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FROM: BOB GARRICK

OUT AT: 0 800

Tuesday, 9 Sept. 1980

✓ Senator Paul Laxalt

✓ Ambassador Anne Armstrong

✓ Bill Casey

✓ Ed Meese

✓ Jim Baker

✓ Bill Brock

✓ Dean Burch
(For Ambassador Bush)

✓ Peter Dailey

0 Mike Deaver

✓ Drew Lewis

0 Lyn Nofziger

✓ Verne Orr

✓ Bill Timmons

✓ Dick Wirthlin

✓ Congressman Tom Evans

✓ Richard Allen

✓ Martin Anderson

0 Jim Brady

✓ Ed Gray

Others

0 on plane

INFORMATION

Herewith, your copy of the economy speech and fact sheet to be given by RR in Chicago today. Please note the embargo time which is 1:25 P.M. EDT.

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Reagan & Bush

Reagan Bush Committee

901 South Highland Street, Arlington, Virginia 22204 (703) 685-3400

NEWS RELEASE

EMBARGOED UNTIL:

Tuesday, September 9, 1980
12:25 p.m. CDT

CONTACT: Lyn Nofziger
or
Ken Towery
703-685-3630

ADDRESS BY THE HONORABLE RONALD REAGAN
INTERNATIONAL BUSINESS COUNCIL
CHICAGO, ILLINOIS
SEPTEMBER 9, 1980

A Strategy for Growth: The American Economy in the 1980s

Almost two months ago, in accepting the presidential nomination of my party, I spoke of the historically unique crisis facing the United States. At that time I said:

> "Never before in our history have Americans been called upon to face three grave threats to our very existence, any one of which could destroy us. We face a disintegrating economy, a weakened defense and an energy policy based on the sharing of scarcity."

Since I first spoke those words, no action has been taken by President Carter to change this grave, unprecedented situation.

In fact, during the last few months the overall economic situation in the United States has deteriorated markedly. The cumulative effect of the economic policies the Carter administration has followed over the last three and one-half years has damaged our economy much more than virtually anyone could have foreseen.

- MORE -

Interest rates and inflation have become unconscionably high. Almost two million Americans have lost their jobs this year alone. And the tax burden continues to steadily increase.

In effect, Mr. Carter's economic failures are an assault on the hopes and dreams of millions of American families.

These are more than just economic failures. They are essentially an unprecedented failure of presidential leadership that strikes at the very heart of every American family, every factory, every farm, every community.

Make no mistake about it: what Mr. Carter has done to the American economy is not merely a matter of lines and graphs on a chart. Individuals and families are being hurt and hurt badly. Factories are empty; unemployment lines are full.

Every American family has felt what the Carter inflation means to hopes for a better life. Every visit to the supermarket reminds us of what Mr. Carter's policies have done. We pay the price of Carter's inflation every time we buy food or clothing or other essentials.

We are dealing with an unprecedented crisis that takes away not only wages and savings, but hopes and dreams.

And what is Mr. Carter's response to this tragedy?

Words. And more words.

Two weeks ago he gave us his latest in a series of economic policy shifts. This one is the <u>fifth</u> "new economic program" in the last three and one-half years. It contains rhetoric that Mr. Carter apparently hopes will lead us to believe he has finally discovered free enterprise.

Hearing him and members of his administration use the language of free enterprise reminds me of one of the stories of Mark Twain. He had a habit of using foul language, which distressed his wife no end. She decided on a form of shock treatment to cure him of his habit. She came up to him one day and recited every word of the salty language she had ever heard him use. He listened patiently and when she was finished, said: "My dear, you have the words all right, you just don't have the tune."

I'd like to speak to you today about a new concept of leadership, one that has both the words and the music. One based on faith in the American people, confidence in the American economy, and a firm commitment to see to it that the federal government is once more responsive to the people.

That concept is rooted in a strategy for growth, a program that sees the American economic system as it is--a huge, complex, dynamic system which demands not piecemeal federal packages, or pious hopes wrapped in soothing words, but the hard work and concerted programs necessary for real growth.

We must first recognize that the problem with the U.S. economy is swollen, inefficient government, needless regulation, too much taxation, too much printing press money. We don't need any more doses of Carter's eight- or ten-point programs to "fix" or fine tune the economy. For three and one-half years these ill-thought-out initiatives have constantly sapped the vitality of the most productive economic system the world has ever known.

Our country is in a downward cycle of progressive economic deterioration that must be broken if the economy is to recover and move into a vigorous growth cycle in the 1980s.

We must move boldly, decisively and quickly to control the runaway growth of federal spending, to remove the tax disincentives that are throttling the economy, and to reform the regulatory web that is smothering it.

We must have and I am proposing a new strategy for the 1980s.

Only a series of well-planned economic actions, taken so that they complement and reinforce one another, can move our economy forward again.

--We must keep the rate of growth of government spending at reasonable and prudent levels.

--We must reduce personal income tax rates and accelerate and simplify depreciation schedules in an orderly, systematic way to remove disincentives to work, savings, investment, and productivity.

--We must review regulations that affect the economy, and change them to encourage economic growth.

--We must establish a stable, sound and predictable monetary policy.

--And we must restore confidence by following a consistent national economic policy that does not change from month to month.

I am asked: Can we do it all at once? My answer is: We must.

I am asked: Can we do it immediately? My answer is: No, it took Mr. Carter three and one-half years of hard work to get us into this economic mess. It will take time to get us out.

I am asked: Is it easy? Again, my answer is: No. It is going to require the most dedicated and concerted peacetime action ever taken by the American people for their country.

But we can do it, we must do it, and I intend that we will do it.

We must balance the budget, reduce tax rates, and restore our defenses.

These are the challenges. Mr. Carter says he can't meet these challenges; that he can't do it. I believe him. He can't. But, I refuse to accept his defeatist and pessimistic view of America. I know we can do these things, and I know we will.

But don't just take my word for it. I have discussed this with any number of distinguished economists and businessmen, including George Shultz, William Simon, Alan Greenspan, Charls Walker and

James Lynn. The strategy I offer is based on solid economic principles and basic experience in both government and the marketplace. It has worked before and will work again.

Let us look at how we can meet this challenge.

One of the most critical elements of my economic program is the control of government spending. Waste, extravagance, abuse and outright fraud in federal agencies and programs must be stopped. Billions of the taxpayers' dollars are wasted every year throughout hundreds of federal programs, and it will take a major, sustained effort over time to effectively counter this.

Federal spending is now projected to increase to over $900 billion a year by fiscal year 1985. But through a comprehensive assault on waste and inefficiency, I am confident that we can squeeze and trim 2 percent out of the budget in fiscal year 1981, and that we will be able to increase this gradually to 7 percent of what otherwise would have been spent in fiscal year 1985.

Actually, I believe we can do even better. My goal will be to bring about spending reductions of 10 percent by fiscal year 1984.

Crucial to my strategy of spending control will be the appointment to top government positions of men and women who share my economic philosophy. We will have an administration in which the word from the top isn't lost or hidden in the bureaucracy. That voice will be heard because it is a voice that has too long been absent from Washington--the voice of the people.

- MORE -

I will also establish a citizen's task force, as I did in California, to rigorously examine every department and agency. There is no better way to bring about effective government than to have its operations scrutinized by citizens dedicated to that principle.

I already have as part of my advisory staff a Spending Control Task Force, headed by my good friend and former Director of the Office of Management and Budget, Caspar Weinberger, that will report on additional ways and techniques to search out and eliminate waste, extravagance, fraud and abuse in federal programs.

This strategy for growth does not require altering or taking back necessary entitlements already granted to the American people. The integrity of the Social Security system will be defended by my administration and its benefits will once again be made meaningful.

This strategy does require restraining the congressional desire to "add-on" to every old program and to create new programs funded by deficits.

This strategy does require that the way federal programs are administered will be changed so that we can benefit from the savings that will come about when, in some instances, administrative authority can be moved back to the states.

The second major element of my economic program is a tax rate reduction plan. This plan calls for an across-the-board three-year reduction in personal income tax rates--10 percent in 1981; 10

percent in 1982; and 10 percent in 1983. My goal is to implement three reductions in a systematic, planned manner.

More than any single thing, high rates of taxation destroy incentive to earn, to save, to invest. They cripple productivity, lead to deficit financing and inflation, and create unemployment.

We can go a long way toward restoring the economic health of this country by establishing reasonable, fair levels of taxation.

But even the extended tax rate cuts which I am recommending still leave too high a tax burden on the American people. In the second half of the decade ahead we are going to need, and we must have, additional tax rate reductions.

Jimmy Carter says it can't be done. In fact, he says it <u>shouldn't</u> be done. He favors the current crushing tax burden because it fits into his philosophy of government as the dominating force in American economic life.

Official projections of the Congressional Budget Office show that by fiscal year 1985, if the current rates of taxation are still in effect, federal tax revenues will rise to over one trillion dollars <u>a year</u>.

Surely Jimmy Carter isn't telling us that the American people can't find better things to do with all that money than see it spent by the federal government.

Assuming a continuation of current policies in government, congressional projections show a huge and growing potential surplus by 1985. These surpluses can be used in two basic ways: 1) to fund additional government programs, or 2) to reduce tax rates.

That choice should be up to the American people.

The most insidious tax increase is the one we must pay when inflation pushes us into higher tax brackets. As long as inflation is with us, taxes should be based on real income. Federal personal income taxes should be based on real income. Federal personal income taxes should be indexed to compensate for inflation, once tax rates have been reduced.

We also need faster, less complex depreciation schedules for business. Outdated depreciation schedules now prevent many industries, especially steel and auto, from modernizing their plants. Faster depreciation would allow these companies to generate more capital internally, permitting them to make the investment necessary to create new jobs, and to become more competitive in world markets.

Another vital part of this strategy concerns government regulation. The subject is so important and so complex that it deserves a speech in itself--and I plan to make one soon. For the moment, however, let me say this.

Government regulation, like fire, makes a good servant but a bad master. No one can argue with the intent of much of this regulation--to improve health and safety and to give us cleaner air and water--but too often regulations work against rather than for the interests of the people. When the real take-home pay of the average American worker is declining steadily, and 8 million Americans are out of work, we must carefully re-examine our regulatory structure to assess to what degree regulations have contributed to this situation. In my administration there should and will be a thorough and systematic review of the thousands of federal regulations that affect the economy.

Along with spending control, tax reform and deregulation, a sound, stable and predictable monetary policy is essential to restoring economic health. The Federal Reserve Board is, and should remain, independent of the Executive Branch of government. But the President must nominate those who serve on the Federal Reserve Board. My appointees will share my commitment to restoring the value and stability of the American dollar.

A fundamental part of my strategy for economic growth is the restoration of confidence. If our business community is going to invest and build and create new, well-paying jobs, they must have a future free from arbitrary government action. They must have confidence that the economic "rules-of-the-game" won't be changed suddenly or capriciously.

In my administration, a national economic policy will be established, and we will begin to implement it, within the first 90 days.

- MORE -

Thus, I envision a strategy encompassing many elements--none of which can do the job alone, but all of which together can get it done. This strategy depends for its success more than anything else on the will of the people to regain control of their government.

It depends on the capacity of the American people for work, their willingness to do the job, their energy and their imagination.

This strategy of economic growth includes the growth that will come from the cooperation of business and labor based on their knowledge that government policy is directed toward jobs, toward opportunity, toward growth.

We are not talking here about some static, lifeless econometric model--we are talking about the greatest productive economy in human history, an economy that is historically revitalized not by government but by people free of government interference, needless regulations, crippling inflation, high taxes and unemployment.

Does Mr. Carter really believe that the American people are not capable of rebuilding our economy? If he does, that is even one more reason--along with his record--that he should not be President.

When such a strategy is put into practice, our national defense needs can be met because the productive capacity of the American people will provide the revenues needed to do what must be done.

- MORE -

All of this demands a vision. It demands looking at government and the economy as they exist, not as words on paper, but as institutions guided by our will and knowledge toward growth, restraint, and effective action.

When Mr. Carter first took office, he had sufficient budget flexibility to achieve these goals. But he threw away the opportunity to generate new economic growth and strengthen national security. Now the damage done to the economy by his misguided policies will make the achievement of these crucial objectives far more difficult.

Nevertheless, this nation cannot afford to back away from any of these goals. We cannot allow tax burdens to continue to rise inordinately, inflation to take a stronger hold, or allow our defenses to deteriorate further--without severe consequences.

This task is going to be difficult but our goals are optimistic--as they should be. Success is going to take time, as well as work.

There is only one phrase to describe the last three years and eight months. It has been an American tragedy.

It isn't only that Mr. Carter has increased federal spending by 58 percent in four years, or that taxes in his 1981 budget are double what they were in 1976, the equivalent of a tax increase on an average family of four of more than $5,000.

The tragedy lies as much in what Mr. Carter has failed to do as in what he has done.

He has failed to lead.

Mr. Carter had a chance to govern effectively. He had a sound economic base with an inflation rate of 4.8 percent when he took office.

But he has failed. His failure is rooted in his view of government, in his view of the American people.

Yet he wants this dismal view to prevail for four more years.

The time has come for the American people to reclaim their dream. Things don't have to be this way. We can change them. We must change them. Mr. Carter's American tragedy must and can be transcended by the spirit of the American people, working together.

Let's get America working again.

The time is now.

* * * * *

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OUT AT: 0800

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The American Economy in the 1980s

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> "Never before in our history have Americans been called upon to face three grave threats to our very existence, any one of which could destroy us. We face a disintegrating economy, a weakened defense and an energy policy based on the sharing of scarcity."

Since I first spoke those words, no action has been taken by the President to change the grave, unprecedented situation.

During the last few months the overall economic situation in the U.S. has deteriorated markedly. The cumulative effect of the Carter Administration's economic policies followed over the last 3½ years has damaged the economy much more than virtually anyone forecast. The underlying rates of inflation and unemployment remain unconscionably high. Almost two million Americans have lost their jobs this year alone. And the tax burden continues to steadily increase.

In effect, Mr. Carter's economic failures have been an assault on the hopes and dreams of millions of American families.

This is more than an economic failure. It is, essentially, an historic failure of presidential leadership that strikes at the very heart of every American family, every factory, every farm, every community.

Make no mistake about it: what Mr. Carter has done to the American economy is not merely a matter of lines and graphs on a chart. Individuals and families are being hurt and hurt badly. Factories are empty; unemployment lines are full.

Every American family knows personally what the Carter inflation has meant to hopes for a better life. Every visit to the supermarket reminds us of what Mr. Carter's policies have done. We pay the price of Carter's inflation every time we go to buy food or clothing or other essentials.

What we are dealing with is an unprecedented crisis that takes away not only wages and savings, but hope.

And what is Mr. Carter's response to all of this tragedy?

Words. And more words. And yet more words.

Two weeks ago he gave us his latest in a series of economic programs. This one is the <u>fifth</u> "New" Economic Program in the last 3½ years. It contains rhetoric that might lead some to believe Mr. Carter has finally discovered free enterprise.

Hearing Jimmy Carter and members of his administration use the language of free enterprise reminds me of one of the stories of Mark Twain. He had a habit of using foul language, which distressed his wife no end. She decided on a form of shock treatment to cure him of his habit. She came up to him one day and recited every word of the salty language she had ever heard him use. He listened patiently and when she was finished, said: "My dear, you have the words all right, you just don't have the tune."

I'd like to speak to you today about a new concept of leadership, one that has both the words and the music, one based on faith in the American people, confidence in the American economy, and a firm commitment to see to it that the federal government is once more responsive to the needs of the people.

That view is rooted in a strategy for growth, a program that sees the American economic system as it is -- a huge, complex, dynamic system which demands not piecemeal federal packages of solutions, or pious hopes wrapped in soothing words, but the hard work and concerted programs necessary for real growth.

We must first recognize that the problem with the U.S. economy is . inefficient government, needless regulation, too much taxation, too much printing press money. We don't need any more of Carter's eight or ten point programs of government actions to "fix" or fine tune the economy. The overdose of such initiatives has been gradually sapping the vitality of the most productive economic system the world has every known.

We are in a state of progressive economic deterioration, a downward cycle that must be broken if the economy is to recover and move forward through vigorous economic growth in the 1980s. We must move boldly and decisively to control the runaway growth of federal spending, to remove the tax disincentives that are throttling the economy, and to reform the regulatory web that is smothering it.

We need a new strategy for the 1980s.

Only a series of well-planned economic actions, taken so that they complement and reinforce one another, can succeed in moving our economy forward once again.

We must:

1. Control the rate of growth of government spending to reasonable, prudent levels.

2. Reduce personal income tax rates and accelerate and simplify depreciation schedules in an orderly, systematic way to remove the increasing disincentives to work, saving, investment and productivity.

3. Review regulations that affect the economy, and act to modify and change them to encourage economic growth.

4. Establish a stable and sound monetary policy.

5. Restore confidence by following a consistent national policy that does not change from month to month.

I am asked, can we do it all at once? My answer is: we must.

I am asked, can we do it immediately? My answer is: No, it took Mr. Carter 4 years of hard work to get us into the economic mess we are in. It will take more than a year to get us out.

I am asked, is it easy? My answer is: No. It is going to require perhaps the most dedicated and concerted action ever taken on the part of the American people for their country.

But we can do it, we must do it, and we must do more. We must balance the budget, reduce tax rates, and restore our defenses. That is the challenge. Mr. Carter says he can't meet that challenge. He says he can't do it. I believe him. He can't. But, I refuse to accept his defeatist, pessimistic, unrealistic view of America. I know we can do these things, and I know we must.

Let us examine how we can meet this challenge.

One of the most critical elements of my economic program is the control of government spending. Waste, extravagance, abuse and outright fraud in federal government programs must be stopped. Tens of billions of the taxpayers' dollars are wasted every year. This waste is widespread through hundreds of federal programs, and it will take a major, sustained effort over time to effectively counter it.

Federal spending is now projected to increase to over $900 billion a year by fiscal year 1985. Through a comprehensive assault on waste and inefficiency, I confidently expect that we can squeeze and trim 2 percent out of the budget in FY1981, and that we will be able to increase this to 7 percent by FY1985.

And I hope we can do even better. My goal would be to increase these spending reductions to 10 percent by fiscal year 1984.

Crucial to my strategy of spending control will be the appointment to top government positions, of men and women who share the same economic philosophy that is at the heart of my policies. We will have an administration in which the word from the top isn't lost as it gets to the various departments. That voice will be heard because it is, in this vital area, the voice that has for too long been absent from Washington -- the voice of the people.

I will also establish a national citizen's task force, as I did in California, to rigorously examine every department and agency. There is nothing better for effective government than to have its operations scrutinized by citizens with savings on their minds.

I already have as part of my advisory staff a Spending Control Task Force, headed by my good friend and former Director of the Office of Management and Budget, Caspar Weinberger, that will report on additional ways and techniques to search out and eliminate waste, extravagance, fraud and abuse in federal programs.

This strategy for growth does not require altering or taking back necessary entitlements already granted to the American people. The integrity of the Social Security system will be defended by my administration and its benefits made once again meaningful because we will also be fighting inflation.

This strategy does require restraining the Congressional desire to "add-on" to every program and to create new programs funded by deficits.

This strategy does require that the way federal programs are administered will be changed, so that we can benefit from the savings that will come about when, in some instances, administrative authority can be moved back to the states.

This brings me to my tax rate reduction plan. This plan calls for an across-the-board 30% reduction in personal income tax rates -- 10% in 1981; 10% in 1982; and 10% in 1983. My goal is to implement these reductions in a systematic, planned manner -- 10% a year each year for three years.

High rates of taxation destroy incentives to earn, to save, to invest. They cripple productivity, lead to deficit financing and inflation; and create unemployment.

We can go a long way toward restoring the economic health of this country by establishing reasonable, fair levels of taxation.

Moreover, even the extended tax rate cuts which I am recommending still leave an increasing tax burden. In the second half of the decade ahead, additional tax rate reductions are going to be needed.

Jimmy Carter says it can't be done. In fact, he says it shouldn't be done. He favors the current crushing tax burden because it fits into his philosophy of government as the dominating force in American economic life.

Official projections of the Congressional Budget Office (CBO) show that by FY 1985, if the current rates of taxation are still in effect with no new government programs, federal tax revenues will be over one trillion dollars a year.

Surely Jimmy Carter isn't telling us that the American people couldn't find better things to do with all that money than see it spent by the federal government.

Assuming a continuation of current policies in government, the CBO projections show a huge potential surplus by FY 1985. These large and growing surpluses can be used in two basic ways: (1) the funding of additional government programs, or (2) the reduction of tax rates.

The choice is up to the American people. At least it should be.

The most insidious tax increase is the one we must pay when inflation pushes us into higher tax brackets. While inflation is with us, taxes should be based on real income, not government inflated ones. Federal personal income taxes should be indexed to compensate for inflation.

We also need faster, less complex depreciation schedules for business. Our out-dated depreciation schedules now prevent many industries, especially steel and automobiles, from modernizing their plants. Faster depreciation would allow these companies to generate more capital internally, permitting them to make the investments necessary to create new jobs, and to become more competitive in world markets.

Another vital part of this strategy concerns government regulation. The subject is so important and so complex that it deserves a speech in itself--a speech I plan to make at a future date. For the moment, however, let me say this:

Government regulation, like fire, makes a good servant but a bad master. No one will argue with the intent of much of this regulation--to improve health and safety and to give us cleaner air and water--but in many cases, regulations work against rather than for the interests of the American people. When the real take-home pay of the average American worker is declining steadily, and 8 million Americans are out of work, we must carefully re-examine our regulatory structure to assess to what degree regulations have contributed to our deteriorating economy. There should and will be a thorough and systematic review of the thousands of federal regulations that affect the economy.

Along with spending control, tax reform, and deregulation, a sound, stable, and predictable monetary policy is essential to restoring economic health. The Federal Reserve Board is, and should remain, independent of the Executive Branch of government. But the President must nominate those who serve on the Federal Reserve Board.

My appointees will be men and women who share my commitment to restoring the value of the American dollar.

A fundamental part of my strategy for economic growth is the restoration of confidence. If our business community is going to invest and build and create new, well-paying jobs, they must have a future free from arbitrary government action. They must have confidence that the economic "rules-of-the-game" won't be changed suddenly.

In my administration, a national economic policy would be established, and we will begin to implement it within the first 90 days. And I will stick with it.

Thus, I envision a strategy encompassing many elements; each of which cannot do the job alone, but all of which, working together, can get it done. Such a strategy depends for its success on the will of the people to regain control of their government.

And, most importantly, it depends on the capacity of the American people for work, their willingness to do the job, their energy and their imagination. For this strategy of growth includes the growth that will come from the cooperation of business and labor resulting from the knowledge that government policy is directed towards jobs, towards opportunity, towards growth. That is why I fully expect revenues to the government to increase, not decrease, under such programs as I have outlined. We are not talking here about some static, lifeless model of econometrics -- we are talking about the greatest productive economy in human history, one historically revitalized not by government but by people freed of government interference, needless regulations, crippling inflation, high taxes and unemployment.

Does Mr. Carter really believe that the American people are not capable of rebuilding our economy? If he does, that is even one more reason -- aside from his record -- that he should not be President.

When such a strategy is put into practice, our national defense needs will be capable of being met because the productive capacity of the American people, free of government restraint, and the ability of the new administration to make government less wasteful and more efficient, will provide the revenues needed to do what must be done in defense.

All of this demands a vision. It demands looking at government and looking at the economy as they exist, not as words on paper, but as institutions guided by our will and knowledge, capable of growth, capable of restraint, capable of effective action.

When Mr. Carter first took office, he had sufficient budget flexibility to achieve these goals without too much difficulty. But he threw away the opportunity to generate new economic growth and strengthen national security. And the damage done to the economy by his misguided policies of the last 3½ years will make the achievement of these crucial objectives far more difficult.

Nevertheless, this nation cannot afford to back away from any of these goals. We cannot allow tax burdens to rise inordinately, inflation to take hold, or allow our defenses to deteriorate -- without severe consequences.

This task is going to be difficult and our goals are optimistic -- as they should be. It's going to take time as well as work -- but it will be time worth the effort.

There is only one phrase to describe the last three years and eight months. It has been an American tragedy.

It isn't only that Mr. Carter has increased federal spending by 58% in four years or that taxes in his 1981 budget are double what they were in 1976, the equivalent of a tax increase on an average family of more than $5000 in four years. The tragedy lies as much in what Mr. Carter has failed to do as in what he has done. He has failed to lead.

Mr. Carter had a chance to govern effectively. He had a sound economic base with an inflation rate of 4.8 percent when he took office.

But he failed to lead. His failure is rooted in his view of government, in his view of the American people.

Yet, he wants this view to prevail for four more years.

The time has come for the American people to reclaim their dream. Things don't have to be this way. We can change them. We must change them. Mr. Carter's American tragedy must and can be transcended by the spirit of the American people, working together.

Let's get America working again.

The time is now.

Anderson
9/6/80
11 p.m.

--DRAFT--

FACT SHEET

Ronald Reagan's Strategy for Economic Growth and Stability in the 1980s

Background

During the last few months the overall economic situation in the U.S. has deteriorated markedly. The cumulative effect of the Carter Administration's economic policies followed over the last 3½ years has damaged the economy much worse than virtually anyone forecast. The underlying rates of inflation and unemployment remain unconscionably high. Almost two million Americans have lost their jobs this year alone. And the tax burden continues to steadily increase.

One critical consequence of this economic deterioration--primarily caused by the sharp rise in unemployment--has been a drop in government revenues and an increase in government spending. The prospects for the future are increasingly large federal deficits--and that will bring in its wake more inflation, higher interest rates, and more Americans out of work.

Earlier this year the Carter Administration was forecasting a relatively modest deficit for FY1980 and a <u>balanced budget</u> for FY1981.

The official revised budget forecasts of July now show a deficit of $61 billion for FY1980, the second-largest deficit in the history of this country (the largest in history if "off-budget" items are accounted for).

The most alarming news, however, concerns the new budget projections for FY1981. Carter's balanced budget has evaporated under the heat of inflation and unemployment. The latest "current policy" estimates of the Congressional Budget Office show a <u>deficit</u> of $44 billion, and it will probably go higher.

This is not just a temporary run of bad economic luck. It is the result of <u>five</u> "new economic programs" that Mr. Carter has come up with during the past 3½ years. The basic structure of our economy has been weakened by the increasing burden of taxes and regulations. Unless strong corrective action is taken soon, the prospect for the next 5 years is a steadily worsening economic outlook.

Between FY1980 and FY1985 the gross national product (GNP) of the U.S. is estimated to increase by some $1.8 trillion dollars.

The federal government's planned share of this increase in our GNP is projected to be $558 billion--a stunning 31 percent. Historically, the federal government's share of GNP has rarely risen above 20 percent.

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We are in a state of progressive economic deterioration, a downward cycle that must be broken if the economy is to recover and move forward through vigorous economic growth in the 1980s. We must move boldly and decisively to control the runaway growth of federal spending, to remove the tax disincentives that are throttling the economy, and to reform the regulatory web that is smothering it.

We need a new strategy for the 1980s. As Paul McCracken, former chairman of the Council of Economic Advisers, recently stated:

> "For well over a decade our strategy has been to reach a better economy by a generalized resistance to spending in order to achieve a balanced budget, thereby winning the right to tax reduction. This predictably has left us with swollen federal outlays, deficits, and an enervated economy. The road to a stronger budget and a stronger economy by immediately taking needed tax action and directly attaching a shorter leash on spending is at least worth trying."

<u>Overview</u>

Ronald Reagan's economic program emphasizes economic expansion. Only a vigorously growing economy can create the new jobs and the new income that will stop inflation, lower interest rates, and allow us to spend what we must spend on national defense. It specifically rejects the "economics of scarcity."

Above all, it is a comprehensive program. Each element of the program represents sound economic policy, but what gives the program its effectiveness and guarantees its success is the interaction of all its component parts.

Our economy is extremely complex. There is no simple remedy to the economic mess we are in. Only a series of well-planned economic actions, taken so that they complement and reinforce one another, can succeed in moving our economy forward once again.

The program has five basic parts:

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THE PROGRAM

Spending Control

One of the most critical elements of Ronald Reagan's economic program is the control of federal spending. The reports of waste, extravagance, abuse and outright fraud are legendary. Tens of billions of the taxpayers' dollars are wasted every year. This waste is buried deep within hundreds of federal programs, and it will take a major, sustained effort over a period of years to effectively counter it.

Federal spending is now projected to increase to over $900 billion a year by FY1985.

Ronald Reagan's goal is to systematically reduce that increase in future spending by 10 percent through a comprehensive assault on the waste and inefficiency that is widespread in the federal government.

The accomplishment of that goal will still permit a leaner, more efficient government to grow by well over $200 billion over the next five years.

His program will begin by reducing spending levels by 2 percent in FY1981. These savings will, of course, carry on into future years. In FY1982 spending will be cut by at least an additional 2 percent, and then an additional 1 percent in each of the succeeding fiscal years. The cumulative result will be a 2 percent reduction from the proposed increase for FY1981, 4 percent for FY1982, 5 percent for FY1983, 6 percent for FY1984, and 7 percent for FY1985. (Table 1)

Looking at the projected levels of federal spending over the next five years, the goal will be to reduce spending by gradually increasing amounts--up to 10 percent.

The spending reduction goal in FY1981 will be 3 percent. This will increase by another 3 percent to 6 percent in FY1982. Further increases will bring the goal to 8 percent in FY1983 and to 10 percent in FY1984 and FY1985. (Table 1)

If these goals are reached, the efforts will be redoubled, because certainly more than 10 percent of the money the federal govenrment spends every year is misspent.

Here are some of the steps that will be taken to achieve these goals:

1. No one man can control federal spending. It is a task that must be relentlessly pursued at all levels of government, especially at the top levels. Very high priority will be assigned to appointing men and women who share Ronald Reagan's philosophy of spending control. The hundreds of top-level appointees in a Reagan Administration will make sure that the taxpayers' dollars are spent wisely and effectively. And they will have the full backing of the White House.

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4. Over the next two months, a special Spending Control Task Force, chaired by Caspar Weinberger, former Director of the Office of Management and Budget, will carefully examine all facets of spending control, and then submit a detailed report during the transition on specific ways to search out and and eliminate waste and extravagance.

Tax Rate Reduction

The revenue of the federal government will, unless significant changes are made, increase enormously over the next 5 years. Given current Congressional Budget Office (CBO) estimates--a rate of real economic growth of 3.5 to 4.0 percent, an inflation rate that declines slowly to 7.2 percent, and an unemployment rate that drops to 6.2 per-ent by FY1985--the revenue of the federal government will climb to $1,076 billion a year by FY1985, an increase of $558 billion over the FY1980 level.

This is an increase of about $112 billion a year between now and 1985. If allowed to happen, it would generate a budget surplus of $175 billion in FY1985.

This growing tax burden will add even more disincentives to earning, saving and investing. Ronald Reagan's tax program is designed to remove these disincentives, to stimulate the kind of economic growth that will result in the steady increase in the real take-home pay of the American worker and the removal of uncertainty about job security.

The major changes that will be proposed are:

1. An across-the-board reduction in personal income tax rates: 10 percent in 1981, 10 percent in 1982 and another 10 percent in 1983.

2. Indexation for inflation of the personal income tax brackets after the full 30 percent rate reduction is phased in. This will prevent the automatic tax increase that is caused by inflation from moving taxpayers into higher and higher tax brackets.

3. Accelerated depreciation for business to stimulate job-creating investments.

Deregulation

There will be a thorough and systematic review of the thousands of federal regulations that affect the economy. No one will argue with the intent of much of this regulation--to improve health and safety, and to give us cleaner air and water--but in many cases they have gone to extremes and have become counterproductive. When the real take-home pay of the average American worker is declining steadily, and 8 million Americans are out of work, we must carefully re-examine our regulatory structure to assess to what degree regulations have contributed to our deteroirating economy.

Some of the steps to be taken will include:

1. A requirement that any proposed regulation be accompanied by an economic impact statement so that the purported benefits of the regulation can be compared against the effect of that regulation on jobs and the economy in general.

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A sound and stable monetary policy is essential to restoring economic health. The Federal Reserve Board is, and should remain, independent of the Executive Branch of government. But the President must nominate those who serve on the Federal Reserve Board.

Ronald Reagan's appointees would be men and women who share his commitment to restoring the value of the American dollar, who believe in sound, and stable monetary policy.

Restoring Confidence

A critical element that pervades every facet of this economic program is sureness and stability. There is probably nothing that undermines economic growth more than widespread uncertainty about the future actions of government.

In a Reagan Administration, every effort would be made to establish and begin to implement economic policy early--within the first 90 days--and then to stick to the essentials of this policy. There will be no sudden and capricious changing of the economic "rules-of-the-game."

BUDGETARY EFFECT

The estimated effects of these proposed policy changes on federal spending revenues are shown in Table 2. The effect on spending and revenue flows that are expected to result from the effective control of government spending and from the tax rate reduction program are shown in lines (a) through (c).

Line (d) shows the effect that the implementation of these policies is expected to have on economic growth. It is assumed that the real rate of economic growth will be one half of one percent higher than it would have been in FY1981 and FY1982, and one percent higher in FY1983 through FY1985.

Line (e) shows the current estimate of the increases in defense spending that will be necessary to maintain our national security.

Line (f) shows the additional effect on the projected (deficit) or surplus that would occur if the 10 percent planned reduction in spending were achieved by FY1984.

It should be noted that these economic projections are subject to the uncertainty that characterizes all economic predictions. And the further out in time we estimate, the more uncertain the estimates become. These projections so, however, allow us to perform an "order-of-magnitude" analysis that can give us a reasonably clear idea of whether or not a particular mix is feasible.

Related Policies

Two important factors that affect our national economy are energy and foreign trade. Our national energy policy and our international trade policy are intimately connected with national economic policy.

We must have an energy policy that concentrates on providing us with more energy.

We must have an international trade policy that will allow the U.S. to regain its competitive edge and its fair share of world markets in the 1980s.

These are both difficult, complex issues and Ronald Reagan will address each one of them at some length during the months ahead.

Anderson
9/6/80

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Proposed Limitations on
Federal Spending Increases
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--DRAFT--

Anderson
9/6/80

Table 2

Budget Projections
FY1981 to FY1985
(annual amounts in billions of dollars)

Congressional Budget Office Estimates--"Current Policy"	1981	1982	1983	1984	1985
Gross National Product	2719	3059	3448	3863	4309
Federal Tax Receipts	596	694	807	928	1076
Federal Spending	640	709	770	832	902
Defense spending	151	170	180	197	214
Nondefense spending	489	539	590	635	688
Proposed Policy Changes					
(a) control growth of federal spending	+13	+28	+39	+50	+63
(b) across-the-board reduction of personal income tax rates and subsequent indexing	-18	-48	-89	-130	-172
(c) accelerated depreciation to stimulate investment	-4	-13	-18	-19	-20
(d) additional economic growth	+5	+10	+24	+40	+60
(e) increased defense spending	-7	-15	-20	-40	-60
*estimated (deficit) or surplus	(55)	(53)	(27)	(3)	45
*(deficit) or surplus as percent of total federal spending	(8.6%)	(7.5%)	(3.5%)	*	5.0
(f) full achievement of spending reduction goal: additional savings	+6	+15	+23	+33	+27

*less than one percent

Reagan & Bush

Reagan Bush Committee

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NEWS RELEASE

EMBARGOED UNTIL

Tuesday, September 9, 1980
12:25 p.m. CDT

CONTACT: Lyn Nofziger
or
Ken Towery
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FACT SHEET

Ronald Reagan's Strategy for Economic Growth and Stability in the 1980s

Background

During the last few months the overall economic situation in the U.S. has deteriorated markedly. The cumulative effect of the Carter Administration's economic policies followed over the last 3 1/2 years has damaged the economy much worse than virtually anyone forecast. The underlying rates of inflation and unemployment remain unconscionably high. Almost two million Americans have lost their jobs this year alone. And the tax burden continues to steadily increase.

One critical consequence of this economic deterioration--primarily caused by the sharp rise in unemployment--has been a drop in government revenues and an increase in government spending. The prospects for the future under a continuation of Mr. Carter's economic policies are increasingly large federal deficits--and these will bring in their wake more inflation, higher interest rates, and more Americans out of work.

Earlier this year the Carter Administration was forecasting a relatively modest deficit for FY 1980 and a balanced budget for FY 1981.

The official revised budget forecasts of July now show a deficit of $61 billion for FY 1980, the second-largest deficit in the history of this country (the largest in history if "off-budget" items are accounted for).

The most alarming news, however, concerns the new budget projections for FY 1981. Carter's balanced budget has evaporated under the heat of inflation and unemployment. His latest estimates show a deficit of $30 billion.

- MORE -

This is not just a temporary run of bad economic luck. It is the result of five major "new economic programs" that Mr. Carter has come up with during the last 3 1/2 years. The basic structure of our economy has been weakened by the increasing burden of taxes and regulations. Unless strong corrective action is taken soon, the prospect for the next 5 years is a steadily worsening economic outlook.

Between FY 1980 and FY 1985, the gross national product (GNP) of the U.S. is estimated to increase by some $1.9 trillion dollars.

The federal government's planned share of this increase in our GNP is projected to be $584 billion--a stunning 31 percent. Historically, the federal government's share of GNP has rarely risen above 20 percent.

The federal government's share of the projected increase in GNP over the next 5 years is over 50 percent above the historical norm.

If the tax policies established by the Carter Administration stay in place over the next 5 years, the relative size of the federal government will rise to unprecedented levels--as will the tax burden of the American people.

We are in a state of progressive economic deterioration, a downward cycle that must be broken if the economy is to recover and move forward through vigorous economic growth in the 1980s. We must move boldly and decisively to control the runaway growth of federal spending, to remove the tax disincentives that are throttling the economy, and to reform the regulatory web that is smothering it.

We need a new strategy for the 1980s. As Paul McCracken, former chairman of the Council of Economic Advisers, recently stated:

> "For well over a decade our strategy has been to reach a better economy by a generalized resistance to spending in order to achieve a balanced budget, thereby winning the right to tax reduction. This predictably has left us within swollen federal outlays, deficits, and an enervated economy. The road to a stronger budget and a stronger economy by immediately taking needed tax action and directly attaching a shorter lease on spending is at least worth trying."

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One of the most critical elements of Ronald Reagan's economic program is the control of federal spending. The reports of waste, extravagance, abuse and outright fraud are legendary. Billions of the taxpayers' dollars are wasted every year. This waste is buried deep within hundreds of federal programs, and it will take a major, sustained effort over a period of years to effectively counter it.

Federal spending is now projected to increase to over $900 billion a year by FY 1985.

Ronald Reagan's goal is to systematically reduce that increase in future spending through a comprehensive assault on the waste and inefficiency that is widespread in the federal government.

His program will begin by reducing spending levels by 2 percent in FY 1981. These savings will, of course, carry on into future years. The FY 1982 projected spending levels will be cut by at least an additional 2 percent, and then an additional 1 percent in each of the succeeding fiscal years. The cumulative result will be a 2 percent reduction from the proposed increase for FY 1981, 4 percent for FY 1982, 5 percent for FY 1983, 6 percent for FY 1984, and 7 percent for FY 1985. (Table 1)

But Ronald Reagan plans to do better than that. Looking at the projected levels of federal spending over the next five years, his goal will be to reduce projected annual spending by gradually increasing amounts--up to 10 percent.

The spending reduction goal in FY 1981 will be 3 percent. This will increase by another 3 percent to 6 percent in FY 1982. The goal will be 8 percent in FY 1983 and 10 percent in FY 1984 and FY 1985. (Table 1)

If these goals are reached, the efforts will be redoubled, because certainly more than 10 percent of the money the federal government spends every year is misspent.

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The revenue of the federal government will, unless significant changes are made, increase enormously over the next 5 years. Given August 27, 1980, Senate Budget Committee estimates--a rate of real economic growth of 1.0 to 3.8 percent, an inflation rate that declines slowly to 7.5 percent, and an unemployment rate that drops to 6.1 percent by FY 1985--the revenue of the federal government will climb to $1,102 billion a year by FY 1985, an increase of $584 billion over the FY 1980 level.

This is an increase of about $117 billion a year between now and 1985. If allowed to happen, it would generate a hypothetical budget surplus of $182 billion in FY 1985.

This growing tax burden will add even more disincentives to earning, saving and investing. Ronald Reagan's tax program is designed to remove these disincentives, to stimulate the kind of economic growth that will result in a steady increase in the real take-home pay of the American worker and the removal of uncertainty about job security.

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Budget Projections
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(annual amounts in billions of dollars)

Senate Budget Committee Estimates: Second Concurrent Resolution--August 27, 1980	Fiscal Year 1981	1982	1983	1984	1985
Gross National Product	2793	3152	3555	3983	4446
Federal Tax Receipts ("Current Law")	610	712	828	951	1102
Federal Spending	633	710	778	845	920
Defense spending	159	187	212	239	270
Nondefense spending	474	523	566	606	650
Proposed Policy Changes					
(a) control growth of federal spending	+13	+28	+39	+51	+64
(b) across-the-board reduction of personal income tax rates and subsequent indexing	-18	-48	-89	-130	-172
(c) accelerated depreciation to stimulate investment	-4	-13	-18	-19	-20
(d) additional economic growth	+5	+10	+18	+20	+39
*estimated (deficit) or surplus	(27)	(21)	---	28	93
*as percent of total spending	(4.3%)	(3.0%)	*	3.3%	10.1%
(e) full achievement of spending reduction goals: additional savings	+6	+15	+23	+34	+28
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--DRAFT--

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2. An immediate freeze on federal hiring.

3. National Citizens' Task Forces will be appointed to rigorously examine every department and agency of the federal government. Ronald Reagan used this approach very effectively while he was Governor, saving the taxpayers of California hundreds of millions of dollars.

4. Over the next two months, a special Spending Control Task Force, chaired by Caspar Weinberger, former Director of the Office of Management and Budget, will carefully examine all facets of spending control, and then submit a detailed report during the transition on specific ways to search out and and eliminate waste and extravagance.

Tax Rate Reduction

The revenue of the federal government will, unless significant changes are made, increase enormously over the next 5 years. Given current Congressional Budget Office (CBO) estimates--a rate of real economic growth of 3.5 to 4.0 percent, an inflation rate that declines slowly to 7.2 percent, and an unemployment rate that drops to 6.2 per-ent by FY1985--the revenue of the federal government will climb to $1,076 billion a year by FY1985, an increase of $558 billion over the FY1980 level.

This is an increase of about $112 billion a year between now and 1985. If allowed to happen, it would generate a budget surplus of $175 billion in FY1985.

This growing tax burden will add even more disincentives to earning, saving and investing. Ronald Reagan's tax program is designed to remove these disincentives, to stimulate the kind of economic growth that will result in the steady increase in the real take-home pay of the American worker and the removal of uncertainty about job security.

The major changes that will be proposed are:

1. An across-the-board reduction in personal income tax rates: 10 percent in 1981, 10 percent in 1982 and another 10 percent in 1983.

2. Indexation for inflation of the personal income tax brackets after the full 30 percent rate reduction is phased in. This will prevent the automatic tax increase that is caused by inflation from moving taxpayers into higher and higher tax brackets.

3. Accelerated depreciation for business to stimulate job-creating investments.

Deregulation

There will be a thorough and systematic review of the thousands of federal regulations that affect the economy. No one will argue with the intent of much of this regulation--to improve health and safety, and to give us cleaner air and water--but in many cases they have gone to extremes and have become counterproductive. When the real take-home pay of the average American worker is declining steadily, and 8 million Americans are out of work, we must carefully re-examine our regulatory structure to assess to what degree regulations have contributed to our deteroirating economy.

Some of the steps to be taken will include:

1. A requirement that any proposed regulation be accompanied by an economic impact statement so that the purported benefits of the regulation can be compared against the effect of that regulation on jobs and the economy in general.

2. A Reagan Administration will work with Congress to tighten the provisions of any new legislation in order to limit the latitude within which bureaucrats will be able to formulate and interpret regulations.

3. A special task force on deregulation, chaired by Dr. Murray Weidenbaum, former Assistant Secretary of the Treasury for Tax Policy, will study this area in depth during the remainder of the campaign and submit detailed recommendations in November.

4. Along with spending control, the appointees in a Reagan Administration will have, as one of their highest priorities, the task of analyzing every federal regulation under their jurisdiction, to see if these regulations are needed.

Monetary Policy

A sound and stable monetary policy is essential to restoring economic health. The Federal Reserve Board is, and should remain, independent of the Executive Branch of government. But the President must nominate those who serve on the Federal Reserve Board.

Ronald Reagan's appointees would be men and women who share his commitment to restoring the value of the American dollar, who believe in sound, and stable monetary policy.

Restoring Confidence

A critical element that pervades every facet of this economic program is sureness and stability. There is probably nothing that undermines economic growth more than widespread uncertainty about the future actions of government.

In a Reagan Administration, every effort would be made to establish and begin to implement economic policy early--within the first 90 days--and then to stick to the essentials of this policy. There will be no sudden and capricious changing of the economic "rules-of-the-game."

BUDGETARY EFFECT

The estimated effects of these proposed policy changes on federal spending revenues are shown in Table 2. The effect on spending and revenue flows that are expected to result from the effective control of government spending and from the tax rate reduction program are shown in lines (a) through (c).

Line (d) shows the effect that the implementation of these policies is expected to have on economic growth. It is assumed that the real rate of economic growth will be one half of one percent higher than it would have been in FY1981 and FY1982, and one percent higher in FY1983 through FY1985.

Line (e) shows the current estimate of the increases in defense spending that will be necessary to maintain our national security.

Line (f) shows the additional effect on the projected (deficit) or surplus that would occur if the 10 percent planned reduction in spending were achieved by FY1984.

It should be noted that these economic projections are subject to the uncertainty that characterizes all economic predictions. And the further out in time we estimate, the more uncertain the estimates become. These projections so, however, allow us to perform an "order-of-magnitude" analysis that can give us a reasonably clear idea of whether or not a particular mix is feasible.

Related Policies

Two important factors that affect our national economy are energy and foreign trade. Our national energy policy and our international trade policy are intimately connected with national economic policy.

We must have an energy policy that concentrates on providing us with more energy.

We must have an international trade policy that will allow the U.S. to regain its competitive edge and its fair share of world markets in the 1980s.

These are both difficult, complex issues and Ronald Reagan will address each one of them at some length during the months ahead.

Anderson
9/6/80

Table 1

Proposed Limitations on
Federal Spending Increases
FY1981 to FY1985

Percentage Reduction in Projected Spending Level	Fiscal Year 1981	1982	1983	1984	1985
Expected	2%	4%	5%	6%	7%
Goal	3%	6%	8%	10%	10%

Anderson
9/6/80

Table 2

Budget Projections
FY1981 to FY1985
(annual amounts in billions of dollars)

Congressional Budget Office Estimates--"Current Policy"	1981	1982	1983	1984	1985
Gross National Product	2719	3059	3448	3863	4309
Federal Tax Receipts	596	694	807	928	1076
Federal Spending	640	709	770	832	902
Defense spending	151	170	180	197	214
Nondefense spending	489	539	590	635	688
Proposed Policy Changes					
(a) control growth of federal spending	+13	+28	+39	+50	+63
(b) across-the-board reduction of personal income tax rates and subsequent indexing	-18	-48	-89	-130	-172
(c) accelerated depreciation to stimulate investment	-4	-13	-18	-19	-20
(d) additional economic growth	+5	+10	+24	+40	+60
(e) increased defense spending	-7	-15	-20	-40	-60
*estimated (deficit) or surplus	(55)	(53)	(27)	(3)	45
*(deficit) or surplus as percent of total federal spending	(8.6%)	(7.5%)	(3.5%)	*	5.0
(f) full achievement of spending reduction goal: additional savings	+6	+15	+23	+33	+27

*less than one percent