomplish this. In turn, robust long-term capital markets would

lessen the traffic jam in short-term credit markets by permitting corporate portfolio restructuring and by drawing savings out of unproductive tangible assets. The conditions for re-establishing monetary policy credibility would be achieved and short-term interest rates, demand for money and inflation expectations would adjust accordingly.

5) Certain preemptive steps must be taken early on to keep control of the agenda and to maintain Capitol Hill focus on the Stabilization and Recovery Program. Foremost, all remaining petroleum product controls and allocations should be cancelled on day one. This will prevent a "gasoline line crisis," but will permit retail prices to run up rapidly if the world market tightens sharply as expected. This prospective price run-up can be readily converted into an asset: it can provide the political motor force for a legislative and administrative program to step up U.S. energy program production (see below).

In addition, some informal agreement should be sought with Chairmen Hatch, Garn and others to defer the labor policy agenda (minimum wage, Davis Bacon, etc.) until the fall of 1981. Both committees will have a substantial role in the stabilization program, and there is no point in antagonizing organized labor during this critical period. Similarly, the Moral Majority agenda should also be deferred. Pursuit of these issues during the 100 day period would only unleash cross-cutting controversy and political pressures which would undermine the fundamental Administration and Congressional GOP economic task.

The following includes a brief itemization of the major components of the Stabilization and Recovery Program:

a) Supply-Side Tax Components

The calendar year 1981 and 1982 installments of Kemp-Roth, reduction of the top income tax rate on unearned income to 50 percent, further reduction in capital gains, and a substantial reform along 10-5-3 lines of corporate depreciation.

b) Fiscal Stabilization Component.

This would consist of two parts. First, the cash outlay savings measures for the remainder of FY 81 would be aimed at holding outlays to the \$635 billion range. A hiring freeze and a severe cutback in agency travel, equipment procurement, and outside contracting would be the major areas for savings.

The second part would be oriented toward entitlement revisions and budget authority reductions in FY 82 and beyond. Some of this could be accomplished through budget authority rescissions included in the remainder of the FY 81 appropriations bill. This would have to be enacted before the expected December-March continuing resolution expires. Expiration of the continuing resolution would provide strong leverage. Another part could be accomplished through the revised FY 82 budget and scaled-back requests for new budget authority. The remainder would require the legislative committees to address a carefully tailored package of initial entitlement revisions.

Expressed in functional program and spending areas the out-year authority reduction package should address the following items, with a view to reducing Federal domestic program levels by \$30-50 billion per annum in the FY 82-83 period:

- 1) Public-sector capital investment deferrals. We are now spending about \$25 billion per year for highways, mass transit, sewer treatment facilities, public works, national parks, and airport facilities. These are all necessary and productive Federal investments, but their benefit stream will accrue over the next 20-40 years. In light of the current financial crisis, a modest deferral and stretch-out of activity rates (a 10-20 percent reduction) in these areas should be considered.

- 2) Non-Social Security entitlements. Current expenditures for food stamps, cash assistance, Medicaid, disability, heating assistance, housing assistance, WIC, school lunches, and unemployment compensation amount to \$100 billion. A carefully tailored package to reduce eligibility, overlap and abuse should be developed for these areas -- with potential savings of \$10-20 billion.

- 3) Low priority program cut-backs. Total FY 81 expenditures for NASA, CETA, UDAG, the Community Development Program, EDA, urban parks, impact aid, Action, Department of Energy commercialization and information programs, arts and humanities, and the Consumer Cooperative Bank amount to \$25 billion. Most of these programs are ineffective or of low priority and could be cut by at least one third or \$8 billion.

- 4) Federal credit, lending and guarantee reform. As was indicated previously, concessional direct lending and loan guarantee activities by on-budget, off-budget, and government sponsored enterprises is now running rampant, absorbing ever bigger shares of available credit market funds. These programs are buried in HUD, SBA, FmHA, EDA, USDA, Commerce and HHS, as well as in the traditional housing credit and farm credit agencies.

Controlling SBA direct grant activities, for instance, will accomplish little if program activity is simply shifted to concessional loan authorities, with the resultant outlays laundered through the FFB.

c) Regulatory Ventilation

This component also has two segments. The first and most urgent is a well-planned and orchestrated series of unilateral administrative actions to defer, revise or rescind existing and pending regulations where clear legal authority exists. The potential here is really staggering, as this hastily compiled list of specific actions indicates. The important thing is that the work-up on these initiatives must occur during the transition and very early after the inauguration. Again, the aim would be to firmly jolt business confidence and market psychology in a favorable direction.

<u>Action</u>	<u>Impact</u>
1) Grant model year '82 CO waiver	\$300 million auto industry savings
2) Rescind passive restraint standard	\$300-600 million auto investment savings over 3 years
3) Relax 1984 heavy duty truck emission standard	Minimum savings of \$100 million
4) Simplify auto emissions certification and testing	\$80 million per year
5) Modify ambient air standard for ozone to permit multiple exceedences or higher standard value in conformance with scientific evidence	\$15 to \$40 billion in reduced compliance costs over next 8 years
6) Eliminate unnecessary NSPS for small industrial boilers	\$1-2 billion over next 5 years
7) Cancel EPA fuel additive testing program	Savings of \$90 to \$120 million

- | | |
|--|--|
| 8) Relax proposed light duty truck emission standards for post-1983 | Savings would be a substantial fraction of currently estimated \$1.3 billion compliance cost |
| 9) Modify or defer EPA pretreatment standards for industrial wastewater | Savings of a substantial fraction of the \$6 billion compliance cost for just three sectors -- utilities, steel and paper |
| 10) Cancel DOE appliance efficiency standards | Avoids multi-billion havoc in an industry that is already improving product efficiency in response to market pressure |
| 11) Eliminate building energy performance standards | Market forces are working here, too, but rigid BTU budgets for each new structure could cost billions per year for non cost-effective energy savings |
| 12) Modify RCRA to incorporate "degree of hazard" and control system simplification | Savings would be some fraction of \$2 billion per year |
| 13) Defer new OSHA workplace noise standards | Save \$250 million per year |
| 14) Modify or defer pending OSHA standards on scaffolding, asbestos exposure, cadmium and chromium exposure, and grain elevator dust control | More than \$1 billion in annual combined savings |
-

These are suggestive illustrations with rough savings parameters from among literally dozens of potential unilateral administrative actions of this sort. A centralized Transition Task Force charged with identification of targets for early action and determination of required legal and rule-making procedures to commence after inauguration could help speed this initiative.

On a second front, both temporary and permanent statutory revisions will be needed. There are literally dozens of rule-making and compliance deadlines on the statute books for the next 20 months that cannot be prudently met. An omnibus "suspense bill" might be necessary during the 100 day session to defer these deadlines and to implement the one year moratorium on new rule-makings

proposed by Murray Wiedenbaum.

Finally, a fundamental legislative policy reform package to be considered after the 100 day period will have to be developed. This would primarily involve the insertion of mandatory cost-benefit, cost-effectiveness, and comparative risk analyses into the basic enabling acts -- Clean Air and Water, Safe Drinking Water, TOSCA, RCRA, OSHA, etc. Without these statutory changes, administrative rule-making revisions in many cases will be subject to successful court challenge.

d) Contingency Energy Package

The probable 1981 "oil shock" could entail serious political and economic disruption. Therefore, the preemptive step of dismantling controls before the crisis really hits is imperative. Incidentally, the combination of immediate decontrol and a \$10 rise in the world price would increase windfall profits tax revenue by \$20-25 billion during calendar 1981, thereby adding substantially to short-run budget posture improvement, if not to long-run energy production prospects.

But beyond this, a planning team should be readying a package of emergency steps to increase short-run domestic energy production and utilization. This should be implemented if the world market pinch becomes severe. The primary areas for short-run gains would be: accelerated licensing of a half-dozen completed nuclear plants; removal of all end-use restrictions on natural gas; changes in NGPA to permit accelerated infill drilling and near-term production gains; elimination of stripper, marginal and EOR oil properties from the windfall tax; emergency variances from SO₂ standards for industrial and utility coal boilers; and power wheeling from coal-nuclear to oil-based utility systems.

If the crisis is severe enough, rapid statutory revision of the natural gas decontrol program and modification of the windfall tax might be considered as part of the 100 day agenda.

e) A Monetary Accord

The markets have now almost completely lost confidence in Volcker and the new monetary policy. Only an extraordinary gesture can restore the credibility that will be required during the next two years. President Reagan should meet with Volcker or the entire Federal Reserve Board at an early date and issue them a new informal "charter" -- namely, to eschew all consideration of extraneous economic variables like short-term interest rates, housing market conditions, business cycle fluctuations, etc., and to concentrate instead on one exclusive task: bringing the growth of Federal Reserve credit and bank reserves to a prudent rate and stabilization of the international and domestic purchasing power of the dollar.

The President and Congress would jointly take responsibility for ameliorating credit and capital market conditions through implementation of the Stabilization and Recovery Program and would stoutly defend the Fed from all political attacks. Insulation of the Fed from extraneous economic and financial preoccupations, political pressures, recalibration of its monetary objective, and restoration of its tattered credibility is the critical lynch-pin in the whole program.

*Suggested edit
by K.K.*

INAUGURAL ADDRESS OF PRESIDENT RONALD REAGAN

Senator Hatfield, Mr. Chief Justice, Mr. President:

For 180 years, these halls of Congress have borne witness to the peaceful passage of executive authority in America. Thus, what is momentous to the participants in this ceremony is as the commonplace routine in the span of our history. It is a miracle of our heritage which allows us to ~~make~~ changes ~~of~~ leadership with ~~the greatest of~~ order and dignity.

This act truly symbolizes the triumph of our Constitution. Here, we reassert the right of free men and women to govern themselves, to determine their own future and to shape the destiny of their children.

We do more than celebrate the accomplishment of one person or the end of an election process. We reaffirm at this solemn moment that in America the people never lose their power; they only delegate it.

I want you, my fellow citizens, and especially President Carter, to know how much I appreciate the spirit of cooperation which the outgoing administration has accorded us throughout the recent transition process. You showed a watching world that we remain united and helped give our countrymen reassurance in the integrity of our political processes.

Now the business of America goes forward, and the spirit of accord we have found here underscores the fact that conti-

nunity is an essential hallmark of our democracy.

Thirty-eight men before me have sworn to the same oath I have taken here today. But that oath is not peculiar to the office of the President. The obligation to preserve, protect and defend the Constitution of the United States is shared by every patriotic American. I take comfort in knowing that the people are supporting me in fulfilling the solemn charge of that oath.

This compact, between the people and their President, is essential at this time because the United States is confronted with a severe economic affliction. There may be semantic disputes over how to define what it is, but common sense tells us that this great problem ^{really} needs no definition. It faces ~~us~~ ^{us} and ~~your families~~ every day. ~~You know what it is~~

We suffer from the worst sustained peacetime inflation in our history. This ~~extraordinary~~ ^{if} phenomenon distorts our economic decisions. It penalizes thrift. It crushes the struggling young as well as the ~~fixed-income~~ elderly. It threatens, no less, to shatter the lives of tens of millions of people and poison our future economic wellbeing.

~~America also is not at full production, and~~ ^I idle industries have cast millions into unemployment. This is the most sadly human dimension of our economic adversity, causing human misery and personal indignity.

~~We have a~~ ^{I say} system of taxation ~~which~~ imposes unfair and unwise burdens on the taxpayer. Our tax system should be an equitable

one that guarantees all citizens receipt of their just reward for their hours of labor. It should not be a penalty on successful achievement.

And let's be honest with ourselves. As individuals, we cannot forever spend that which we don't have, so why do we believe that we may do so as a nation? We are now paying the uncomfortable price for decades of flaunting budgetary reality, piling deficit upon deficit, and mortgaging our future for the temporary conveniences of the present.

True, we can be grateful that ^{these} ~~the~~ problems are not of literal human survival, nor are we faced with immediate financial disaster. But to continue this long trend is a sure guarantee for social, cultural, and political upheavals of tragic proportions. Today's ^{trouble is} ~~problems are~~ great, but ^{it is} ~~they are~~ only ^a warning signals.

We must act today in order to preserve tomorrow. ~~And act we will.~~

I did not take this pledge as Chief Executive to preside over the steady dissolution of the strongest economy in the world. Very soon, I will propose positive measures to begin the process of regaining control over this severe problem.

These unprecedented economic ills will not disappear magically. They were long in building up, and they will take long to beat back. You will see no miracles, and so progress will come by inches and feet, not by miles.

We must work together, and we must help each other. Success will not come from watching what our neighbor does but by each

(by example what)
of us showing our neighbor ~~what~~ must ^{do,} be done,

The solutions we seek will be equitable as we can make them *because*
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problem. We entered this ~~impending~~ crisis together, and we
shall leave it together.

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to reach deep. There will be no sacred cows, and the only
special interest will be ~~restoration of our prosperity.~~ *to put America back to work and restore the value of the dollar*

~~Join with me, and with the Congress; we will all begin
to put America back to work to earn dollars that retain value.~~

Even as we work to find ^{solutions,} ~~answers,~~ we must study to find
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It is time we brought an end to the negative government. We know that the true glory of our nation includes, but also transcends our governmental institutions. We are and have always been a nation that has a government and not the other way around. That is what makes us special among the nations of the earth.

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The time is now to reverse the growth of the state before the growth of the state reverses the course of America. ~~We must re-examine the institutional arrangements that have grown up over the past decades.~~ Surely, it is no coincidence that the greatest of our economic tribulations have paralleled the massive growth of government in our lives.

~~The goal of this administration will be to reduce the size and influence of the Federal Government.~~ In this republic, government must be the servant of the people.

Therefore, in the discharge of my duties, I shall be guided by a careful observance of the distinction between the powers

granted to the Federal Government and those reserved to the States or to the people. There is a need for all of us to be reminded that the States created the Federal Government; the Federal Government did not create the States.

35 It is my aim to ensure that the government expands the choices of individuals, instead of limiting them. The government must promote opportunity, not smother it. It must foster productivity, not stifle it.

We seek to revitalize the proper functions of government and once again set loose the energy and ingenuity of the American people. We must breathe life into those social and economic institutions which serve as both buffer and bridge between the individual and the state.

So that we are not misunderstood: We don't intend to do away with government. We simply ^{want} intend to make it work. We want it to work with us and not over us. It should stand by our side and not on our back.

During recent years, the idea grew among some circles that individual Americans could not be entrusted to make the right decisions. Well, for too long we have allowed others to do our thinking for us. It is time to do some thinking of our own.

Are we qualified? The answer is an unequivocal, yes. Our capability is built on a bedrock belief in God and in traditional virtues that have stood the test of centuries.

So today, ^{let us} ~~we~~ issue no empty promises or easy rhetoric. ~~It is enough to~~ speak the truth and ~~to~~ have quiet confidence in what is known so well -- that the government must exist to

guarantee our freedoms. And unless we as individuals are free, we cannot have a nation that is free. When we restore that freedom, I am confident that in good time sustained prosperity and economic vitality will be ours again.

My fellow Americans, we have survived decades of testing. Our country is ready once again to fulfill its historical destiny.

We are too great a nation to be confined to small dreams. Therefore, I ask you to begin with me today an era of national renewal. With all the creative energy at our command, we shall renew our determination, our courage, our strength, our spirit, our faith, and our hope. And in renewing ourselves, we will give life to heroic dreams.

We hear it said that because of our current difficulties, our nation is doomed to an inevitable decline. Well, I do not believe in a fate that will fall on the United States of America no matter what we do -- I do believe in a fate that will fall on us if we do nothing. If we take direct action against our difficulties and confront our problems, we will not simply endure -- we will prevail.

Those who do not fear direct action are the builders of America, the unsung heroes of our daily existence -- the laborer upon whose back the nation's cities and commerce rose up; the farmer ^{who} ~~whose struggles with nature~~ feed ^s this country and much of the world beyond; the entrepreneur whose vision and initiative create ~~new jobs, new goods, new wealth and new~~ opportunities; the artist, the artisan and the craftsman who interpret and re-interpret and enrich our culture.

At the very heart of our great national renewal are those individuals and families whose work keeps us strong and whose sacrifices keep us free; whose taxes fuel the government and whose voluntary donations perform the works of charity; whose values sustain our national life; whose patriotism is quiet but deep.

To these men and women, whose role is so often overlooked, and whose voice is so often drowned out, I say today:

Your time has come.

Your values have a home in my home.

Your dreams, your hopes, your goals are now where they should be, at the heart of this government.

No national renewal will be possible without the participation of those who for too many years were left out.

Putting America back to work means putting all Americans back to work, ^{and} An expanding prosperity is the best way to open the doors of equal opportunity. Ending inflation means freeing all Americans from the crushing burden of impossible prices.

To the men and women reaching out for help and hope, I say today: Our national renewal also demands that we display the quality of our compassion.

For how can we love our country and not love our countryman? And how can we love our countryman and not reach out to lift him when he falls, heal him when he is sick, and raise him by extension of opportunity to self-sufficiency so that he stands equal in fact and not just in theory?

Renewal at home ^{will} ~~must be a foundation which~~ make us stronger in the face of a restless world. ~~The world must know that~~ the United States will renew its fiber and ~~begin~~ conducting itself in a way which commands respect. It is time for America once again to be the exemplar of freedom and beacon of hope across the earth.

We must face this world with no illusions. We may be at peace, but the forces of discord and conflict are poised to threaten the peace. And for hundreds of millions of our fellow humans on this planet, freedom's sweet music sounds no note.

To our neighbors, we extend an invitation to strengthen our historic ties. We will look to mutually beneficial relations and not ~~impose on your sovereignty or~~ intervene in your internal affairs. But those who pose as neighbors while seeking to export terrorism and hatred will have neither our help nor our goodwill.

To our allies, I say you will find we are ready to make stronger the binds of our affinity. ~~The word of the United States of America will be reliable.~~ Our support will be steady. Our commitment will be firm. We will match loyalty with loyalty.

~~We are realistic enough to know that we can maintain friendship with our allies without giving up on our ideals and that pursuing our best interests does not require relinquishing our principles.~~
We believe that we can pursue our best interests without requiring

From our beginning, we have sought friendship and alliance with nations that share our dream of freedom. When they have

sought our help, we have given it freely, and we continue to do so. We have no wish to buy their sovereignty with our help because our own sovereignty is not for sale.

To the vast world which has not shared in the blessings of our freedom and prosperity, I say that we will seek to have you know us for our compassion as well as our strength. We will always be able to share our bounty where people must fight the most basic elements of human survival.

But we will not apologize for our system of the free marketplace of ideas and products -- especially to those who condemn us while benefiting from our advances. Let the world worry less about the redistribution of old wealth and more about creating massive new opportunities for producing new wealth.

To the enemies of freedom and to our potential adversaries, I remind you that peace is the highest aspiration of the American people. We will negotiate for it, sacrifice for it, but we will not surrender for it -- now or ever.

We are open to mutual negotiation, but will never allow negotiation to become an end in itself. We hope to reduce destructive armaments but will not be taken advantage of in any agreement. We can be the best of friends when accommodation is called for, but we will be the most tireless opponent if there must be opposition.

We must weigh our foreign policy objectives on the scale of realism. We will always wish the world to be better than it is, but we must always see the world as it is and not as we wish it to be.

Our forebearance should never be misunderstood. Our reluctance for conflict should not be misjudged as a failure of will. We will act when the occasion calls for action. We shall never shrink from our responsibilities.

Our principles of national defense will be simple. We will make ourselves strong enough to prevail against any adversary who threatens us, in any quarter, and at any time. We will be prepared to honor our sacred obligations. We will always seek to use our power to deter and not to destroy.


Our physical strength is as nothing if it is not matched with moral courage and the rightness of our cause. We are secure in the knowledge that no weapon in the arsenals of the world is so formidable as the will of free men and women. It is a weapon our adversaries in today's world do not have.

I welcome this time of challenge and renewal. I know that the rest of the world will believe in us because we are going to believe in ourselves. The fire of our spirit can infuse all peoples with our renewed sense of hope. A generation steeled by harsh wars and brittle peaces does not easily forsake honor at the moment of the struggle for the human spirit. We remember the timeless admonition: evil is powerless if the good are unafraid.

My fellow Americans, this is a good country -- for us and for all of our children. There is nothing wrong with it that we can't fix. Why? Because from our very beginning, the American people have not aspired to great titles or riches, but they have -- especially in our darkest ours -- aspired to

January 4, 1981

MEMORANDUM FOR THE PRESIDENT-ELECT

FROM: Ken Khachigian 
SUBJECT: First Draft of Inaugural Address

Here, at last, is the first working draft of suggested remarks for your Inaugural Address. It represents the melding together of the instructions you gave me, the paragraphs of language you provided, the best of the contributions submitted to you, and my effort to tie it all together with a single voice and theme.

Some guiding observations:

(1) It is on the order of 3400 words, or, by my guess, about 20 minutes reading time -- without applause. Thus, it is a bit too long and needs cutting down. However, I decided it was better to let you see more rather than less in this draft. We now have a luxury of time to cut.

(2) I decided against including any quotations, even though we had many good ones to choose from. Nobody quotes great men quoting other great men. Moreover, how do you choose the very best quotations to go in an historic speech like this? However, we have time and can make room for some specially good ones.

(3) You'll notice that I didn't use the Des Moines Register letters or some of the other anecdotes you provided. Mainly, I could not get them to work well in this text. On the other hand, I believed that they would have more impact for you if used in some of the early speeches of your administration.

(4) The first half of the speech is substantive -- putting up front the economic questions, hinting at what you will do, and then addressing the entire issue of overgrown government. I think it fits well with your campaign positions. The second half is more thematic, with the final pages being evocative.

(5) The theme that comes out of this is "renewal." You would be calling for a "time of renewal." This was not used for its rhetorical qualities -- i.e., time of renewal is not analogous to "The New Deal." But the concept of renewal, though simple, seemed to me to be at the core of your election -- the very thing people are yearning for. And you can see how this fits in with much of the text.

(6) As I indicated to you, I have used the symbolism of speaking from the West Front to cement your peroration. I think it works well, but should be used only if you feel comfortable with it.

(7) When we first spoke about this speech you recalled a script line from a motion picture about Bataan -- about Frank McHugh saying something to the effect: "We're Americans! What's happening to us?" This triggered my thoughts about the final line of the speech. Coming where it does, in the way it does, seems to me a mighty summation of everything you've said before.

(8) Now, I'll wait until you've had a cut at this before doing anything further. I'm scheduled for another visit on January 9 to get back your changes and to discuss it further. There is, needless to say, not the least of pride of authorship on the part of anyone who helped with this. We only hope this helps you in the very difficult task of moving the nation on January 20.

(9) Some housekeeping chores:

-- You and I have the only copies. I am not circulating this draft because you have not yet worked it over. Only after we have your changes will we begin to run it before a very limited number of people for review. Thus, I have already indicated to other staff members that this copy you have is not to be duplicated.

-- I am returning to you all the raw materials you started with -- not to burden you down, but only to insure that you feel you have all the possible resources you may want as you work on this. Incidentally, Ray Price's contribution came in after the last deadline, so I'm including it in the back of your notebook should you want to review those materials. I've already incorporated in your draft one of his suggested paragraphs which fit well.

-- I am also returning the Register letters and your speech cards in case you find a place to fit them in. I have copies of everything, so we can easily discuss any of these materials if you wish.

Once again, I am here to help in any way I can. I am scheduled to fly back to Washington with you on Jan. 14 and will be available thereafter to take this down to the wire, to make sure all review procedures are completed, and all "mechanics" are handled. It goes without saying that this has been a signal honor for me to help you with these remarks.

INAUGURAL ADDRESS OF PRESIDENT RONALD REAGAN

Senator Hatfield, Mr. Chief Justice, Mr. President:

For 180 years, these halls of Congress have borne witness to the peaceful passage of executive authority in America. Thus, what is momentous to the participants in this ceremony is as the commonplace routine in the span of our history. It is a miracle of our heritage which allows us to make changes of leadership with the greatest of order and dignity.

This act truly symbolizes the triumph of our Constitution. Here, we reassert the right of free men and women to govern themselves, to determine their own future and to shape the destiny of their children.

We do more than celebrate the accomplishment of one person or the end of an election process. We reaffirm at this solemn moment that in America the people never lose their power; they only delegate it.

I want you, my fellow citizens, and especially President Carter, to know how much I appreciate the spirit of cooperation which the outgoing administration has accorded us throughout the recent transition process. You showed a watching world that we remain united and helped give our countrymen reassurance in the integrity of our political processes.

Now the business of America goes forward, and the spirit of accord we have found here underscores the fact that conti-

nunity is an essential hallmark of our democracy.

Thirty-eight men before me have sworn to the same oath I have taken here today. But that oath is not peculiar to the office of the President. The obligation to preserve, protect and defend the Constitution of the United States is shared by every patriotic American. I take comfort in knowing that the people are supporting me in fulfilling the solemn charge of that oath.

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We suffer from the worst sustained peacetime inflation in our history. This extraordinary phenomenon distorts our economic decisions. It penalizes thrift. It crushes the struggling young as well as the fixed-income elderly. It threatens, no less, to shatter the lives of tens of millions of people and poison our future economic wellbeing.

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one that guarantees all citizens receipt of their just reward for their hours of labor. It should not be a penalty on successful achievement.

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True, we can be grateful that the problems are not of literal human survival, nor are we faced with immediate financial disaster. But to continue this long trend is a sure guarantee for social, cultural, and political upheavals of tragic proportions. Today's problems are great, but they are only warning signals.

We must act today in order to preserve tomorrow. And act we will.

I did not take this pledge as Chief Executive to preside over the steady dissolution of the strongest economy in the world. Very soon, I will propose positive measures to begin the process of regaining control over this severe problem.

These unprecedented economic ills will not disappear magically. They were long in building up, and they will take long to beat back. You will see no miracles, and so progress will come by inches and feet, not by miles.

We must work together, and we must help each other. Success will not come from watching what our neighbor does but by each

of us showing our neighbor what must be done.

The solutions we seek will be equitable as we can make them. No group should be singled out to pay the price for a national problem. We entered this impending crisis together, and we shall leave it together.

For a problem with roots so deep, the solutions will have to reach deep. There will be no sacred cows, and the only special interest will be restoration of our prosperity.

Join with me, and with the Congress; we will all begin to put America back to work to earn dollars that retain value.

Even as we work to find answers, we must study to find causes. Much of what is wrong with our economic system came about not because of personal decisions made by the people but because of bad decisions made by the government.

It's been nearly half a century since the Depression. Then, a desperate nation turned to the Federal Government to lead it out of crisis. But what began as an experiment in response to an emergency became a habit. We've gone too far, threatening to upset that delicate balance between what people are required to do together and what they are allowed to do individually.

The result is that after five decades we face a different kind of crisis. In this crisis, government isn't the solution. Government is the problem.

The founders clearly understood the perils of power vested so heavily in the state. That peril is even greater in modern times. For the era of the complex society, of advanced communi-

cations and technology, has given to government a sweeping new dimension of power and even greater capacity for mischief. This is the negative government -- one that saps our energies. It scolds, lectures and overregulates.

It is time we brought an end to the negative government. We know that the true glory of our nation includes, but also transcends our governmental institutions. We are and have always been a nation that has a government and not the other way around. That is what makes us special among the nations of the earth.

Whenever our nation faces great problems, she places faith in the first principles which founded America. They were simple truths -- "self evident" truths -- among them that governments derive their just powers from the consent of the governed.

Today, because government has grown too much, the critical question of our time is: who is the servant and who the master?

The time is now to reverse the growth of the state before the growth of the state reverses the course of America. We must re-examine the institutional arrangements that have grown up over the past decades. Surely, it is no coincidence that the greatest of our economic tribulations have paralleled the massive growth of government in our lives.

The goal of this administration will be to reduce the size and influence of the Federal Government. In this republic, government must be the servant of the people.

Therefore, in the discharge of my duties, I shall be guided by a careful observance of the distinction between the powers

granted to the Federal Government and those reserved to the States or to the people. There is a need for all of us to be reminded that the States created the Federal Government; the Federal Government did not create the States.

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Are we qualified? The answer is an unequivocal, yes. Our capability is built on a bedrock belief in God and in traditional virtues that have stood the test of centuries.

So today, we issue no empty promises or easy rhetoric. It is enough to speak the truth and to have quiet confidence in what is known so well, -- that the government must exist to

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No national renewal will be possible without the participation of those who for too many years were left out.

Putting America back to work means putting all Americans back to work. An expanding prosperity is the best way to open the doors of equal opportunity. Ending inflation means freeing all Americans from the crushing burden of impossible prices.

To the men and women reaching out for help and hope, I say today: Our national renewal also demands that we display the quality of our compassion.

For how can we love our country and not love our countryman? And how can we love our countryman and not reach out to lift him when he falls, heal him when he is sick, and raise him by extension of opportunity to self-sufficiency so that he stands equal in fact and not just in theory?

Renewal at home must be a foundation which makes us stronger in the face of a restless world. The world must know that the United States will renew its fiber and begin conducting itself in a way which commands respect. It is time for America once again to be the exemplar of freedom and beacon of hope across the earth.

We must face this world with no illusions. We may be at peace, but the forces of discord and conflict are poised to threaten the peace. And for hundreds of millions of our fellow humans on this planet, freedom's sweet music sounds no note.

To our neighbors, we extend an invitation to strengthen our historic ties. We will look to mutually beneficial relations and not impose on your sovereignty or intervene in your internal affairs. But those who pose as neighbors while seeking to export terrorism and hatred will have neither our help nor our goodwill.

To our allies, I say you will find we are ready to make stronger the binds of our affinity. The word of the United States of America will be reliable. Our support will be steady. Our commitment will be firm. We will match loyalty with loyalty.

We are realistic enough to know that we can maintain friendship with our allies without giving up on our ideals and that pursuing our best interests does not require relinquishing our principles.

From our beginning, we have sought friendship and alliance with nations that share our dream of freedom. When they have

sought our help, we have given it freely, and we continue to do so. We have no wish to buy their sovereignty with our help because our own sovereignty is not for sale.

To the vast world which has not shared in the blessings of our freedom and prosperity, I say that we will seek to have you know us for our compassion as well as our strength. We will always be able to share our bounty where people must fight the most basic elements of human survival.

But we will not apologize for our system of the free marketplace of ideas and products -- especially to those who condemn us while benefiting from our advances. Let the world worry less about the redistribution of old wealth and more about creating massive new opportunities for producing new wealth.

To the enemies of freedom and to our potential adversaries, I remind you that peace is the highest aspiration of the American people. We will negotiate for it, sacrifice for it, but we will not surrender for it -- now or ever.

We are open to mutual negotiation, but will never allow negotiation to become an end in itself. We hope to reduce destructive armaments but will not be taken advantage of in any agreement. We can be the best of friends when accommodation is called for, but we will be the most tireless opponent if there must be opposition.

We must weigh our foreign policy objectives on the scale of realism. We will always wish the world to be better than it is, but we must always see the world as it is and not as we wish it to be.

Our forbearance should never be misunderstood. Our reluctance for conflict should not be misjudged as a failure of will. We will act when the occasion calls for action. We shall never shrink from our responsibilities.

Our principles of national defense will be simple. We will make ourselves strong enough to prevail against any adversary who threatens us, in any quarter, and at any time. We will be prepared to honor our sacred obligations. We will always seek to use our power to deter and not to destroy.

Our physical strength is as nothing if it is not matched with moral courage and the rightness of our cause. We are secure in the knowledge that no weapon in the arsenals of the world is so formidable as the will of free men and women. It is a weapon our adversaries in today's world do not have.

I welcome this time of challenge and renewal. I know that the rest of the world will believe in us because we are going to believe in ourselves. The fire of our spirit can infuse all peoples with our renewed sense of hope. A generation steeled by harsh wars and brittle peaces does not easily forsake honor at the moment of the struggle for the human spirit. We remember the timeless admonition: evil is powerless if the good are unafraid.

My fellow Americans, this is a good country -- for us and for all of our children. There is nothing wrong with it that we can't fix. Why? Because from our very beginning, the American people have not aspired to great titles or riches, but they have -- especially in our darkest ours -- aspired to

great deeds. This is a time for great deeds.

I believe Americans have been called upon by God and by history to create prosperity through our work, defend freedom by our courage, advance the cause of justice by our institutions, and do the work of mercy with all our hearts.

Before America became a nation, she was an idea in the heart of every person yearning for freedom. That idea became a reality. The reality matured in the form of our union. But even as we enter our third century, let us never forget that, more than anything else, we are an idea come to change the world.

Our rich heritage makes possible the tasks now before us. Were we to fail that heritage now, the haunting memories of the American spirit would rise up to remind us how we got where we are. That spirit issued from the sons and daughters of America -- those who left their plows to fight at Lexington; those who were pitted against their brothers at Gettysburg; the fresh-faced young boys crossing an ocean to fight at Verdun or to bleed into the sands of Pacific beachheads; and the unheralded patriots who sacrificed in the jungles of Southeast Asia.

Can we look at what they did for their country and for human liberty and then dare say that we cannot once again be great?

This is the first time in our history that this ceremony has been held on the West Front of the Capitol Building. Standing here allows us to see one of the most magnificent vistas man has ever created. As the eye looks past the open Mall, it fastens upon those shrines to the giants on whose shoulders we stand.

Directly in front of me, the monument to a monumental man. George Washington, Father of our Country. He came to greatness reluctantly, leading America out of revolutionary victory into infant nationhood. He believed in the people more than himself, and out of that humility rose to their greatness.

Off slightly to my left, the stately memorial to Thomas Jefferson. A man of wisdom beyond his years. He fervently believed in the liberty of all people and in their freedom to excel. The Declaration of Independence flames with his eloquence.

Beyond the reflecting pool, those dignified columns wherein the Great Emancipator is enshrined. However long God sees fit to bless our adventure in self-government and however deeply we range in exploring the meanings of our democracy, whoever would understand in his heart the meaning of America will find it in the life of Abraham Lincoln.

And, finally, beyond the river are those lovely, gently sloping hills whose beauty and quiet belie the harsh, echoing cannonades of the battles they memorialize. It is Arlington National Cemetery. The unbroken symmetry of those simple white crosses add into infinity the cost of our liberty.

Fellow citizens, the spiritual presence of these memorials fills me with an inspiration second only to the nourishment of the soul that I seek from God Almighty. Our nationhood and inheritance are etched in their stones. Every lesson of America is expressed by their imposing example.

As God watches over us and guides us in our time of renewal, I shall pray to Him for the sustenance given by this moment

and this panorama.

We have great deeds to do. We shall need all our energies to do them. But do them we will.

We are, after all, Americans.

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