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MEMORANDUM


THE WHITE HOUSE

WASHINGTON

STRATEGIC EVALUATION MEMORANDUM #3A

(Supplemental to SEM #3)

TO: Edwin Meese  
James Baker  
Michael Deaver  
Edwin Harper

FROM: Richard S. Beal 

SUBJECT: Evaluation of President Reagan's  
1982 State of the Union Address

DATE: February 19, 1982

President Reagan's 1982 State of the Union Address is evaluated in this memorandum. The evaluation begins with a review of the context of the Address and a summary of the reactions which it generated. The remainder of the memorandum deals with the strengths and weaknesses of the Address.

The major strengths of the Address can be summarized as follows:

- President Reagan demonstrated that he - not his aides, Congress, or anyone else - is firmly in charge of the United States government.
- The President seized control of his own agenda and, thereby, reasserted his national leadership role.
- The President defined the terms of the political debate that will dominate this election year.

The key weaknesses of the Address can be summarized as follows:

- The President did not show concern for the suffering that - fairly or not - is increasingly associated with his economic program.
- The New Federalism initiative was not presented in terms that were meaningful to the average American.
- The Address did not steel the courage of political supporters and allies for forthcoming partisan battles.

## CONTEXT OF THE ADDRESS

Before evaluating the Address, it is necessary to review the context in which it was delivered. For the sake of brevity, this review is focused on press coverage and treatment. The national press (television, radio, newspapers, magazines) is, after all, the crucial link between a President and the American people.

Practically all recent Presidents have suffered a steady erosion of public confidence and support during their terms in office. The press has shown a growing tendency to contribute to, as well as report, this phenomenon. The press exploits any opportunity to raise questions about the ability and/or integrity of the President, regardless of his party or ideology.

These trends were kept under control during the first year of the Reagan Presidency by a number of factors, including: (1) the "honeymoon" typically accorded a newly-elected President, magnified by the margin of the Reagan victory; (2) the national sympathy evoked by the President's courageous response to the March 30 assassination attempt; and (3) the stunning legislative victories achieved by the President in 1981.

Still, 1981 provided ample evidence that the Reagan Presidency is not immune to the internal and external forces which undermine every administration. The first prolonged bout of negative press treatment occurred during the period August - September 1981, when the President was vacationing in California. The theme, "Who is in charge?", emerged in a number of stories, including the failure to awaken the President when the U.S. shot down two Libyan jets, and the battle over defense spending cuts which was waged in the press by Administration officials.

Subsequent Administration performance and corresponding press coverage has been mixed. High points since last September included the handling of the PATCO strike, the AWACS victory, the "zero option" speech, the Cancun summit, and the veto of the FY 1982 continuing resolution. These successes were offset, however, by a series of events which provoked the press to raise old questions about Ronald Reagan's abilities. The power of his presidency was dissipated by the following events and stories: (1) the seeming "failure" of the Economic Recovery Program, demonstrated by record high unemployment rates, sustained high interest rates, unprecedented federal deficits, and the onset of recession; (2) embarrassments involving key Administration personnel - Stockman, Allen, and Donovan; (3) the controversy over tax exempt status for private schools; (4) the President's performance at his last few press conferences; and (5) the widespread impression that the President could not decide the contents of his budget and tax proposals for FY 1983. More than before, this wave of "bad press" was accompanied by a steady decline in Presidential approval ratings, and by a crescendo of criticism across the nation.

## REACTION TO THE ADDRESS

### In the House Chamber

As he delivered his Address, President Reagan was interrupted 22 times for applause. The applause accounted for about 6 1/2 minutes of the 46 minute speech. Six times the applause lasted 20 seconds or more, as follows:

- Lenny Skutnik's heroism (37 seconds, standing ovation)
- Budget will not be balanced on backs of American taxpayers (35 seconds)
- Appointment of Sandra O'Connor (27 seconds)
- Jeremiah Denton's heroism (24 seconds)
- Save free enterprise to save America (22 seconds)
- Need to reconstruct national defense (20 seconds)

The only disruptive incident during the Address occurred when what sounded like a handful of Democrats snickered at the President's statement that the "budget deficit this year will exceed our earlier expectations."

### Press

The national press gave extensive coverage to the Address, with live broadcasts and analyses on all networks and front-page newspaper headlines and stories during the next two days. The television coverage was generally balanced, objective, and analytical. Much of the press praised the tone, style, and delivery of the Address with such comments as "masterful performance" (Moyers, CBS), "he wowed 'em once again" (Donaldson, ABC), "a humdinger" (Reynolds, ABC, echoing Sen. Baker), and "a very strong speech, daring" (Mudd, NBC). The net press reaction to the three central themes of the Address was not so favorable.

Economic Recovery. The dominant criticism was that the Address failed to deal with immediate, pressing problems in the economy. Some claimed that the New Federalism initiative was a "smoke-screen" for those problems. Specific comments included: (1) the President is trying to have it both ways, by claiming credit for reducing inflation and interest rates, but disclaiming responsibility for the recession (Stahl, CBS); (2) lack of real economic recovery within 6 months will spell disaster for the President and the GOP (Jones, CBS); (3) history bears out the President's assertion that more taxes means more spending, and therefore would not help the deficit (Brinkley, NBC); and (4) the President took dead aim on the doubters of his position, saying in effect, "I keep my word" (Donaldson, ABC).

New Federalism. The press responded to the New Federalism proposal with skepticism, but by no means outright rejection. Reporters and commentators on all three television networks said that it may be a good idea, but state and local governments really do not want the job, may not be able to handle it, do not have the money for it, and certainly do not want to vote for tax increases to raise the money.

National Security. This theme was a much smaller part of the Address, and therefore evoked significantly less commentary. Rather of CBS noted that foreign matters were "touched on only briefly." Jennings of ABC said that the Soviets and U.S. allies had heard much of it before, and that the President had put the Soviets on the defensive since his "zero option" speech.

### Public

According to preliminary polling data assembled by Dick Wirthlin, nearly seven out of every ten Americans saw or heard about the Address. Sixty-one percent (61%) of those who said they knew about the speech said they were favorably impressed with it; 31% were unfavorably impressed, and the remaining 8% had no opinion. Calls to the White House have been running almost 2-to-1 in favor of the Address.

We have found by previous analysis, however, that State of the Union Messages have had no appreciable effect on Presidential popularity over the last 40 years (as measured by the Gallup rating). Even though this Address was more dramatic than most of its predecessors, preliminary indications are that it did not significantly affect the President's popularity one way or the other.

### Politicians

As might be expected, the reaction from politicians split along party lines. Democrats seemed to find it easier to be negative than Republicans did to be enthusiastic.

Democrats. The strongest criticism from the Democrats was that the Address failed to deal with the economy; some argued that the President should have asked for tax increases (Sen. Johnston). A consistent theme was that the New Federalism proposal was intended as a "diversion" from economic problems (Rep. Wright) and from reductions in social programs (Rep. Green). Walter Mondale expressed anger that the proposal failed to help the economy, while Lane Kirkland called it unrealistic. Additional, specific comments about the Address included: (1) did not present a deficit reduction plan (Rep. Jones); and (2) did not contain initiatives for blacks (Rep. Fauntroy).

Republicans. Republicans could find little positive to say about the economic recovery theme (Sen. Armstrong said Main and Wall Streets cannot go along with huge budget deficits), so they focused their reaction on the New Federalism initiative. Comments about the federalism theme included: (1) has long-term merit (Rep. Michel); (2) has an equal chance of strengthening or hurting the states (Gov. Snelling); (3) a bold and useful program - resistance will come from those who fear the turnback will not provide required funds and from Congress, bureaucrats, and special interests (Gov. Thompson); and (4) presents a challenge that the states have been waiting for (Gov. Thornburgh).

## Democratic State of the Union Message

The Democrats contributed to the success of the evening for the President by running a blatantly political program in response to the Address. Calling it a 30 minute version of a 30 second political commercial, Moyers of CBS criticized the "Democratic State of the Union Message" for being too slick and superficial. Other commentators noted that it presented few solutions.

The American public was equally unimpressed. According to Wirthlin's analysis, the Democrats show was "a wash" in a public relations sense. Only 12% of the public saw the Democratic response and was impressed by it. Seven out of every ten Americans did not watch, hear, or read anything about the Democrats' program.

The program was useful as an indication of the strategy that the Democrats have mapped out for the 1982 elections. Sen. Robert Byrd identified the major targets for the Democrats in the commercial and probably for 1982: workers, farmers, and small businessmen. They will seek to convince these groups that Reagan is not conservative but radical and his programs unfair. They also raised the specter of fear - of old people and veterans getting their benefits cut. By using Speaker O'Neill in the program, the Democrats seemed to indicate their willingness to compare the Speaker with the President in head-to-head fights. This is a comparison that the GOP should exploit throughout 1982.

## ASSESSMENT OF STRENGTHS AND WEAKNESSES

In our analysis of the last 70 State of the Union Messages (SEM #3, September 14, 1981), we concluded that Franklin Roosevelt was the master among modern-day Presidents at using the Annual Message as a tool of political and national leadership. In his first exercise of this Constitutional responsibility, President Reagan demonstrated the same ability.

## Structure, Style, and Delivery, and Follow-Up

President Reagan's Address was, of course, tailored to suit his own philosophy and style and to meet the needs of his own time. But in a number of respects, his Address fits the model established by FDR. First, the Address was substantively and stylistically well-constructed. The President developed three themes: economic recovery, federalism, and national security. He did not recite a catalogue of programs designed to appeal to special interests in the manner of recent Presidents. The major weakness in terms of structure was that the national security theme was not balanced in weight and substance with the first two themes. Second, President Reagan's delivery demonstrated once again that he is the most effective communicator to occupy the Oval Office since FDR. Third, the Address contained humour, inspiration, and colorful rhetoric - all of which were important to its success. Fourth, an optimistic, upbeat tone permeated the Address. It firmly rejected the defeatism espoused by the President's predecessor, who went unnamed.

The Address invoked special feelings through specific references. The President recalled the names of heroic, modern-day leaders at the outset of the Address. The allusion to different types of people around the nation early in the Address - e.g., the unemployed, black youths - helped to show the President's awareness of, and concern for, their existence, and countervail the media-fed perception that he is indifferent to their plight. (It is argued below that this did not go far enough.) The salutes to Denton and Skutnik - who epitomize qualities of heroism and voluntarism - were astute. It was also noteworthy that Denton is a sitting Member of Congress, and Skutnik is a federal employee.

The Address was somewhat long compared to those of the last 11 Presidents. At approximately 5,500 words, the Address was about 2,000 words longer than the average State of the Union speech by FDR. Its length stemmed in part from the inclusion of specific data and information. There were two strengths to this approach. First, practically every State of the Union Message is criticized by the opposition for its "lack of specifics." Of course, the Democrats still made this claim after the Address, but in a far less convincing manner than if there had been fewer details. Second, the President has encountered heavy weather recently in the use of data in press conferences. It was therefore important for him to present specific information in this Address. On the other hand, parts of the Address might have benefited from greater emphasis on philosophy and principles and less on details. This point is explained further below.

The post-Address communications effort was not as evident as it should have been. Key Administration aides did hold well-publicized briefings for the press on the Address and on the details of the New Federalism initiative. These efforts should have been joined by a broad base of Republican politicians and supporting interest groups to form a more extensive, coordinated, and public wave of support.

#### The Economic Recovery Theme

Confirming Who Is In Charge. As we noted earlier, the press had been asking, "who is in charge?", in the weeks leading up to the Address. By the strength of his Address, President Reagan demonstrated that he - not his aides, Congress, or anyone else - is firmly in charge of the United States government. As Reynolds of ABC said in his first reaction to the speech, the President "may have answered the questions about who makes the really big decisions." By rejecting tax increases, the President went against advice which, in the eyes of the press, was nearly universal among his top aides, as well as leaders on Capitol Hill. He demonstrated once again his deep-seated principles. This evoked comments, often in awe-struck tone, among the press about his philosophy and perennial consistency with it.

Failing to Deal With the Fairness and Sensitivity Issues. The President provided a lengthy explanation of why he rejected any tax increases for FY 1983, but expressed little concern for those who are suffering as a result of the recession and/or of budget reductions. Moreover, the President failed to mention a problem which hits many middle Americans - the housing issue. By failing to show awareness of, or sympathy for, the weaker elements of American society, the President played into the hands of the opposition, who have already made his sensitivity and fairness central campaign themes in 1982. Ironically, about a week later a supplemental was sent to Congress requesting more aid for unemployment benefits. While the weaknesses in the economy should not be highlighted, it would have helped more than hurt the President's cause to hear him say that, while he is committed to the present course on the economy, he will guarantee that the unemployment programs will continue in some form to minimize the suffering caused by the recession.

### The New Federalism Theme

Reasserting National Leadership. President Reagan presented a proposal for New Federalism that not only showed he was in charge; it also defined - at least in part - the substance of the national debate over public policy for 1982. The events of recent months had forced the President into a reactive, defensive mode. By seizing control of his own agenda, the President put himself back into a pro-active, forward looking mode. It is a test which Presidents must meet on a recurring basis for sustained national leadership.

Failing to Explain Underlying Principles. Unfortunately, the New Federalism initiative was not presented in terms that were meaningful to the average American. The focus of this most important part of the Address was on the structure and mechanism of a specific proposal. It was certainly necessary to describe some of the details; otherwise the President would have been accused of presenting a "half-baked" idea. What was missing, however, was the philosophy and common-sense reasoning behind the program. There was no effort to educate the people about the federalism concept in general and Reagan federalism in particular.

Another problem with the Address was that it failed to define the relationship between the New Federalism proposal and the Economic Recovery Program. This would have helped defuse the notion of the federalism proposal as a "diversionary tactic." The plan for Phase 4 (SPM #4) recommended that as the domestic focus for Phase 4, federalism should be an integral part of, not separate from, the economic program. The major objective of the federalism focus is "to generate support for his (Reagan's) Economic Recovery Program during the late winter and early spring of 1982." This connection was not made.



Perhaps the most incisive comment among the press was by Rather of CBS. He said that, in sum and substance, the Address set the agenda for the next decade much more than for the next year; thus, it had a future, not a present, orientation. It is that impression which will have to be dealt with in follow-up work on op-ed strategies, speeches, and briefings.

### Political Leadership

Defining the Substance of the Debate. By defining the substance of the national public policy debate, the President defined the terms of the political debate that will dominate this election year as well. Some commentators saw that. With the New Federalism initiative, the GOP now has a positive program to push in 1982. Moreover, its very boldness helped assure that the Democrats will remain in the defensive, reactive posture that they maintained for most of 1981. The Democrats are forced by the New Federalism proposal to demonstrate their bankruptcy in alternative ideas and approaches, as demonstrated in their own State of the Union program.

More generally, the Address seemed to assure and inspire the people of the President's vision and understanding of what needs to be done. It appealed to Congress to work together with him, thus focusing on the need to maintain the coalition. It set the tone and pace for the future policy focus.

Failing to Rally the Troops. If the Address fell short of the Rooseveltian model of political and national leadership, it was in the area of political mobilization. The Address contained some, but perhaps not enough, of the sense of a call to political arms that would steel the courage of the political supporters and allies to face forthcoming partisan battles.

### SUMMARY

The 1982 State of the Union Address was a strong success for the President and his Administration. It ranked far above the "typical" State of the Union Message in practically every dimension. Still, it had a few major deficiencies that undercut the overall impact of the Address. These, however, can be corrected in follow-up actions by the President.

(Dolan/RR)  
January 11, 1982

STATE OF THE UNION ADDRESS  
JANAURY 26, 1982

Today marks my first state of the union address to you -- the fulfillment of a constitutional duty and the continuation of one of the oldest and most vibrant traditions of our Republic. X

President Washington began this tradition in 1790 after reminding the Nation that the destiny of self-government and the "preservation of the sacred fire of liberty" is "finally staked on the experiment entrusted to the hands of the American people."

One cannot stand here carrying on this tradition without feeling a sense of history.

From this podium Winston Churchill asked the free world to stand in majesty and union against the onslaught of aggression. Franklin D. Roosevelt spoke of a day of infamy and summoned a nation to arms. Douglas MacArthur made a final, unforgettable farewell to a country he had served and loved so well. President Eisenhower reminded us that peace was purchased only at the price of strength and President Kennedy spoke of the burden and glory that is freedom.

When I visited you in this Chamber last year, I spoke to you then as an outsider to Government in Washington and a frequent critic of the policies followed for nearly 50 years by our national Government. I knew that if there was any

chance of success in changing the direction of these policies, it lay in close and harmonious cooperation among those of us in this Chamber tonight.

The situation at this time last year was truly ominous: Inflation had escalated, interest rates had already reached record levels. Productivity and growth in our gross national product had declined for the third year in a row.

Government spending had achieved the largest increase in peacetime history -- 17 percent in a single year. Taxation and spending were each claiming the highest share of GNP in history and the national debt was nearing a trillion dollars. The interest ~~rate~~ on that debt -- nearly \$100 billion -- was equal to the 1960 entire Federal budget.

That was why in my address to you last year I said: The budget was out of control; Government was too big and it spent too much money.

And that is why in discussing the state of the union tonight, we must look at where we've been, where we are and where we're going. In the last 6 months of 1980 the money supply increased at the highest rate in postwar history -- 13 percent -- and we had double-digit inflation. (Almost 2 million Americans lost their jobs in those 6 months) and interest rates reached 21½ percent.

Had the trend continued we'd be approaching interest rates and inflation of 25 percent and Government would have been taking one-fourth of the GNP. We faced economic

disaster -- an economic Armageddon if you will.


Opinion polls were showing a steady decline in faith in our governmental process, and more Americans than at any time in history were saying they were pessimistic about their future than those who said they were optimistic.

Both in and out of government, a new sort of defeatism and self-doubt had taken hold. Voices were heard saying our domestic problems were uncontrollable and that the growth of government was unstoppable; that we must learn to live with stagflation, with the seemingly endless cycles of high inflation followed by periods of high unemployment.

(In the decade 1971 to 1981, the typical American family income increased by 117 percent -- more than double what it was. But that typical family was \$609 poorer in 1981 than it had been in 1971. This was due in part to inflation and in part to paying 3 times as much in Federal taxes.) Is it any wonder there was a beginning suspicion that the American Dream was over, that we must tell our children not to dream as we once dreamed.

There were also pessimistic predictions about the relationship between our Administration and this Congress. It was said we could never work together, never go about the people's business competently or honorably; that this Congress and this Administration were destined for permanent political stalemate. Well, it would seem those pessimistic predictions were somewhat inaccurate.

The record is clear, and I believe history will remember this Administration as an administration of change; this Congress as a Congress of destiny; our era as an era of American renewal.

-- Together, after years of steady increases in the rate of government spending, we didn't just slow down the rate of increase, we cut it in half. 

-- Together, we brought about the largest tax reductions and the most sweeping changes in our tax structure since the beginning of this century. And because we indexed taxes to the rate of inflation, we took away Government's built-in profit on inflation and its hidden incentive to grow larger and larger at the expense of American workers.

-- Together, we formed a bipartisan commission that will rescue the Social Security System from bankruptcy and protect the savings of our elderly citizens.

-- Together, after 40 years of taking power away from the hands of the people in their States and local communities, we are giving back to the States flexibility and discretion in administering Federal grants-in-aid.

-- Together, we have cut the growth of new Federal regulations in half. There are 23,000 fewer pages in the Federal Register, which lists regulations, than there were in 1980.

-- Together, we have, through the formation of the Council on Integrity and Efficiency, made the Inspectors

General a strike force for fiscal reform and shock troops against waste and fraud. In just 6 months they have saved the taxpayers more than \$2 billion -- and they're only getting started.

-- Together, we have reminded Americans that the real source of our progress as a people lies in the private sector. We are revitalizing that sector and bringing thousands of Americans into our volunteer effort to attack many of America's social problems. Together we have done something imaginative about America's longstanding social ills -- we've asked the American people for help.

-- Together, we have begun to restore that margin of military safety that insures peace. Today young Americans are again wearing with pride their country's uniform.

① -- In one short year, we have come a long way from economic disaster, defeatism and self-doubt.

Together, we have made a New Beginning; we have inaugurated an American renewal.

We have begun well. But we have only begun.

The first order of business before this Administration and this Congress tonight is to keep America on the road to economic recovery.

The economy will face difficult moments in the months ahead. We will see fluctuations in several economic indicators, especially the unemployment index.

But for the first time in the history of recent recessions, our policy prescriptions are in place as the full force of

*take out*

X

the recession hits us; policy prescriptions that will pull the economy out of its present slump and put us on the road to recovery and stable growth by the latter half of this year.

Our recovery will take place only if we have the strength to continue on the course we have already embarked upon.

The task before us in 1982 and 1983 is virtually the same as it was last year: to bring down Federal spending as a percentage of gross national product.

This is especially important because, as all of you know, the budget deficit this year will exceed our earlier expectations. There are several causes for this increase. First, some of the spending cuts we made last year, in housing programs for example, will take several years to have their full effect. Second, to some extent we are victims of our own success. We have brought inflation down faster than we thought we could and thus deprived government of those hidden revenues that occur when inflation pushes people into higher income tax brackets. Third, the continued high interest rates last year cost the Government about \$5 billion more than anticipated.

(And we must add to this our failure to achieve \$13 billion in savings, largely in entitlement programs.)

These entitlement programs make up our safety net for the truly needy, they have worthy goals and deserving recipients -- this Administration intends to guard and

protect them and stand with you in maintaining their integrity.

But there is only one way to see to it that these programs really help those whom they were designed to help, and that is to bring their spiralling costs under control.

Today we face the absurd situation of a Federal budget with three-quarters of its expenditures routinely referred to as "uncontrollable" because these costs go mostly to entitlements.

Yet subcommittee after subcommittee of this Congress has heard witness after witness describe many of these programs as poorly administered and rife with waste and fraud. Take just one example: Medicare and Medicaid -- programs with worthy goals but programs whose costs have increased <sup>more than</sup> five times as much, from \$11.<sup>2</sup> billion to \$<sup>59.3</sup>~~58.7~~ billion in just 10 years.

(528% increase)

Waste and fraud is a serious problem. Back in 1980, top officials of the Federal Bureau of Investigation testified before your committees, "Corruption has permeated virtually every area of the Medicare and Medicaid health care industry." They said previous abuses outlined in the reports of congressional committees "are still occurring and apparently are becoming more widespread." One official said many of the people who are cheating the system "have absolutely no fear of being caught." These people, he said, were "very confident that nothing was going to happen to them."

Well, something is going to happen. It is not only the taxpayers who are defrauded, the people with real dependency



on these programs are deprived often of what they need because available resources are going not to the needy but to the greedy. The Council on Integrity and Efficiency I mentioned earlier has already discovered thousands of checks still being mailed to recipients who've been dead for an average of 7 years.

The time has come to control the uncontrollable. In August we made a start. I signed a bill to reduce these programs by \$13 billion -- the first time the entitlement programs have ever been significantly reduced.

Shortly you will receive from me a message on further reforms we intend to install in these automatic spending programs. Some of these are new but others have been long recommended by congressional committees.

In the area of Medicare and Medicaid, I am (particularly) pleased to report to you a plan that will cut costs by 6 percent while providing for the first time insurance against catastrophic illness.

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The savings proposed by this Administration in entitlement programs will amount to \$\_\_. In addition to bringing Federal spending under control, these savings will also slow the growth in entitlements by encouraging work and this will assist us in focusing scarce resources on the needy.

In reply to those who rush to proclaim any change in these programs is somehow aimed at depriving the needy and helpless, let me point out that nondefense spending in 1983

will grow by \_\_\_ percent. The Federal Government will still subsidize 100 million meals every day. That's one out of seven of all the meals served in America. Head Start, (senior nutrition programs and child welfare programs) will not be cut. Health research at the National Institutes of Health will be increased by \$100 million.

Very shortly I will be submitting to you in the Congress a budget message. The law requires that in doing this I must offer estimates or projections of budget deficits for the next several years. I will, of course, comply with that provision of the law even though I believe such projections to be meaningless. There are too many imponderables for it to be possible for anyone to foretell deficits or surpluses that far ahead with any degree of accuracy.

The budget in place when I took office had been projected as balanced. It was close to if not the biggest deficit in our history.

A change of one percentage point in unemployment can alter a deficit up or down by some \$25 billion.

To believe that we can accurately project deficits several years ahead is to believe that we are controlled by economic circumstances and are therefore helpless to determine our own destiny. I am confident that the economic program we have put into operation will stimulate the economy, result in increased savings thus providing capital for expansion; mortgages for home building and jobs for the unemployed.

There has been talk that our program has failed and that we should change course. Well the program has only just started and the only alternative offered by those who want it changed is a return to the policies that gave us a trillion dollar deficit, runaway inflation, runaway interest rates and unemployment.

A variety of tax increases have been suggested to offset the tax-rate reductions. This suggestion has been inspired by predictions of future deficits.

Well let it be understood that those projected deficits have not been caused by our reduction in taxes. Individual tax cuts that took effect in October of 1981 amounted to only a <sup>1.4%</sup> ~~1.4%~~ percent reduction for that year -- hardly the reason for the increase we have seen in last year's deficit. Government has never taxed simply to get the money it needs -- Government always finds a need for the money it gets.

Let me give an example of why I lack faith in these long-range deficit predictions. Taxes have more than doubled just since 1976 and yet in this same 6-year period our country ran the largest series of deficits in its history. Taxes increased by \$80 billion in 1980 alone -- and in 1980 our government ran one of its biggest deficits in history.

Raising taxes won't balance the budget, it will only make matters worse for the people who have been hurt the most by the current recession: those without jobs. Raising taxes will slow economic growth, reduce production and

destroy future jobs making it more difficult for those without jobs to find them and more likely that those who now have jobs could lose them.

I will not ask you to balance the budget on the backs of the American taxpayers. We will seek no tax increases in 1983.

Economic growth is a matter of confidence and psychology as much as statistics or measurements. Our goal is to break the psychology of bigger and bigger government and more and more spending. We will achieve this goal as we move towards a lower percentage of the GNP consumed by Government taxes and spending. This in turn will ignite an economic recovery that will see business boom and put millions of Americans back to work.

Our only goal is real growth, not inflationary growth; the kind of growth that provides jobs.

Directly tied to an economic program that seeks to stimulate the energy and ingenuity of the American people is our plan for a new and creative federalism that will give control of government back to the people.

In 1960, the Federal Government had only 132 categorical grant programs costing \$7 billion. Today, there are approximately 500 such programs costing nearly \$100 billion. There are 13 programs for energy conservation, 36 for pollution control, 66 for social services and 90 for education. These are administered at the local and State level, but local and

State governments are bound by red tape and regulations imposed by Washington.

These programs have led to an enormous growth of bureaucracy in the executive branch. Here in the Congress, it takes ~~211~~ 166 X committees to keep track of them.

You know and I know that neither branch can properly oversee this jungle of grants-in-aid, indeed the growth in these grants has led to a distortion in the vital functions of government. These grants have become the special domains of lobby groups who expend enormous resources to protect them from change. They consume an unwarranted amount of our time, time that could be better spent on the critical duties of our offices. As one Democratic governor put it recently: The national government should be worrying about "arms X control not potholes." He was referring, of course, to a task that is a legitimate responsibility of the national ~~the~~ Government. Street maintenance in local communities is not.

We want to return the search for solutions to our social problems to the States and communities. Until recently, States had acted as laboratories for solutions to these problems -- we can renew this kind of creative federalism by moving forward again with our program for consolidation of block grants. This is not only practical, it also provides the protection for personal freedom that our founding fathers envisioned when they established layers of counterbalancing power in the Federal system.

A message outlining our plans in this area that includes an imaginative new proposal to assist the States in making this transition will be delivered to you shortly.

Let me mention here its basic components: (one paragraph of explanation)

We will also move to assist our urban areas which have been badly hit by the movement of business and industry from the inner cities. To this end, we are proposing urban enterprise zones. (one paragraph of explanation)

Our faith in the judgment and innate wisdom of the American people is also reflected in another area of endeavor by this Administration.

As you know during the past few months we have put increasing emphasis on private sector initiatives as a solution to our social ills. The institutions of the private sector -- charitable, educational, fraternal and religious -- have long been the leaders in the attack on our Nation's social problems. As one recent opinion poll showed, twice as many Americans believe private voluntary organizations are more responsive to peoples' needs than the Federal Government is. Besides, administrative overhead in the voluntary conduct of good works is only a fraction of what it is when government is at the helm.

Three hundred eighty-five thousand corporations and private foundations are working on programs ranging from

drug rehabilitation to job training. And thousands more Americans have written to us asking how they can help.

Let me announce tonight one exciting initiative this Administration will shortly take in this area. (Formation of citizen task forces -- one paragraph.)

These reforms are at the heart of our domestic renewal. They renew what is best about America's past: the expansion of personal freedom and the promotion of human dignity and excellence.

The excitement of this renewal of freedom at home, which combines the reality of what America has been with the premise of what she can be, is one that is also felt throughout the world, especially by the young and struggling nations of the Third World.

At Ottawa, where I met with seven leaders of the major industrial powers and at Cancun, where I met with 21 leaders from around the globe, the aspirations of developing nations formed the center of our interest and concern.

In Cancun, I pointed out that the United States was the original underdeveloped nation. Only a few hundred years ago a handful of brave people landed on the shores of a trackless wilderness. What was the single factor that led to the industrial miracle that is the United States? Freedom, freedom that unleashed the abilities of the individual to fly as high and as far as his own abilities could take him.

Some of those I met with were a little surprised that I didn't apologize for America's wealth but spoke instead of how they too could benefit by way of a free marketplace economy and that we'd like to help them develop such a system. I believe they appreciated our frankness and that we parted at meeting's end with a feeling of mutual respect. Our willingness to speak up for the right of free choice is the greatest foreign aid we can offer any of the nations of the world.

We can bring this message home to our own hemisphere through special assistance to the developing nations of Central America.

That is why tonight I am announcing a plan of foreign assistance and trade concessions that will assist Caribbean Basin nations in their quest for material prosperity and economic freedom.

(one paragraph of explanation)

The prospects for prosperity in the Caribbean area are promising, but we must not underestimate the threat posed to these nations by outside forces. With direct assistance from Cuba and the Soviet Union, there are those who seek to undermine freedom by abolishing democratic institutions and establishing Marxist ruling elites throughout Central America.

Now this last matter obviously raises the general question of our relations with the Soviet Union and our quest for peace.



We are actively pursuing every path to arms reductions. We have offered to refrain from basing nuclear cruise missiles and rockets in the NATO countries if the Soviets will dismantle the hundreds of intermediate-range nuclear missiles they have aimed at all of Western Europe. Our goal is complete elimination of such weapons by both sides. We also intend to take up reduction of strategic missiles.

Let me explain to you some of the proposals we will put forward and some of the guiding principles we will follow during these discussions.

(one paragraph on START talks)

If, however, we are going to make any progress at all in these arms talks and in general in our relations with the Soviet Union, our foreign policy must be rooted in realism, not naivete or self-delusion.

A recognition of what the Soviet empire is about is the starting point for the successful pursuit of peace in the postwar world. Winston Churchill ended his own intensive experience in negotiating with the Soviets by observing that they respect only strength and resolve in their dealings with other nations.

That is why we have moved to reconstruct our national defenses. We intend to keep the peace; we will keep the peace -- but not at the expense of freedom.

One other point: This Administration has also made pledges of a new candor in our public statements and worldwide

broadcasts. We have, in the face of a climate of falsehood and misinformation, promised the world a season of truth -- and we mean to keep that promise.

The truth of our great civilized ideas -- individual liberty, representative government, the rule of law under God -- provides the enduring strength and sustenance of our Nation and civilization.

We do not require walls, mine fields and barbwire to keep our people in. Nor do we declare martial law to prevent our people from voting for the kind of government they want.

Yes we are in a time of recession -- there is no magic formula, no quick fix to suddenly end the tragic pain of unemployment. Yet we will end it. We'll end it by facing our problem and working our way to prosperity. The processes have already begun and we'll see their effect as this year goes on.

We speak with pride and admiration of that little band of Americans who overcame insuperable odds to set this nation on course 200 years ago. But our glory didn't end with them -- Americans ever since have emulated their deeds.

Four decades ago an America beset by depression found itself in a war for which it was ill prepared. In the 44 months of that war, we built 210,000 aircraft, 1,200,000 military trucks, 84,000 tanks, 1200 naval vessels and thousands of merchant ships. We won the greatest victory in all of history.

In a more recent war, hundreds of American fighting men underwent the longest imprisonment ever inflicted on men of our armed forces. One who sits among you here tonight epitomized their heroism through that long ordeal when he came down the ramp of a rescue plane at Clark Field in the Philippines, saluted our flag and said, "God bless America." Then he thanked us, his fellow Americans, for bringing them home.

We don't have to look only to war for moments that fill us with pride. There were those American kids at Lake Placid who handed that Soviet hockey team its first defeat and left the ice to the shouts of "U.S.A., U.S.A."

The night we waited to hear the words "The Eagle has landed" as our astronauts set foot on the ~~moon~~ <sup>M</sup> ~~moon~~. X

Or that recent day when Americans took the Columbia One on the first winged aircraft flight into space. X

A scholar at the Hudson Institute recently wrote: "We live today in the middle of the most dramatic and important period in human history."

That scholar pointed to the uniqueness of America and to the remarkable progress of mankind as a whole during the last two centuries.

"Up until 200 years ago," he wrote, "there were relatively few people in the world. All human societies were poor. Disease and early death dominated most people's lives. People were ignorant, and largely at the mercy of forces of

nature. Now we are somewhere near the middle of a process of economic development that will take some 400 years. At the end of that process, almost no one will live in a country as poor as the richest country of the past. There will be many more people, ~~and~~ most living long, healthy lives, with ~~immense~~ knowledge and more to learn than anybody has time for, largely able to cope with the forces of nature and almost indifferent to distance." Some of us in this room have lived a decade or more beyond our life expectancy when we were born. That's a source of annoyance to some, but we're evidence of man's ability to conquer plague and diseases of every kind.

Winston Churchill, shortly after the darkest day of the Battle of Britain, told us that, "When great causes are on the move in the world . . . we learn we are spirits, not animals, and that something is going on in space and time, and beyond space and time, which, whether we like it or not, spells duty."

America's duty in our own time is clear. We only seek to acknowledge what history has asked of us. We must go forward -- a united nation -- serving selflessly a vision of man with God, government for people and humanity at peace.

For that experiment in self-government spoken of by President Washington in 1790 is no longer just the hypothesis of a few political thinkers, the dream of patriots, it is today a living, ennobling reality.

Through economic panic and war, their experiment has endured and prospered. Let us so conduct ourselves that when, 200 years from now, another Congress and another President meet in this place as we are meeting they will speak of us with pride; they will say that we did tend and preserve, through the darkest and coldest of nights, the sacred fire of liberty -- a fire that even tonight glows as a beacon to the oppressed of the world shining forth from this kindly, pleasant, greening land call<sup>ed</sup> America. X

(Dolan)  
December 29, 1981

STATE OF THE UNION ADDRESS

Today marks my first state of the union address to you -- the fulfillment of a constitutional duty and the continuation of one of the oldest and most vibrant traditions of our Republic.

It was President Washington who began this tradition in 1790 after reminding the Nation that the destiny of self-government and the "preservation of the sacred fire of liberty" is "finally staked on the experiment entrusted to the hands of the American people."

It was the danger posed to this way of government, this experiment in human liberty, that brought me here before you last year to speak frankly about one of the most serious economic crises in our Nation's history.

When I spoke to you then -- even as I speak to you now -- I felt that mixture of humility and awe experienced by anyone who is asked to stand at this rostrum and address this body -- one that has seen such great moments and such great men.

It was from this podium that Winston Churchill asked the free world to stand in majesty and union against the onslaught of aggression; it was here that Franklin D. Roosevelt spoke of a day of infamy and summoned a nation to arms; it was here that Douglas MacArthur made a final, unforgettable farewell to a country he had served and loved so well; it was here that President Eisenhower reminded us that peace

was purchased only at the price of strength and President Kennedy spoke of the burden and the glory that is freedom.

Tonight we must speak of the Nation's business -- and in a few moments we must give these matters our full attention. But the Members of this body have been so personally generous and our individual relations have been so warm -- I wondered if I might tonight do something unusual in this Address and offer a few personal reflections after a first full year in office. I ask this privilege because if there is one strong impression I carry away from last year it is this: that the things that unite us -- our hopes, our aspirations for this much-loved country -- these things far outweigh what little divides us. I ask for this privilege because anyone who is at all honest and stands at this rostrum must contemplate the greatness that has gone before . . . and ask in wonder what turn of fate or fortune has brought him to this moment.

It is no easy question to answer. Like many of you, my own journey here was -- in all its essential elements -- that of a very ordinary, very typical American life.

Like many of you, the phrases "nation of immigrants," "beacon of hope," "land of opportunity" were burned early into memory by family members and friends who had escaped the hardship of an old world to seek the promise of the new.

Like many of you, the values of a strong sense of community and concern for others were etched deeply into my consciousness by life in a small American town -- a place where compassion for the poor and concern for the truly needy was a first and unshakable principle.

Like many of you, the meaning of the American dream, the good fortune of living in this land were marked forever in my mind by a professional career far beyond the dreams of any Illinois schoolboy.

This journey was dominated by all the good things about America, but -- to be honest -- it was also a journey that sometimes was marked by some of the bad.

-- A Christmas Eve when the suffering of the Great Depression was brought home by a father who told his family he no longer had a job.

-- An evening when I discovered a friend and fellow student was thought worthy enough to struggle on the same field of sport but not worthy enough -- because of the color of his skin -- to stay the night at the same hotel.

-- A day when myself and others joined the armed forces as we heard the first dreadful sounds of war. Those sounds I would hear four times in my lifetime -- all of them from wars that statesmen were not wise enough to avoid because they were not careful enough to prepare.

-- An afternoon of violence on a picket line or a night of anonymous threats -- events that made me understand the preciousness of our civil liberties and the ruthlessness of those who even tonight use those same tactics to crush freedom in the distant cities of Kabul and Warsaw.

These things drove home certain lessons: that the truly needy are our moral concern, that a job for every American who needs one is our constant goal, that racial prejudice is abhorrent to everything American, that war is



avoided not by weakness but by strength, that government is both the protector of freedom and its greatest enemy, that our age is a dangerous one -- and that we close our eyes to totalitarianism only at the risk of more assaults on human freedom, someday even perhaps our own.

But these are really not my lessons -- these lessons belong to all of us -- we have been taught them by a turbulent and challenging century.

When I visited you in this Chamber last year, I spoke to you then as an outsider to Government in Washington and a frequent critic of the policies followed for nearly 50 years by our national Government. I knew then that if there was any chance of success in changing the direction of these policies, it lay in close and harmonious cooperation among those of us in this Chamber tonight. But I also believed I had been asked to serve as President because I wanted to put aside the old habits of mind that had dominated our Nation's Capital.

I believed that the innate wisdom of the American people had allowed them to see the real dimensions of our difficulties -- they knew the trouble we were in. I believed it was time for those of us in Washington to stop kidding ourselves and to start listening to them.

The situation at this time last year was truly ominous: Inflation and unemployment had escalated, interest rates had already reached record levels. Productivity had declined for the third year in a row -- and the rate of increase in

our Gross National Product had declined for the third year in a row.

Government spending had risen by more than 17 percent from the year before, the largest increase in peacetime history. Taxation and spending were each claiming a share of the GNP that was the highest in history. The national debt was approaching a trillion dollars and the interest paid yearly on that debt -- nearly \$100 billion -- had been enough money 2 decades ago to run the entire Federal Government. As I said to you then, our problem was plain: The budget was out of control; government was too big and it spent too much money.

It was clear where our economy was headed. In the last 6 months of 1980, the money supply had increased at a rate of 13 percent, the highest rate in postwar history. In the last 6 months of 1980, inflation was in double digits. And interest rates had reached 21½ percent, the highest in history.

If these trends had continued, in 3 years spending would have increased by \$191 billion and taxes would have gone up by \$307 billion. Most alarming of all -- by 1986, approximately one quarter of our Gross National Product would have been consumed on a yearly basis by Government -- a percentage that would have crippled investment and enterprise and plunged the Nation into even deeper economic crisis.

Had these trends continued, widely accepted economic forecasts show that in the next 3 or 4 years, interest and

inflation rates would have reached the astronomical level of 25 percent or even higher.

These developments held the gravest possible consequences for the American people. Such impossibly high interest and inflation rates -- directly caused by government actions that stifled growth and consumed wealth -- could only have been forced back again by even more government intervention -- intervention that would have triggered economic calamity and very possibly another great depression. Let there be no mistake: At this time last year we faced economic disaster; we stared economic Armageddon in the face.

Much more acutely than those in government, the American people had sensed the approach of this breakpoint in the economy. And so they issued an election mandate that was unequivocal. At critical moments in your deliberations last year, they called you, they wired you, they wrote you; they spoke their minds openly and firmly. Their message was simple, their meaning was clear: They demanded a new beginning; they wanted a break with the past; they asked us to think anew and act anew. And to hurry up about it.

For beyond the immediate threat to America's economic stability, the American people perceived a crisis of confidence in the stability of our political institutions and in America herself. They perceived a deeper threat to our spiritual strength, our sense of purpose as a Nation.

Opinion polls had shown a steady decline in faith in our governmental process, and for the first time in history,

more Americans were saying they were pessimistic about their future than those who said they were optimistic.

Our economic problems accounted for some of this discontent but so too had troublesome and oftentimes tragic events at home during the last 2 decades. Internationally, American prestige had sharply declined -- it fell so badly that it sometimes seemed every outlaw regime in the world could contemplate taking America hostages or threatening American aircraft or making irresponsible attacks on the American people in international forums without fear of reprimand or penalty.

But let us acknowledge that this crisis of confidence was not at all the making of the American people. It was a crisis that belonged almost exclusively to America's leadership. Both in and out of government, a new sort of defeatism and self-doubt had taken hold. Phrases like the era of limits, national malaise, diminished expectations, and the era of scarcity rolled off the lips of our political and social leaders. These voices said our domestic problems were uncontrollable and that the growth of government was unstoppable; they said we must learn to live with stagflation; with the seemingly endless cycles of boom and bust, periods of high inflation followed by periods of high unemployment. Other voices said we must learn to accommodate ourselves to a world where human freedom and legitimate American interests were routinely threatened and assaulted. And at the center of this defeatism lay a conviction that the American dream

was over, that we must conserve and withdraw, that we must tell our children not to dream as we once dreamed.

Nowhere was this lack of confidence more apparent than in the pessimistic predictions about the relationship between this Administration and this Congress. It was said that our relationship would be divisive and clamorous. It was said we could never work together. It was said we could never go about the people's business competently or honorably. It was said that this Congress and this Administration were destined for permanent political stalemate.

But there was no stalemate . . . those voices were wrong . . . and they were wrong because you and I and the American people proved them wrong.

The record is clear, history will remember: The legislative initiatives of the executive branch and the accomplishments of the first session of the 97th Congress marked this Administration as an administration of change; this Congress as a Congress of destiny; our era as an era of American renewal.

-- Together, we have moved to halt the spending juggernaut. After years of steady increases in the rate of government spending, we didn't just slow down that rate of increase, we cut it nearly in half.

-- Together, we brought about the largest tax reductions and the most sweeping changes in our tax structure since the beginning of this century. And because we indexed taxes to the rate of inflation, we took away government's built-in

profit on inflation and its hidden incentive to grow larger and larger at the expense of the working people of this Nation.

-- Together, we attacked one of the thorniest problems in our domestic history and formed a bipartisan commission that will rescue the Social Security System from bankruptcy and protect the savings of our elderly citizens.

-- Together, after 40 years of taking power away from the hands of the people in their states and local communities, we reversed that trend by giving back to the States flexibility and discretion in administering Federal grants-in-aid.

-- Together, after a steady growth in the thicket of Federal regulations, we have cut the growth of new regulations in half.

-- Together, after years of erratic growth in the money supply, we have worked to help the Federal Reserve resist political pressures and insure stable monetary growth.

-- Together, after years of an unrelenting national scandal that wasted billions of tax dollars, we have, through the formation of our Council on Integrity and Efficiency, made the Inspectors General a strike force for fiscal reform and shock troops against waste and fraud. In the first 6 months of 1981 alone, the IG's have saved the taxpayers more than \$2 billion -- and they're only getting started.

-- Together, after years of viewing government as the principal means of social change, we have reminded Americans that the real source of our progress as a people lies in the private sector. We are revitalizing that sector and bringing

thousands of Americans into our volunteer effort to attack America's social problems. For a change, those of us in Washington have done something imaginative about America's longstanding social ills -- we've asked the American people for help.

-- Together, we have begun to restore that margin of military safety that insures peace. Our strategic and conventional armed forces, especially our Rapid Deployment Force, are daily growing stronger -- and today young Americans are again wearing with pride . . . and walking tall . . . in their country's uniform.

-- Together, at a moment of national crisis in March and then in the midst of terrible oppression in Poland -- we presented to the world the image of a strong and united nation, a nation that can keep its principles and its head even at moments of terrible disorder at home and abroad.

-- Together, in one short year, we have come a long way from economic disaster, from America's crisis of leadership, from defeatism and self-doubt.

We can take pride in these accomplishments. Together we have made a New Beginning; together we have inaugurated an American renewal.

But if it is true that we have begun well, it is also true that we have only begun.

This is especially so with the first order of business before this Administration and this Congress tonight -- keeping America on the road to economic recovery.

*Thur*

There can be no question that the economy will face difficult moments in the months ahead. We will continue to see fluctuations in several economic indicators, especially the unemployment index. *unemployment*

But we can also take heart that for the first time in the history of recent recessions, our policy prescriptions are in place as the full force of the recession hits us. And it is these policy prescriptions that will pull the economy out of its present slump and lead to stable and dramatic growth by the latter half of this year.

Our recovery will be a strong one. But it will take place only if we have the strength to continue on the course we have already embarked upon.

That is why the task before us in 1982 and 1983 is virtually the same as it was last year: to reduce the Federal budget, to bring down Federal spending, to cut expenditures again and again and again.

This is especially important because, as all of you know, the budget deficit this year will be under \$100 billion but still exceed our earlier expectations. There are several causes for this increase. First, some of the spending cuts we made last year, in housing programs for example, will take several years to have their full effect. Second, to some extent we are victims of our own success in bringing down inflation. The decline in inflation deprived government of those hidden revenues that occur when inflation pushes people into higher income tax brackets. Third, as is widely known, the sudden increase in interest rates last year cost



government, just like businesses and homeowners, additional billions in interest payments.

But one major reason for increases in this year's budget deficit has been largely overlooked. From July to September, projections of the deficit increased by nearly \$7 billion; approximately \$5 billion was due to high interest rates. But the largest share of this increase occurred because of a failure to achieve \$12 billion in savings, largely in entitlement programs.

Now some of those who acknowledge the problems we have with skyrocketing costs in Federal welfare and retirement programs also advise against trying to do anything about them. They claim the American people will view any attempt to reform and strengthen these automatic spending programs as an attempt to deprive them of just benefits. They say we cannot even discuss, much less correct these programs.

Well, last year this Administration heard some similar advice; but because of our faith in the maturity and judgment of the American people, we decided to meet head-on the best-known entitlement problem of them all -- the approaching bankruptcy of the Social Security System. Together with those of you in the Congress we established a special bipartisan commission that has ended political squabbling over Social Security and will by the end of the year make recommendations that will rescue Social Security and put it on a sound fiscal footing.

Our goal then was what it is today: to strengthen the Social Security System, to protect the hard-earned benefits of Social Security recipients.

Tonight, I must report to you: If we ever hope to get a handle on Federal spending, we must approach other Federal entitlement programs with the same kind of courage and resolve.

These entitlement programs make up our safety net for the truly needy, they have worthy goals and deserving recipients -- this Administration intends to guard and protect them and stand with you in maintaining their integrity.

But there is only one way to see to it that these programs really help those whom they were designed to help, and that is to bring their spiralling costs under control.

And there is only one way to ever get control of the Federal budget and reduce our yearly deficits and that is to get control of entitlements.

Let me explain: Entitlement or automatic spending programs now consume 50 percent of our tax dollar and make up an overwhelming percentage of the Federal budget. Today we face the absurd situation of a Federal budget with three quarters of its expenditures that are routinely referred to as "uncontrollable" because these costs go mostly to entitlements.

Yet subcommittee after subcommittee of this Congress has heard witness after witness describe many of these programs as poorly administered and rife with waste and

fraud. Take just one example: Medicare and Medicaid -- programs with worthy goals but programs whose costs have increased from \$11.5 billion to \$58.7 billion in a single decade, an increase of more than 500 percent. Much of these programs are horrendously administered -- with built-in incentives not to cut costs but to drive them skyward. And these added costs have been a principal reason for the rise in health care expenses all Americans have experienced during the last 20 years.

*food stamps*

Similarly, waste and fraud is a serious problem. In 1980, top officials of the Federal Bureau of Investigation testified before your committees "corruption has permeated virtually every area of the Medicare and Medicaid health care industry." These officials said the previous abuses outlined in the reports of congressional committees "are still occurring and apparently are becoming more widespread." One official said many of the people who are cheating the system "have absolutely no fear of being caught." These people are "very confident that nothing was going to happen to them," another official said.

Well, I am determined that something does happen to programs and people that cheat the public. Programs like Medicare, veterans benefits, Federal retirement, unemployment insurance, food stamps, AFDC and others are too important to leave to bureaucratic inefficiency and corruption. We must reform and streamline these programs and, where it occurs, we must launch a frontal assault on fraud and abuse within

The time has come to control the uncontrollable. In August we made a start. I signed a bill to reduce these programs by \$12 billion -- the first time in history the entitlement programs have significantly been reduced.

Shortly you will receive from me a message on further reforms we intend to install in these automatic spending programs. Some of these fiscal reforms congressional committees have long recommended while others are entirely innovative.

In the area of Medicare and Medicaid, I am particularly pleased to report to you a plan that will cut costs by \_\_\_\_\_ while providing for the first time insurance against catastrophic illness.

The savings proposed by this Administration in entitlement programs will amount to \$ \_\_\_\_\_. In addition to bringing Federal spending under control, these savings will also slow the growth in entitlements by encouraging work and this will assist us in focusing scarce resources on the needy.

Even with these savings it should be clear that we are maintaining the Federal Government's commitment in the human resources area. Nondefense spending in 1983 will grow by \_\_\_\_\_ percent. The Federal Government will subsidize one of every 7 meals while Head Start, senior nutrition programs and child welfare programs will not be cut. Health research at the National Institutes of Health will also be increased by \$126 million.

Now I am fully aware that with this growth in Federal spending, some people want to blame our decision last year

to give the people tax cuts for the budget deficits predicted for the next few years. Some of these people are even calling for massive increases in taxes to handle the deficits during the next few years.

First, it should be understood that these deficits have not been caused by our reduction in taxes. As I said earlier, the continuing decline in inflation and the steady rise in entitlement costs are the major factors responsible for the deficit increase. Besides, individual tax cuts enacted in 1981 amounted to only a 1½ percent reduction of tax rates -- hardly the reason for the increase we have seen in last year's deficit.

Raising taxes also won't work as a way to balance the budget because of the dynamics of government spending. Government has never taxed simply to get the money it needs -- rather -- it spends whatever it gets its hands on and then some. To provide another general increase in taxes would only encourage the Government to continue its irresponsible spending habits. We need to discipline government by cutting its allowance -- not by giving it a stern lecture and then handing it even more money to spend.

Furthermore, raising taxes will not balance the budget. Taxes have more than doubled since 1976 and yet in this same period our country ran the largest series of deficits in its history. Taxes increased by \$80 billion in 1980 alone -- and yet in that year our government ran one of its biggest deficits in history.

The truth of the matter is that tax increases  
the budget -- only controlling government  
especially in the entitlement areas, can do that.  
All, raising taxes will only make matters worse  
for those who have been hurt the most by the current  
economic growth, reduce production and destroy future  
job opportunities. Raising taxes will only  
higher tax rates only make it more difficult for  
people to find a job and make it more likely that  
people who now have a job could lose it.  
I will not let that happen. I will not ask you to  
balance the budget on the backs of the American taxpayers.  
I seek no tax increases in 1983.

It is not this because economic growth is a matter of  
economics and psychology as much as it is a matter of  
statistics or measurements. Our goal is to break the psychology  
of fear and bigger government and more and more spending.  
To achieve this goal as we move towards steadily declining  
unemployment in the years ahead and a lower percentage of the  
GDP consumed by government taxes and spending. This in turn  
will create an economic recovery that will see business boom  
bring millions of Americans back to work.

That is our goal -- our only goal: real growth, not  
nominal growth; the kind of growth that provides jobs,  
and more jobs.

It is directly tied to an economic program that seeks to  
tap the energy and ingenuity of the American people is

*people*

our plan for a new and creative federalism that will give control of government back to the people.

In 1960, the Federal Government had only 132 categorical grant programs costing \$7 billion. Today, there are approximately 500 grant programs costing nearly \$100 billion. There are 13 programs for energy conservation, 36 for pollution control, 66 for social services and 90 for education.

These programs have led to an enormous growth of bureaucracy in the executive branch. Here in the Congress, it takes 211 committees to keep track of them.

You know and I know that neither branch is properly overseeing this jungle of grants-in-aid, indeed the growth in these grants has led to a distortion in the vital functions of government. These grants, which have become the special domains of lobby groups who expend enormous resources to protect them from change, now consume an unwarranted amount of our time, time that could be better spent on the critical duties of our offices. As one Democratic governor put it recently: The national government should be worrying about "arms control not potholes."

We want to return the search for solutions to our social problems to the States and communities. Until recently, States had acted as laboratories for solutions to these problems -- we can renew this kind of creative federalism by moving forward again with our program for consolidation of block grants. This is not only practical, it also provides the protection for personal freedom that our founding

fathers envisioned when they established layers of counterbalancing power in the Federal system.

A message outlining our plans in this area that includes an imaginative new proposal to assist the states in making this transition will be delivered to you shortly.

Let me mention here its basic components: (one paragraph of explanation)

We will also move to assist our urban areas which have been badly hit by the movement of business and industry from the inner cities. To this end, we are proposing urban enterprise zones. (one paragraph of explanation)

Our faith in the judgment and innate wisdom of the American people is also reflected in another area of endeavor by this Administration.

As you know during the past few months we have put increasing emphasis on private sector initiatives as a solution to our social ills. The institutions of the private sector -- charitable, educational, fraternal and religious -- have long been the leaders in the attack on our Nation's social problems. As one recent opinion poll showed, twice as many Americans believe private voluntary organizations are more responsive to peoples' needs than the Federal Government is.

By removing government intrusion into some of these areas we are returning to our private and independent institutions the prerogatives that have been preempted by the bureaucracy. This program of private initiative, which I outlined in an



address last year, has met an enthusiastic response from Americans of all walks of life. Three hundred eighty-five thousand corporations and private foundations are working on programs ranging from drug rehabilitation to job training. And thousands of Americans have written to us asking how they can help.

Let me announce tonight one exciting initiative this Administration will shortly take in this area. (Formation of citizen task forces -- one paragraph.)

*These reforms, <sup>volunteer organizations, city limited gov</sup> are at the heart of our domestic renewal:*  
We want to revitalize our non-governmental institutions by encouraging private initiatives, we want to restore creative federalism by strengthening local and State governments, we want to spark economic recovery by stopping the drain on the economy by the public sector.

We do not promote these objectives only because the private sector is a more efficient avenue for social progress or only because State and local governments are more responsive to people or only because the free market is more capable than government in providing for the wants and wishes of millions. Admittedly, <sup>with</sup> these reforms <sup>will</sup> do make things work better -- but that is because they allow free men and women to make decisions about their lives with a minimum of government intrusion; that is because these reforms acknowledge and enhance the ability of each individual to go as far as his or her talents and ambition will allow. So we seek these reforms because they renew what is best about America's

past: the expansion of personal freedom and the promotion of human dignity and excellence.

The excitement of this renewal of freedom at home, which combines the reality of what America has been with the promise of what she can be, is one that is also felt throughout the world, especially by the young and struggling nations of the Third World.

At Ottawa, where I met with 7 leaders of the major industrial powers and at Cancun, where I met with 21 leaders from around the globe, the aspirations of developing nations formed the center of our interest and concern.

In Cancun, I pointed out that the United States was the original underdeveloped nation -- a nation that grew economically and politically because of its concern for human freedom -- a concern that was embodied in the free market economy we adopted.

Many of these nations were at first surprised to hear an American President who instead of offering apologies for America's wealth spoke frankly of the advantages of our economic system. But as our discussion progressed I believed the leaders of those nations admired our candor and conviction. Our frankness in describing the difficulties faced by some of these nations -- particularly those that are just emerging from state-dominated economies -- has led to mutual respect. Let me say today that I believe our willingness to speak up for the right of free choice -- to stand for freedom -- is the greatest foreign aid we can offer any of the nations of the world.

In addition to an active and candid advocacy of freedom, we can bring this message home to our own hemisphere through special assistance to the developing nations of Central America.

The nations of this region have been particularly hard hit by the adverse turn in worldwide economic conditions -- conditions that have occurred just as these nations are attempting to break off the shackles of mercantile and state-dominated economies.

That is why tonight I am announcing a plan of foreign assistance and trade concessions that will assist Carribean basin nations in their quest for material prosperity and economic freedom.

(one paragraph of explanation)

Although we believe the prospects for prosperity in the Carribean area are promising, we do not underestimate the threat posed to these nations by outside forces. With direct assistance from Cuba and the Soviet Union, there are those who seek to undermine freedom by abolishing democratic institutions and establishing Marxist ruling elites throughout Central America.

Let me restate for the record a guiding principle of American foreign policy -- one that was first enunciated by President Monroe in 1823. The United States will tolerate no interference by a foreign power -- either directly or through proxies -- in the affairs of this hemisphere.

Now this last matter obviously raises the general question of our relations with Soviet Union and our quest for peace through arms control and negotiation.

As you know, this Administration is actively pursuing every path to arms control reductions. To this end, we have offered our zero-option plan for reducing intermediate range nuclear missiles in Western Europe, and we will shortly open discussions on the broader subject of strategic arms reductions.

Let me explain to you some of the proposals we will put forward and some of the guiding principles we will follow during these discussions.

(one paragraph on START talks)

If, however, we are going to make any progress at all in these arms talks and in general in our relations with the Soviet Union, our foreign policy must be rooted in realism, not naivete or self-delusion.

For some years, the crisis in American leadership I mentioned earlier has adversely affected others in the free world. Indeed, the climate of falsehood and misinformation spread by the Soviet Union has sometimes been implicitly accepted by those whose experience with the past failures of European diplomacy should enable them to know better.

That is why attempts to change this climate -- which too many have grown used to -- has led to some initial, temporary protests. A recognition of the Soviet Union's announced intention of seeking global domination and a

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description of Marxism-Leninism as an ideology that justifies the use of any immoral means are not threats to peace. Nor are they grounds for concern -- except to those who fear freedom or those who have grown comfortable with their own illusions.

In point of fact, a recognition of what the Soviet empire is about is the starting point for the successful pursuit of peace in the postwar world. Winston Churchill ended his own intensive experience in negotiating with the Soviets by observing that the Soviet Union respects only strength and resolve in its dealings with other nations.

That is why we have moved to reconstruct our national defenses and that is why in arms negotiations we value hard work and candor, not wishful thinking. -- We intend to keep the peace; we will keep the peace -- but not at the expense of freedom nor at the cost of truth.

One other point: This Administration has also made pledges of a new candor in our public statements and worldwide broadcasts. We have, in the face of a climate of falsehood and misinformation, promised the world a season of truth -- and we mean to keep that promise.

It is in keeping this commitment that we intend to win our struggle for peace and the expansion of human freedom.

For the truth of our great civilized ideas -- individual liberty, representative government, the rule of law under God -- provide the enduring strength and sustenance of our Nation and civilization.

It was the strength of this spiritual heritage of the West that I mentioned last year in a speech to a graduating class at a great American university.

I reminded those graduates that for all the present peril it poses, communism would someday be remembered as a sad, bizarre chapter in human history whose last pages are even now being written. I said then that we in the West will not contain communism, we will transcend communism.

The occasion of those remarks was an emotional one -- partly because it was my first public appearance following a little dust-up I had -- you may have heard about it -- at a hotel here in town. But it was also an emotional trip for me -- a trip I had made once long before across the Indiana countryside. I was not looking then at crowds of people waving from hilltops at a presidential motorcade but only hoping as a young actor for success in a movie about a remarkable Norwegian immigrant known as "Knute Rockne, All American."

As I told those young graduates at Notre Dame we needed their youth, strength and idealism to set right what was wrong, I sensed in their cheers and applause their anxiousness to get on with these challenges; and I could not help but think how little had changed since my last visit to that campus. There was something <sup>still there</sup> loose in that arena, something about a pep talk at halftime, something about pulling out victory in the closing minutes, something about shaking the thunder from the skies -- something about a spirit that never dies, the spirit of Notre Dame and Rockne, the spirit of America.

if there is anything I have been convinced of in  
a few years, it is that this spirit is as vibrant and  
in our country today as it has ever been.

In our own lives, we have seen its manifestations many

that day not so long ago when a group of down-the-  
American kids made Olympic history in a small town in

the New York by defeating the Red Army supermen and

at not just Lake Placid's hockey rink but the whole

with shouts<sup>we</sup> of "U.S.A., U.S.A." That day when a brave

who sits among you tonight as one of your colleagues,

boarded off a plane in the Philippines and, after a hideous

activity in North Vietnam, spoke for all our prisoners of

when he said, "God Bless America" and then thanked us

bringing him home.

Or that moment we heard those words, "The Eagle has

landed," and American astronauts took the first steps on the

moon -- and that very recent day when Columbia I made the

first flight of winged aircraft into space.

But tonight we really need no lists of brave Americans --

~~record of the courage that has been commonplace in our~~

history. For as we complete our own new beginning and cross

the frontier into a great American renewal, we can sense the <sup>too seek this country.</sup>

importance of the challenges before us.

We live today, one of the scholars at the Hudson

Institute recently wrote, "in the middle of the most dramatic

important period in human history."

That scholar pointed to the uniqueness of America and to the remarkable progress of mankind as a whole during the last 2 centuries.

"Up until 200 years ago," he wrote, "there were relatively few people in the world. All human societies were poor. Disease and early death dominated most people's lives. People were ignorant, and largely at the mercy of forces of nature. Now we are somewhere near the middle of a process of economic development that will take some 400 years. At the end of that process almost no one will live in a country as poor as the richest country of the past. There will be many more people -- most living long, healthy lives, with immense knowledge and more to learn than anybody has time for -- largely able to cope with the forces of nature and almost indifferent to distance."

This new age mankind will someday enjoy if we persevere today in the cause of freedom. That is why the drama of our present struggle is so real to us and why it is so important to the fulfillment of man's ancient aspirations for freedom, prosperity, and peace.

It was Winston Churchill who, during the darkest day of the Battle of Britain, told us that, "When great causes are on the move in the world . . . we learn we are spirits, not animals, and that something is going on in space and time, and beyond space and time, which, whether we like it or not, spells duty."

America's duty in our own time is clear. In recognizing this duty, we do not preach manifest destiny, we only seek



to acknowledge what history has asked of us. We must go forward -- a united nation -- serving selflessly a vision of man with God, government for people and humanity at peace.

For that experiment in self-government spoken of by President Washington in 1790 is no longer just the hypothesis of a few political thinkers, no longer just the dream of patriots, it is today a living, ennobling reality.

Through economic panic and depression, through civil war and world war, through constitutional conflict and crisis, that experiment has endured and prospered. ( Let us continue this work ) in our own lifetime so that when, 200 years from now, another Congress and another President meet in this place they will speak of us with pride. And let us hope they will say that we did tend and preserve, through the darkest and coldest of nights, the sacred fire of liberty -- a fire that even tonight remains a beacon light to the oppressed of the world as it shines forth from this kindly, pleasant, greening land called America, a land who with great ideals and generous heart seeks to inspire mankind and uplift the ages.