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THE WHITE HOUSE

WASHINGTON

January 24, 1984

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS *JGR*

SUBJECT: Proposed Draft of Economic Report
of the President (Prepared by CEA)

Richard Darman has asked for comments on the above-referenced draft report by noon January 24. Under 15 U.S.C. § 1022(a), the President must transmit to Congress, in the first twenty days of each regular session, an economic report, along with the annual report of the Council of Economic Advisers (CEA) to him. The pertinent statutory provisions specify that the Economic Report shall include certain five-year numerical goals, 15 U.S.C. § 1022a, analyses concerning the composition of the goals and appropriate apportionment of national production among certain specified components, 15 U.S.C. § 1022b, and the principal elements of the President's budget, 15 U.S.C. § 1022d(c).

In fact, this material has historically appeared not in the Economic Report of the President but in the CEA annual report to the President, which, pursuant to 15 U.S.C. § 1022(a), is submitted to Congress along with the Economic Report of the President. The Economic Report of the President is generally devoid of the dry statistical analyses and econometric models filling the CEA annual report, and is rather a broad overview of the Administration's economic program for the layman. This has been true of the Economic Reports submitted not only by this Administration but by prior administrations as well. According to Geoffrey Carliner, Special Assistant to CEA Chairman Feldstein, CEA has always placed the statutorily required statistical analyses in its annual report rather than the Economic Report of the President.

It makes no practical difference whether the statistics appear in the CEA annual report or in the Economic Report of the President. Both documents are required to be submitted to Congress at the same time. 15 U.S.C. § 1022(a). The above-cited statutory provisions, however, can only be read to require the statistics to appear in the Economic Report. I do not recommend insisting on technical compliance with the statute and upsetting the time-honored practice, repeatedly acquiesced in by Congress, of putting

the dry numbers and analysis in the CEA annual report rather than the Economic Report. No practical purpose would be served by such insistence, and such a departure would ill-serve the President's interest in effectively presenting his economic program to the Congress and public.

I have no objections to the substance of the Economic Report. On the most sensitive issue, control of the deficit, the Report notes Congress has been unwilling to reduce spending as urged by the President. Accordingly, the President states he is compelled to wait until after the election to propose basic reform to obtain significant deficit reductions.

Attachment

THE WHITE HOUSE

WASHINGTON

January 24, 1984

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT

FROM: FRED F. FIELDING ^{Orig. signed by FFF}
COUNSEL TO THE PRESIDENT

SUBJECT: Proposed Draft of Economic Report
of the President (Prepared by CEA)

Counsel's Office has reviewed the above-referenced draft report. The statutory provisions requiring submission of the Economic Report of the President to Congress, together with the annual report to the President of the Council of Economic Advisers, specify that the former should include various statistics and numerical analyses. See 15 U.S.C. §§ 1022a, 1022b, 1022d(c). It has been the practice of this and prior administrations, however, to include the statutorily required material in the CEA annual report rather than, as would be technically correct, in the Economic Report of the President. Since this time-honored practice has been repeatedly acquiesced in by Congress, and since inclusion of the statutorily required material in one report rather than the other has no practical significance, we interpose no objection.

On page 1, line 8, either "our" or "the" should be deleted.

On page 7, line 15, "incomes" should be "income."

One or more lines appear to be missing between pages 10 and 11.

FFF:JGR:aea 1/24/84
cc: FFFielding/JGRoberts/Subj/Chron

THE WHITE HOUSE

WASHINGTON

January 24, 1984

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT

FROM: FRED F. FIELDING
COUNSEL TO THE PRESIDENT

SUBJECT: Proposed Draft of Economic Report
of the President (Prepared by CEA)

Counsel's Office has reviewed the above-referenced draft report. The statutory provisions requiring submission of the Economic Report of the President to Congress, together with the annual report to the President of the Council of Economic Advisers, specify that the former should include various statistics and numerical analyses. See 15 U.S.C. §§ 1022a, 1022b, 1022d(c). It has been the practice of this and prior administrations, however, to include the statutorily required material in the CEA annual report rather than, as would be technically correct, in the Economic Report of the President. Since this time-honored practice has been repeatedly acquiesced in by Congress, and since inclusion of the statutorily required material in one report rather than the other has no practical significance, we interpose no objection.

On page 1, line 8, either "our" or "the" should be deleted.

On page 7, line 15, "incomes" should be "income."

One or more lines appear to be missing between pages 10 and 11.

FFF:JGR:aea 1/24/84
cc: FFFielding/JGRoberts/Subj/Chron

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

- O - OUTGOING
- H - INTERNAL
- I - INCOMING

Date Correspondence Received (YY/MM/DD) 84, 01, 21

Name of Correspondent: Dauman, Richard G.

MI Mail Report

User Codes: (A) _____ (B) _____ (C) _____

Subject: Proposed Draft of Economic Report of the President
(prepared by CEA)

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
<u>CU HOLL</u>	<u>ORIGINATOR</u>	<u>84, 01, 21</u>		<u>1 1</u>
<u>CU AT 18</u>	<u>D</u>	<u>84, 01, 21</u>		<u>5 84, 01, 24</u> <u>12:00N</u>
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ACTION CODES:

- | | |
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| A - Appropriate Action | I - Info Copy Only/No Action Necessary |
| C - Comment/Recommendation | R - Direct Reply w/Copy |
| D - Draft Response | S - For Signature |
| F - Furnish Fact Sheet to be used as Enclosure | X - Interim Reply |

DISPOSITION CODES:

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Comments: _____

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WHITE HOUSE STAFFING MEMORANDUM

DATE: 1/20/84 ACTION/CONCURRENCE/COMMENT DUE BY: 1/24 - NOON

SUBJECT: PROPOSED DRAFT OF THE ECONOMIC REPORT OF THE PRESIDENT
 (prepared by CEA)

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	McFARLANE	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MEESE	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McMANUS	<input type="checkbox"/>	<input type="checkbox"/>
BAKER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	MURPHY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DEAVER	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OGLESBY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
STOCKMAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	ROGERS	<input type="checkbox"/>	<input type="checkbox"/>
DARMAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	SPEAKES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
FELDSTEIN	<input type="checkbox"/>	<input type="checkbox"/>	SVAHN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	VERSTANDIG	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FULLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	WHITTLESEY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HERRINGTON	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
HICKEY	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
JENKINS	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Please provide your edits/comments on the attached draft Report to my office by 12:00 Noon on Tuesday, January 24. Thank you.

RESPONSE:

Richard G. Darman
 Assistant to the President
 Ext. 2702

Received SS

1984 JAN 20 PM 12: 32

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 20, 1984

MEMORANDUM FOR RICHARD DARMAN

FROM: Geoffrey Carliner *gc*
Special Assistant to the Chairman

SUBJECT: Economic Report of the President

Enclosed is a draft of the Economic Report of the President and galleys of Chapters 4 and 5 of the Annual Report of the Council of Economic Advisers. Please let me have your comments as soon as possible.

Economic Report of the President

I have long believed that the vitality of the American economy and the prosperity of the American people have been diminished by the inappropriate policies of the federal government: unnecessary government regulations that discouraged initiative and wasted scarce capital and labor; an inefficient tax system that penalized effort and saving and investment; excessive government spending that wasted taxpayers' money and misused our the nation's resources; budget deficits that reduced capital formation and added to the burden of the national debt; and monetary policies that produced frequent business cycles and a path of increasing inflation. ✓

I came to Washington to change these policies. The needed reforms are far from complete, but substantial progress can already be seen: the burden of regulation has been reduced, tax rates have been lowered and the tax structure improved, government spending on a wide range of domestic programs has been curtailed, and a sound monetary policy has been established.

Although the full favorable effect of those reforms on our nation's rate of economic growth will take time to develop, some of the benefit of our economic policies is already visible in the current recovery. The economy's performance in 1983 was very gratifying to me. The recovery brought with it a sharp drop in unemployment and a substantial increase in the

income of American families. The number of people at work increased by more than four million and the unemployment rate fell from a high of 10.7 percent in December 1982 to 8.2 percent in December 1983. The 6.1 percent rise in real GNP last year means that real annual income per person in the United States rose more than seven hundred dollars.

Reducing unemployment

Despite the substantial reduction in unemployment, the number of unemployed remains unacceptably high. Continued economic recovery will mean millions of additional jobs in the years ahead and further declines in the rate of unemployment. In 1984 alone, the American economy is expected to add more than 2.6 million additional jobs. Only a strong and expanding economy can provide the more than 14 million jobs by the end of the decade that will be needed to absorb a growing labor force while achieving a progressively lower level of unemployment over these next six years.

Although economic growth is by far the most important way to reduce unemployment, special policies to help the structurally unemployed and particularly disadvantaged groups can also be helpful. To help these individuals develop job-related skills that will lead to productive careers in the private sector, I proposed the Job Training Partnership Act that I signed into law in 1982. Last year I proposed additional measures to increase opportunities for training and

retraining. Although Congress has enacted some of my employment proposals, I am still waiting for Congressional action on others.

Of particular concern to me is the unemployment among teenagers. Such unemployment is not only a problem in itself but is also indicative of lost opportunities to acquire on-the-job training and job-related skills. It is widely recognized that the minimum wage law is a substantial barrier to the employment of teenagers, especially minority teenagers. I have proposed that during the summer months the minimum wage for teenagers should be reduced to 75 percent of the regular minimum wage. This reform would give many teenagers the opportunity to get a first job and to acquire skills that would help them with subsequent employment. With an unemployment rate of nearly 50 percent among black teenagers and only about 20 percent of black teenagers employed, we must act. The Federal Government must not be the source of barriers to employment.

Inflation and Monetary Policy

Reducing the rate of inflation was my most immediate economic goal when I arrived in Washington. In the preceding 24 months, the consumer price level had increased more than 26 percent. Many people feared that the government had lost the ability to control inflation and that the inflation rate would continue to spiral higher and higher. Until inflation was brought under control, a healthy recovery could not get under way.

The inflation rate has declined dramatically over the past three years. In 1983, the consumer price index rose only x.x percent. Americans can again have confidence in the value of the dollar and can save for the future without fearing that the purchasing power of these savings will be destroyed by inflation. I am firmly committed to the continued pursuit of economic policies that will keep inflation on a downward path.

The basic requirement for a continued moderation of inflation is a sound monetary policy. I continue to support the Federal Reserve in its pursuit of price stability through sound monetary policy. Last year was a particularly difficult time for monetary policy because of the substantial changes in financial regulations. I expect that in 1984 the Federal Reserve will expand the money stock at a moderate rate that is consistent with both a sustained recovery and continuing progress against inflation.

There are those who advocate a faster money growth in an attempt to depress interest rates. Experience shows, however, that excessive money growth inevitably leads to an increased rate of inflation and higher interest rates. The only monetary policy that can reduce interest rates and keep them down is one that promotes confidence that inflation will continue to decline in the years ahead.

The Dollar and the Trade Deficit

The high interest rates in the United States and our low rate of inflation continue to make dollar securities an appealing investment for individuals and businesses around the world. In addition, the United States has been an attractive place for investment in equity and for direct business investment. The result has been a continued rise in the dollar's exchange value relative to other currencies of the world.

The sharp rise in the dollar since 1980 has made it difficult for American businesses and farmers to compete in world markets and has made it easy for foreign producers to sell their products in the United States. The decline in U.S. exports and the substantial rise in our imports has resulted in record trade deficits in 1982 and 1983. Despite these problems, I remain committed to the principle of free trade as the best way to bring the benefits of competition to American consumers and businesses. It would be totally inappropriate to respond by erecting trade barriers or by using taxpayer's dollars to subsidize exports. Instead, we must work with the other nations of the world to reduce export subsidies and import barriers that currently hurt U.S. farmers, businesses and workers.

I am convinced that the dollar's value will eventually decline to a level at which American goods and services are

again fully competitive in world markets. But I am firmly opposed to any attempt to depreciate the dollar's exchange value by intervention in international currency markets. Pure exchange market intervention cannot offset the fundamental factors that determine the dollar's value. Exchange market intervention would be an exercise in futility that would probably enrich currency speculators at the expense of American taxpayers. A combination of exchange market intervention and expansionary monetary policy could reduce the dollar's exchange value but only by causing an unacceptable increase in the rate of inflation. The dollar must therefore be allowed to seek its natural value without exchange market intervention.

Regulation

One of the four key elements of my program for economic recovery is a far reaching program of regulatory relief. Substantial progress has been made during the last three years. The growth of new regulations has been reduced by more than a third. The demands of government paperwork have been reduced by several hundred million hours a year. Congress approved legislation that has led to substantial deregulation of financial markets and intercity bus transportation. The Federal Communications Commission, with our support, has reduced the regulation of broadcasting and of new communications technology. The benefits of these and prior

deregulation measures are now increasingly apparent to American consumers and businesses.

It is also apparent that substantial further deregulation and regulatory reform will require changes in the basic regulatory legislation. I urge Congress to act on the several measures that I proposed last year on natural gas decontrol, financial deregulation, and reform of private pension regulation. I continue to be confident that there is a basis for agreement on measures that would reduce the burden of federal regulations and protect our shared values.

Tax Reforms

The final installment of the three-year personal tax act took effect in July, giving a helpful boost to the economic recovery. The tax rate at each income level is now 23 percent less than it was in 1980. In 1984, a family with \$25,000 of taxable incomes will pay about \$1100 less than it would have without these tax reductions. Moreover, beginning in 1985, the tax brackets will be adjusted automatically so that inflation will no longer push taxpayers into higher brackets and increase the share of income taken in taxes.

The Economic Recovery Tax Act of 1981 (ERTA) went beyond reducing tax rates to establish important reforms in the structure of the tax system. For businesses, the Accelerated Cost Recovery System increased the after tax profitability of investments in plant and equipment. The sharp fall in

inflation has also increased after-tax profitability. As a result, investment in business equipment has recently been quite strong despite the high real interest rates.

For individuals, ERTA reduced the tax discrimination against saving. The response to the universal eligibility of Individual Retirement Accounts (IRAs) has been far greater than was originally expected. It is estimated that more than 15 million individuals now use IRAs to save for their retirement. Last year I proposed to expand the opportunity for all married women to use IRAs by allowing them to contribute up to \$2000 a year to an IRA even if they have no wage income.

Further reform of our tax system is sorely needed. The burden of taxation depends not only on the quantity of tax revenue that is collected but also on the quality of the tax system. I have asked the Secretary of the Treasury to examine ways in which our tax system can be made fairer, simpler and less of a burden on our nation's economy.

Government Spending

One of my principal goals when I came to Washington was to reverse the dramatic growth of Federal spending on domestic programs and to shift more resources to our nation's defense. Although there were many who doubted that this could be done, it is now clear that both goals are being achieved.

Outlays for defense had declined to only 5.3 percent of GNP in 1980, less than one-fourth of total government outlays. By the current fiscal year, defense outlays have increased to 6.9 percent of GNP and nearly 30 percent of total outlays. Real defense outlays have grown xx percent since 1980. Our spending on defense is, however, still a far smaller percentage of our national income than it was in 1960 when defense outlays took 9.1 percent of GNP. Although we must do everything that we can to avoid waste in defense as in other areas of government, we must also be willing to pay the cost of providing the military capability to defend our country and to meet our responsibilities as the leading nation of the free world.

Spending has been cut on a wide range of domestic programs and activities. Many wasteful bureaucratic activities have been eliminated and the number of nondefense employees on the Federal payroll has been reduced. We have examined every area of Federal Government spending and sought to eliminate unnecessary and wasteful spending while protecting the benefits needed by the poor and the aged. As a result, total nondefense spending now takes a smaller share of our GNP than it did in 1980. Moreover, under present law nondefense spending will continue to take a declining share of our GNP in the years ahead.

This reduction has been accomplished without any decrease in social security benefits or change in the medicare benefits for the aged. Spending on all other nondefense activities and programs has actually declined ten percent in real terms since 1980. Moreover, even with no further reductions in these activities and programs, their share of GNP in 1986 will be back to levels of 1965.

I am committed to a continuing search for ways to reduce government spending. The budget that I am submitting to Congress calls for significant savings in entitlement programs and reductions in outlays for other programs that are excessive or that are not the proper responsibility of the Federal Government. The spending reductions that I have identified in this budget would save a total of \$ xx billion in the Fiscal Years 1985 through 1989.

Budget Deficits

I have long believed that our nation's budget must be balanced. My most serious economic disappointment in 1983 was therefore the failure of Congress to enact the deficit reduction proposals that I submitted last January in my budget for Fiscal Year 1984. We would be much closer to a balanced budget today if the Congress had enacted all of the spending cuts that I have requested since assuming office and if the long recession and the sharp decline in inflation had not substantially reduced real tax revenue. In last year's budget

deficit on a sharply declining path that, by 1988, would have brought the budget deficit to less than two percent of GNP and put the country on its way to a balanced budget. ?

The unwillingness of Congress to accept the proposals that I offered has made it clear to me that we must wait until after this year's election to enact the kind of program that will substantially reduce and eventually eliminate our budget deficit. The budget that I am now sending to Congress proposes a number of modest but necessary changes in spending programs and tax rules. The effect of these changes would be to reduce the deficit by amounts rising from \$29 billion in FY 1985 to \$68 billion in FY 1989. ?

But these reductions are only a small downpayment on the changes that will be required in future years to reduce net outlays and decrease the remaining deficit. The deficits projected in this budget for FY 1986 and beyond are totally unacceptable to me. They would be a serious threat to our nation's economic health and a heavy burden to future generations. I am committed to finding ways to reduce those deficits and to put the budget on a path that will lead to a balance between outlays and receipts. In 1985 I will ask Congress to enact the changes needed to achieve this goal.

Looking Ahead

As I look ahead I am very optimistic about the prospects for the American economy. Substantial progress has been made in reforming the economic policies that will shape our economic future. If we continue to develop and pursue sound policies, our nation can achieve a long period of strong economic growth with low inflation and the American people can enjoy unprecedented prosperity and economic security.