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GOOD EVENING:

Throughout the presidential election campaign last fall, I came before you, the American people, in the process of what I called a national conversation. It gave me an opportunity to speak plainly about the ~~fix~~ difficult problems facing our nation.

Tonight, for the first time as ~~Rx~~ your President, I am continuing this conversation. I have asked for this time to talk with you about the profound economic crisis that lies before us.

Shortly before I took the oath of office, I asked my staff and prospective Cabinet officers to begin preparing a comprehensive look at the American economy. Just as many of you are now reviewing your personal finances and doing your income taxes, I believed it was essential that we undertake what was in effect a national audit of the American economy.

~~That~~ ~~audit~~ ~~has~~ ~~been~~ ~~conducted~~ ~~by~~ ~~my~~

~~the~~ ~~Secretary~~ ~~of~~ ~~the~~ ~~Treasury~~, ~~the~~ ~~Chairman~~ ~~of~~ ~~the~~ ~~Council~~ ~~of~~ ~~Economic~~ ~~Advisers~~, ~~the~~ ~~Director~~ ~~of~~ ~~the~~ ~~Office~~ ~~of~~ ~~Management~~ ~~and~~ ~~Budget~~ ~~and~~ ~~my~~ ~~personal~~ ~~staff~~. In addition, I have been consulting with key members of Congress, trying to obtain from them a complete and true picture of ~~the~~ our national condition.

That report was presented to me two days ago. Frankly,

I found no surprises. You are ~~going~~ going to find no surprises. The sum total of what we face is no less than an economic mess. Those are harsh words, but we have long since passed the time where we can hide behind lofty economic phrasing.

Two weeks from now, I will outline to the Congress of the United States the steps I feel must be taken to put the economy ~~of~~ of our country back on track. Tonight, however, I ~~will~~ am going to outline the dimensions of the crisis, discuss how we got here and to enlist you, the people, in the enormous effort it will take to regain our economic strength.

Let us begin with the plain truth. We are not on the road to economic recovery. Instead, I must report to you that the Federal budget is badly out of control. ~~xxxxxxx~~ In both ~~xxxxxxx~~ (fiscal) 1981 and 1982 we are faced with runaway almost deficits. Estimates of this have grown by ~~xxxxx/xxxxx~~ \$100 billion just in the last year.¹ Ten months ago, the former administration projected a surplus of some \$16 billion² on budget. Instead, we ~~now~~ have learned that we face a deficit of ~~now~~ around \$80 billion³ ^{59.6} -- the largest ever in our history.⁴ The entire U.S. budget in 1957 was less than this year's deficit.⁵ (proposed)

These exploding deficits have ~~xxxxxxxxxxxxxxx~~ piled a national debt of staggering proportions on the backs of the American people. This ~~xxxxx~~ year, we will pay \$80 billion in interest alone on that debt⁶ -- again, by itself greater than the entire federal budget at the start of President Eisenhower's second term.⁷ ✓

This irresponsible spending goes hand in hand with the steady trend in the growth of government. In 1960, there were ¹⁰ Cabinet departments and now there are 13⁸. In 1960 we had) federal employees being paid a year, and now there are employees making per year.

⁹ (avg. income or total govt salaries)

In 1960, government consumed 18 1/2 percent of our national production. Last year, it took 23%. ¹⁰

But the upward curve applies to other economic measuring tools as well.

in 1979 Inflation/ran at 13.3%!! Last year, it finished out at 12.4%.

under President Eisenhower, the entire inflation was only 1.4%. ¹³
In eight years averaged

Even in the ⁶⁰⁻⁶⁵ early 1960s, inflation averaged only a little more than one percent per year. ¹⁴

25% dp, 30yr effective int rate

Only ten years ago, mortgage interest rates averaged about 8.11 percent, ¹⁵ and now they are at the absurd level of 13.49%. ¹⁶

Look also at the burden of your income taxes. In 1960 you were paying less than 11¢ to the Federal Government on every dollar you earned. ¹⁷ Today, you are paying nearly 18¢. ¹⁸

In 1965, the burden of federal taxes per family was just under \$1500. ¹⁹ Today, that burden is nearly \$6000. ²⁰

Finally, too many Americans are painfully aware of the sluggish condition of our economy. Last year's recession pushed unemployment rates from about 6 percent to nearly 7 1/2 percent. ²¹

The human suffering this implies cannot be adequately measured in numbers.

This then, is the ~~xxxx~~ national economic audit that has been presented to me -- a confusing jumble of numbers and charts that merely confirm ~~xxxxxxx~~ the good reasons for our deep alarm.

~~xx~~

But this report on my desk cannot begin to translate the worry ~~xxx~~ that each of you feel. For each of you, the problem is a little different, but ~~xxx~~ we know one thing that is the same for ~~xxxx~~ everyone: we are all affected; we are all faced -- one way or ther other -- by ~~xxxxxxxxxxxx~~ potential economic disaster.

That's why I think it's impcrtant to set aside what you may think of as just one more government report and to ~~xxxxxxx~~ ~~xx~~ share with you in more distinctly personal terms the affliction that ~~has~~ crosses this nation. ~~xxxxxxxxxxxxxxxxxxxx~~ How have the alarming economic trends affected your lives?

~~xxxxxxxx~~ The dollar you ~~xxxxxxxx~~ spent in 1960 today will only buy 38 cents worth of goods or services.²⁰ If you spent a quarter of your income to buy a home in 1960, today it takes more than 40 percent.²³ ~~xxxx~~

Have you purchased a car lately? Just 10 years ago, it took about 35 months to pay for it.²⁴ Today it takes ~~xxx~~ nearly 44 months.²⁵

And how about the growth of government? In terms of your ~~xxxx~~ family, government was spending almost \$1900 per family two decades ago.²⁶ ~~xxxxxxxx~~ Today, though the ~~xxxxxx~~ average family is truly no better off, the government is spending an incredible \$7800 per family.²⁷

The Federal debt that I referred to was about \$4000 per,

household in 1960²⁸, and now each family carries \$9000 of
national debt.²⁹

On the tax front, it used to be that the average family
of six four could pay its taxes with the income earned by February
8.³⁰ Now, you must work a month longer -- into March -- to pay
your ~~fixed~~ Federal Taxes.³¹

And in case you forgot, there are some hidden payments
in your lives. If you are lucky enough to buy that automobile
which requires 44 ~~xxx~~ months to pay off, you should also know
that ~~xxx~~ government regulations xxx has added \$666 to its cost.³²

And all of this, of course, is simply going to lead to a bigger and bigger national debt. Let's talk for a moment about our debt. It is so ~~symptomatic~~ symptomatic of all of our problems.

As you know, last week ~~with~~ with great reluctance, my ~~administration~~ administration asked the Congress to raise our national debt ceiling by another \$50 billion. This would bring it to a staggering \$985 billion.³³ We took this action because otherwise the Federal Government would simply run out of money. We were forced to take this action because of the growing deficit in the budget.

I have found, since I've been in office, that problems which I thought were bad have turned out to be far worse than I could imagine. Indeed, we are headed directly toward a trillion dollar national debt structure.³⁴

When the Federal government increases its debt, that means that the government goes out into the same markets as you do to compete for loans. And it is that competition that helps keep interest rates at the ~~extraordinarily~~ extraordinarily high levels they are now. In turn, these high rates not only keep inflation high, they ~~deter~~ deter investments, and it isn't long before all America suffers from ~~economic~~ economic decline.

And yet, we have continued to allow deficits to push up our debt as if nothing was happening and, quite frankly, as if we were not in charge and able to do something about it.

This is the kind of concern about the direction of America that ~~made~~ made me decide to enter politics. From that time to now, however, the situation has only worsened.

In 1960, our national debt stood at 284.1 billion dollars. ³⁵

By 1966, when I first ran for public office, it had grown to
316.1 billion dollars. ³⁶ By 1974, as I prepared to leave office,

it had jumped to 474.2 billion dollars. ³⁷ When I took the oath
of office 16 days ago, it stood at 930 billion dollars. ³⁸ And now
it is going up to \$985 billion. ³⁹

This brings up one of the central problems we face. ~~We~~ Those
~~xxxxxxkxxxxkxxxxkxxxxkxxxxk~~ who have presided over these increases
have watched as we have engaged in a form of national self-deception.
In 19 , the Congress of the United States set what they called
a "permanent" debt limit of \$ billion. ⁴⁰ Each time the
debt limit is raised, it is called an increase in the "temporary"
debt limit.

Just in case you miss the point, our ~~xxxxxxkxxxxkxxxxk~~ ~~xxxxk~~
national debt stands at nearly \$ one trillion dollars, but we
shouldn't worry because that is ~~xxx~~ is actually only a "temporary"
figure. Well, this is the kind of debasement of the English
language that has gotten us into so much trouble. We've hidden
~~xxxx~~ behind fictions and ~~xx~~ budget hocus-pocus. We've deceived
~~xxxxxx~~ ourselves into thinking that the piper would never be
paid ~~xxxxxxkxxxxk~~ and that the technical finery of labels would
preserve us from economic chaos.

I've done a little research on this, and in case you are
interested the "temporary" debt limit has been raised times
since 19 . ⁴¹ If a bank told you you could borrow \$5,000, do you
think ~~xxxxxx~~ it would let you go back times to increase the
loan without collateral? You know the answer to that question.
It's my job to convince this government of the answer to that question.

Start 11/24
1-72

Of course, the government can do something you can't -- it can simply print more money to cover its debts. Why would it be so wrong to expect of our government the very same kind of fiscal standards that we expect of our citizens?

We are going to stop hiding behind trick phrases and smokescreens. We may have been looking at a "temporary" rise in our debt, but you and I know that the temporary rise has become a permanent burden.

Thus, my first goal in getting our economy back on track is to tell the truth and to quit manipulating definitions.

I wish that we could undo the damage of past years with some miraculous activity. We can't, and we won't. But we can all help each other this time by avoiding false starts.

I'm not asking the American people to be patient; I'm asking each of you to use your impatience to make sure this difficult process is seen through to the end. I'm not going to ask you to do with less; I'm asking you merely to do what has to be done so that we can all see a day when there is more for everyone.

Now, let me briefly describe to you the basic plan I will be submitting to the Congress when they return from their recess. There are four basic elements to it:

One, I will ask that personal income tax rates be reduced ten percent each year for the next three years. And I will call for an acceleration in the ability of all businesses, small as well as large, to write off capital investments against their taxes.

Personal cuts will restore your opportunities to work and save and invest. It will result in economic growth and the creation of more jobs.

Business cuts will encourage investment in new plant and equipment and provide the capital for badly-needed productivity growth. The result: more jobs, better products, and less inflation.

Just as our personal tax laws are structured to achieve certain goals, so must be our business taxes. As an individual, you can deduct mortgage interest from your taxes and this encourages homeownership. You can deduct charitable contributions and this encourages works of benevolence and goodwill. So, too, must business be able to improve its work, renew the quality of its equipment, and prepare for the future.

The sum of business expansion and growth is personal well-being and jobs. I know there are those who oppose business tax cuts, and yet I wonder if they realize that business doesn't pay taxes; you pay taxes. Every tax has to

be passed on as a cost of doing business. You and I pay for their taxes in their products and services. This is one more item of economic reality which will help us out of this mess.

My second proposal will be to cut spending. I am going to propose the largest reduction in Federal spending ever proposed by a U.S. President. I am determined to break the cycle of inflationary expectation. And I don't think I stand alone; I believe every American fully demands that the idea that we should just "expect" double-digit rises in prices is unacceptable.

My observation has been that no government in history has voluntarily cut down its own size. That is why we must take this action on our own. After all, most of you know that you can lecture your children time and time again on the evils of waste and extravagance, but nothing is so helpful as simply cutting back their allowance. The Federal government will cut its spending only when we all act to stop it from spending.

I will do everything within my power to stop the growth of the Federal debt and to balance the budget at the earliest possible date.

In this process, all essential needs of our society will be met and deserving beneficiaries will continue to have support. My cuts will affect everyone but the truly needy, and everyone will benefit from this program including the truly needy.

Our efforts will be as even-handed as possible. Only those who unfairly and unnecessarily feed at the Federal trough need fear what we do. For example:

-- We will cut grants that benefit the grantsmen while the real beneficiaries get less. These professional middlemen and clever long-term budget manipulators will be a special target. Why should we allow the overhead of the program to exceed the actual benefits of it?

-- We will no longer subsidize big business or any business for that matter at the expense of the American people. We have an excellent marketplace, and our policy will be to encourage business to earn its profits there and not in the Federal budget.

-- We will not continue to support programs simply because "that is the way it's always been done." It's time to shake things up, not just conduct business as usual.

To assist in cutting the budget, I am also going all out against the fraud and waste that we have in this government. This is one way that we can cut costs without

hurting the needy. I will be rigidly intolerant of wasteful activities, and I will seek tough criminal penalties against fraudulent ones.

Government has caused our inflation. And when we get control of the government, we will get control of inflation.

I don't think at this point, I need to state the obvious. Inflation is destroying our economy. It hurts everyone. There is no need to repeat the countless ways it is harming your personal lives.

But there is one thing that causes me great personal concern, and that is its effect on the family unit. I approve and support any woman who enters the work force. Yet, can there be any question that today hundreds of thousands of wives and mothers are in the work force for one reason only: economic survival? We simply cannot tolerate economic conditions which destroy the ability of one wage-earner, male or female, to support a family. This is the incalculable social and political price we are paying for this terrible phenomenon.

The third step in my plan will be to lessen government interference through the regulatory process. We must reform government regulation, eliminating needless and excessively costly rules and requirements. But while we

act to reduce the burdens of government, we will never lose sight of the legitimate ends that they serve. Our food will remain safe to eat; our medicine will cure and not cause disease; our products will not threaten our lives.

But this will be my guide: we will review all old regulations. Only those that are absolutely essential will be kept. We will look at alternative ways of achieving regulatory objectives and screen all new regulations. We will make assessments of regulations based upon the costs they impose versus the benefits they provide.

Fourth, we must take these actions with a close understanding of how important the monetary element is. In plain language, I think we can work with the Federal Reserve system, and in connection with our elimination of Federal deficits, we can drive down inflation and restore the purchasing power of the dollar.

My entire program is based on very simple principles. If you want less of something, you tax it. If you want more of something, you reward it. If you want more work and saving, you reward work and saving. If you want more productivity, you reward productivity. If you want to stop going into debt, you stop rewarding the accumulation of debt. Unfortunately, it appears that in the past few years our tax and budget policies have not followed these simple guidelines.

Since the early 1960's, the Federal Government has followed policies based on the hope that we could "fine tune" our way out of inflation and unemployment. The result has been "stop-and-go" policies -- fighting inflation one year and unemployment the next. Whenever inflation became too high, Washington would increase unemployment by raising taxes and interest rates. When unemployment then became too high, Washington would open the budget floodgates and print more money. The quick economic cure only caused the economy to become mired more deeply in its own problems.

Good evening:

I have asked for this time tonight to give you a report on the state of our Nation's economy. A few days ago I was presented with a report I had asked for -- a ^{comprehensive} audit if you will of our economic ^{problems} ~~condition~~. You won't like it, I didn't like it, but we have to face the truth and then go to work to turn things around. And make no mistake about it, we can turn them around.

I'm not going to subject you to the jumble of charts, figures, and economic jargon of ~~that audit~~ but rather will try to explain where we are, how we got there, and how we can get back.

First, however, let me just give a few "attention getters" from the audit. The Federal budget is out of control and we face runaway deficits, \$80 billion for this budget year that ends ~~October 1~~ ^{September 30}. That deficit is larger than the entire Federal budget in 1957 and so is the \$80 billion we ~~now pay~~ ^{are paying} in interest on the national debt ~~every~~ ^{this} year.

Twenty years ago in 1960 our Federal Government payroll was less than \$13 billion. Today it is \$75 billion. During these twenty years, our population has only increased by ~~26.3~~ ^{23.3} percent. The Federal budget has gone up ~~529~~ ⁵²⁸ percent. *Even after adjusting for inflation the burden has more than doubled.* We have just had two years of back-to-back double digit inflation, 13.3 percent in 1979 -- 12.4 percent last year. The last time this happened was in World War I.

In 1960 mortgage interest rates averaged about 6 percent. They are 2½ times as high now, 15.4 percent. The percentage of your earnings the Federal Government took in taxes in 1960 has

almost doubled. And finally there are 7 million Americans caught up in the personal indignity and human tragedy of unemployment. If they stood in a line -- allowing 3 feet for each person -- the line would reach from the Coast of Maine to California.

~~Well, so much for the audit itself.~~ Let me try to put this in personal terms. Here is a dollar such as you earned, spent, or saved in 1960. Here is a quarter, a dime, and a penny -- 36¢. Thirty-six cents is what this 1960 dollar is worth today. And if the present inflation rate ^{were to} ~~should~~ continue ^{for 3} ~~a couple~~ more years, that dollar of 1960 will be worth a ~~dime~~ ^{quarter}.

What has happened to that American dream of owning a home? Only ten years ago a family could buy a home and the monthly payment averaged little more than a quarter -- 27¢ out of each dollar earned. Today it takes 42¢ out of every dollar of income. ~~So, fewer than 1 out of 11 families can afford to buy a home.~~ *No! Wrong*

Regulations adopted by government with the best of intentions have added \$666 to the cost of an automobile. It is estimated that altogether regulations of every kind, on shopkeepers, farmers, and major industries add \$100 billion to the cost of the goods and services we buy. And ^{billions more are} ~~then another \$20 or \$30 billion is~~ spent by government handling the paperwork created by those regulations. *10-5*

I'm sure you are getting the idea that the audit presented to me found government policies of the last few decades responsible for ^{many} our economic troubles. We forgot or just overlooked the fact that government -- any government has a

built-in tendency to grow. We all had a hand in looking to government for benefits as if government had some source of revenue other than our earnings. Many if not most of the things we thought of or that government offered to us seemed attractive.

In the years following the 2nd World War it was easy (for awhile at least) to overlook the price tag. Our income more than doubled in the 25 years after the War. We increased our take home pay in those 25 years by more than we had amassed in all the preceding 150 years put together. Yes there was some inflation, ^{less than 3} ~~1 or 1 1/2~~ percent, that didn't bother us. But if we look back at those golden years we recall that even then voices had been raised warning that inflation, like radioactivity, was cumulative and that once started it could get out of control. Some government programs seemed so worthwhile that borrowing to fund them didn't bother us.

} 1 to 1 1/2 percent in early 1960s

By 1960 our national debt stood at \$²⁸⁴~~291~~ billion. Congress in 1971 decided to put a ceiling of \$400 billion on our ability to borrow. Today the debt is \$⁹³⁴~~931~~ billion. So-called temporary increases in the debt ceiling have been allowed 21 times in these 10 years and now I must ask for another increase in the debt ceiling or the government will be unable to function past the middle of February and I've only been here 2 ^{weeks} ~~months~~. We face in the near future a public debt that could exceed a trillion dollars. This is a figure literally beyond our comprehension.

has been fueled by

We know now that inflation ~~is the result of~~ all that deficit spending. Government has only two ways of getting money other than raising taxes. It can go into the money market and borrow, competing with its own citizens and driving up interest rates, which it has done, or it can print money, and it's done that. ~~Both methods are inflationary.~~

The consequence has been rising inflation and rising interest rates.

We're victims of language, the very word "inflation" leads us to think of it as high prices. Then, of course, we resent the person who puts on the price tags forgetting that he or she is also a victim of inflation. Inflation is not high prices, it is a reduction in the value of our money. [When the money supply is increased but the goods and services available for buying are not, we have too much money chasing too few goods.]

asks if you think this is O.K.

Singapore but can't spend

~~Wars are usually accompanied by inflation. Everyone is working or fighting but production is of weapons and munitions not things we can buy and use.~~

Does not fit.

One way out would be to raise taxes so that government need not borrow or print money. But in all these years of government growth we've ^{almost} reached ~~the limit~~ the ability of our people to bear an increase in the tax burden.

Many foreign countries including Germany have higher tax rates.

Prior to World War II, taxes were such that on the average we only had to work between 5 or 6 weeks each year to pay our total Federal, state, and local tax bill. Today we have to work between ^{16 weeks} ~~5~~ to pay that bill.

(or 4 months)

Some say shift the tax burden to business and industry but business doesn't pay taxes. Oh, don't get the wrong idea,

business is being taxed, so much so that we ~~are being priced out of~~ ^{our competitive position} ~~the world market,~~ ^{is being threatened}

But business must pass its costs of operation and that includes taxes, onto the customer in the price of the product. Only people pay taxes -- all the taxes.

Government first uses business in a kind of sneaky way to help collect the taxes. Today, this once great industrial giant of ours has the lowest rate of gain in productivity of ~~virtually all~~ ^{most} the industrial nations with whom we must compete in the world market. We can't even hold our own market here in

America against foreign automobiles, steel, and a number of other products.

asks you to check

While, on average, American productivity is higher than in, say, Japan and Germany. these are great problems in 2 key industries almost twice (80% more)

A Japanese production of automobiles is ~~20 times~~ ^{as much as 25} as great per worker as it is in America. The Japanese steel workers out-produces his American counterpart by ~~about 35~~ ^{percent.}

This isn't because they are better workers. I'll match the American working man or woman against anyone in the world. But we have to give them the modern tools and equipment that workers in the other industrial nations have.

We invented the assembly line and mass production, but punitive tax policies and excessive and unnecessary regulations plus government borrowing have prevented us from updating plant and equipment. When capital investment is made it ~~is~~ ^{often includes} ~~usually for some~~ ^{all too} unproductive alterations demanded by government to meet various of its regulations.

Excessive taxation of individuals has robbed us of incentive and made our time ~~un~~^{less} profitable.

We once produced about 40 percent of the world's steel. We now produce 19 percent.

We were once the greatest producer of automobiles, producing more than all the rest of the world combined. Today the big 3, the major auto companies in our land have sustained tremendous losses in the past year and have been forced to lay off thousands of workers.

All of you who are working know that even with cost of living pay raises ~~you can't~~^{it is hard to} keep up with inflation. In our progressive tax system as you increase the number of dollars you earn you find yourself moved up into higher tax brackets, paying a higher tax rate just for trying to hold your own.

The result? ~~The standard of living in our country is going~~^{Even with higher wages our standard of living} ~~is not~~^{is not} increasing.

*Real wages
have
fallen*

*Note: we
can't justify
std. of living going
down.*

Over the past decades we've talked of curtailing government spending so that then we can lower the tax burden. Sometimes we've even taken a run at doing that. But always we held that taxes couldn't be cut until spending was reduced. Well, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance simply by reducing their allowance.

It is time to recognize that we have come to a turning point. We are faced with an economic calamity of tremendous proportions and the old business as usual treatment can't save us.

Together, we must chart a different course. We must increase productivity and that means putting Americans back to work. That means making it possible for industry to modernize and make use of the technology which we ourselves invented. That means above all bringing government spending back within government revenues which is the only way together with increased productivity that we can reduce and yes eliminate inflation.

In the past we've tried to fight inflation one year and then when unemployment increased turn the next year to fighting unemployment with more deficit spending as a pump primer. So again, up goes inflation. It hasn't worked. We don't have to choose between inflation and unemployment -- they go hand in hand. It's time to try something different and that's what we're going to do.

We've already placed a freeze on hiring replacements for those who retire or leave government service. We have ordered a cut in government travel, reduced the number of consultants to the government, and stopped the buying of office equipment and other items. We have put a freeze on pending regulations and set up a task force under Vice President Bush to review existing regulations with an eye toward getting rid of as many as possible. We have decontrolled oil which should result in more domestic production and less dependence on OPEC. And last we have eliminated the ineffective wage and price program of the Council on Wage and Price Stability.



But it will take more, much more and we must realize there is no quick fix. At the same time, however, we cannot delay in implementing an economic program aimed at reducing tax rates to stimulate productivity and reduce the rate of increases in government spending to reduce unemployment and inflation.

On February 18th, I will present in detail an economic program to Congress embodying the features I have just stated. It will propose budget cuts in virtually every department of government. It is my belief that these actual budget cuts will only be part of the savings. As our Cabinet Secretaries take charge of their departments, they will search out areas of waste, extravagance, and costly administrative overhead which could yield substantial reductions.

At the same time we are doing this, we must go forward with a tax relief package. I shall ask for a 10 percent reduction across the board in the personal income tax for each of the next three years. Proposals will also be submitted for accelerated depreciation allowances for business to provide necessary capital so as to create jobs.

Now here again, in saying this, I know that language as I said earlier can get in the way of clear understanding of what our program is intended to do. Budget cuts can sound as if we are going to reduce government spending to a lower level than was spent the year before. This is not the case. The budgets will increase as our population increases and each year

we'll see spending increases to match our growth. Government revenues will increase as the economy grows but the burden will be lighter for each individual because the economic base will have been expanded by reason of the reduced rates.

Let me show you a chart I've had drawn to illustrate how this can be. Here you see 2 slanting lines. The bottom line shows the increase in tax revenues. The red line on top is the increase in government spending. Both lines turn sharply upward reflecting the giant tax increase already built into the system for this year 1981 and the increases in spending built into the '81 and '82 budgets and on into the future.

As you can see, the spending line rises at a steeper slant than the revenue line and does so increasingly toward the end. That ever-widening gap between those lines measures the constant deficits we've been running including this year's \$80 billion deficit.

Now on the dotted lines represent the reduced rate of increase that will follow if Congress accepts our economic program. Both lines continue to rise allowing for necessary growth but they don't rise as steeply and the gap narrows as spending cuts continue over the next few years, until finally the two lines come together meaning a balanced budget and the end of ^{a major cause of} inflation.

We think that will happen by 1983 and at that point tax revenues in spite of reductions will be increasing faster than spending which means we can have further reductions in the tax rates.

In all of this we will of course work closely with the Federal Reserve System toward the objective of a stable monetary policy.

Our spending cuts will not be at the expense of the truly needy. We will, however, seek to eliminate benefits to those who are not really qualified by reason of need.

As I've said before, on February 18th, I will present this economic package of budget reductions and tax reform to a joint session of Congress and to you in full detail.

Our basic system is sound, we can, with compassion, continue to meet our responsibility to those who through no fault of their own need our help. We can meet fully the other legitimate responsibilities of government. We cannot continue any longer our wasteful ways at the expense of the workers of this land or our children.

Since 1960 our government has spent \$5.1 trillion; our debt has grown by ^{\$650}~~\$640~~ billion. Prices have exploded by 178 percent. How much better off are we for it all? We all know, we are ^{in many ways} very much worse off.

When we measure how harshly these years of inflation, lower productivity, ^{growth} and uncontrolled government growth have affected our lives, we know we must act and act now.

We must not be timid.

We will restore the freedom of all men and women to excel and to create. We will unleash the energy and genius of the American people -- traits which have never failed us.

To the Congress of the United States, I extend my hand in cooperation and I believe we can go forward in a bi-partisan manner.

I have found a real willingness to cooperate on the part of Democrats and members of my own Party.

To my colleagues in the Executive Branch of government and to all Federal employees I ask that we work in the spirit of service.

I urge those great institutions in America -- business and labor -- to be guided by the national interest and I'm confident they will. The only special interest we will serve is the interest of the people.

We can create the incentives which take advantage of the genius of our economic system -- a system, as Walter Lippmann observed more than 40 years ago, which for the first time in history gave men "a way of producing wealth in which the good fortune of others multiplied their own."

Our aim is to increase our national wealth so all will have more not just redistribute what we already have which is just a sharing of scarcity. We can begin by rewarding hard work and risk-taking, by forcing this government to live within its means.

Over the years we have let negative economic forces run out of control. We have stalled the judgment day. We no longer have that luxury.



And to you my fellow citizens, let us join in a new determination to rebuild the foundations of our society; to work together to act responsibly. Let us do so with the most profound respect for that which must be preserved as well as with sensitive understanding and compassion for those who must be protected.

We can leave our children with an unrepayable massive debt and a shattered economy or we can leave them liberty in a land where every individual has the opportunity to be whatever God intended them to be. All it takes is a little common sense and recognition of our own ability. Together we can forge a new beginning for America.

Thank you and good night.



THE WHITE HOUSE
WASHINGTON

AOMAS CLOSED
(EARLY DEC.)
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25% down



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Dec '80
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Debbie



1960 179,323,175

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Rick. Hunt
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THE WHITE HOUSE
WASHINGTON

Call
J. William Muddendoy
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Bankshares

ADDRESS TO THE NATION -- THURSDAY, FEBRUARY 5, 1981

GOOD EVENING:

Throughout the Presidential election campaign last fall, I came before you in the process of what I called a national conversation. It gave me an opportunity to speak plainly about the difficult problems facing our Nation.

Tonight, for the first time as your President, I am continuing this conversation to share with you my views on the profound economic crisis we face.

Shortly before I took the oath of office, I asked my advisers to prepare a comprehensive look at the American economy. Just as you review your personal finances and prepare your income taxes, I wanted to have a national audit of America's economic condition.

Their report was presented to me yesterday. Frankly, I found no surprises. You are going to find no surprises. The sum total of what we face is nothing less than an economic mess. Those are blunt words, but we have long since passed the time when we can hide behind obscure economic phrasing.

Two weeks from now, I will outline to the Congress of the United States the actions I feel must be taken to rescue our economy. Tonight, however, I am going to outline the dimensions of the crisis, discuss how we got here, and enlist you, the people, in the enormous effort it will take to regain our economic vitality.

Let us begin with the plain truth. We are not on the road to recovery. Instead, we stand on the brink of economic calamity.

... ever in our history. The entire U.S. budget in 1957 was less than this year's ^{estimated} deficit and less than the ^{almost} \$80 billion we are paying this year in interest alone on our staggering national debt. ✓
✓

This irresponsible spending goes hand in hand with the steady trend in the growth of government. In 1960 we had 2.4 million Federal employees being paid \$12.7 billion a year, and now there are 2.8 million employees making \$75 billion per year.

Since 1960, the population of America has grown by only ^{23.3} ~~26.3~~ percent while the Federal budget has jumped by ⁵²⁸ ~~529~~ percent. The government is spending an incredible \$7,500 per household. ✓
✓

The inescapable result of government out of control is inflation out of control.

Inflation in 1979 ran at 13.3 percent. Last year it finished at 12.4 percent. In the entire eight years of the Eisenhower Administration the inflation rate ran at an average of only 1. ~~5~~ percent a year. Today, that seems hard to believe. ✓
→ ok as is
1.4

In 1960, mortgage interest rates averaged about 6 percent, and now they are at the absurd level of 15.4 percent. ?

Look at your income tax burden. Two decades ago, a family of four paid about a dime to the Federal Government on every dollar it earned. Today, it pays nearly 18¢.

Finally, too many Americans are painfully aware of the sluggish condition of our economy. Last year's recession pushed unemployment rates from about 6 percent to nearly 7½ percent. Numbers cannot adequately measure the human suffering this implies.

~~That is a~~

This report cannot begin to translate the deep worry each of you feels. No citizen can avoid the critical problem that faces all of us: how to cope with economic disaster.

...stirring government report, let's look at these alarming economic trends in personal terms.

The dollar you spent in 1960 will only buy 36¢ worth of goods or services today.

While you spent a quarter of your income on payments for a ^{new} home in 1960, it now takes more than 40 percent. Only one in eleven ^{potential} first-time homebuyers can even afford to buy a new home. What has happened to that traditional American dream? ✓ ✓

On the tax front, it used to be that the average family of four could pay its taxes with the income earned by February 8. Now, you must work a month longer -- into March -- to pay your Federal taxes.

There are also some hidden costs in your lives. If you are lucky enough to be able to afford a new automobile and able to meet the payments, you should also know that government regulations have added \$666 to its price.

All of these problems are the legacy of a bankrupt idea: that the government is the source of our economic well-being.

And now, those who have promoted the notion that the government offers the cure for our economic ills have run out of medicine. We are not only running out of medicine; we are, more importantly, running out of time.

Left uncontrolled, here are some of the consequences that would be upon us before long:

-- If inflation continues at the same rates, an automobile that costs \$6,500 in 1981 ^{would} ~~will~~ cost ~~more~~ ^{about} \$9,500 in 1985. A utility bill which runs ¹⁶⁰

going to Federal income taxes ~~will~~ jump ²² ~~21~~ percent today to more than ²² ~~21~~ percent in 1985.

-- While our GNP will grow by \$1.2 trillion in the next three years, the Federal Government's share of the increase will be more than 26 percent.

Historically, the government's share ^{of GNP} has rarely risen above 20 percent. ✓

All of these trends are leading us directly toward a trillion dollar national debt.

~~*When the~~

long before all America falls into economic decline. It isn't government that suffers from this vicious cycle; it is you.

And yet, we have continued to allow deficits to push up c ~~negative consequences.~~ The
recc

197

it

off

what we have inherited, our national debt will ~~break~~
break the trillion dollar barrier within the next 12 months despite all our best efforts. If you break that down, it means the Federal Government will have borrowed the equivalent of \$4,400 for every man, woman and child in the United States.

The unbelievable magnitude of these numbers illustrates how we have engaged in a form of national self-deception. In 1971, the Congress of the United States last set what it

called a "permanent" debt limit of \$400 billion. Since then, each time the debt limit has been raised, it has been soothingly called a "temporary" increase.

In other words, as our national debt approaches one trillion dollars, we are told it is only "temporary." Well, this is the kind of debasement of the English language that has gotten us into so much trouble. We've hidden behind fictions and budget hocus-pocus. We've deceived ourselves into thinking that the mere use of words would protect us from economic chaos.

I've done a little research on this. I found that the "temporary" debt limit has been raised or extended 21 times since 1971. If a bank told you you could borrow \$5,000, do you think it would let you go back 21 times to increase the loan without collateral? You know the answer to that question. Well, I think that the government should live by the same rules you do.

We are going to stop hiding behind trick phrases and smokescreens. We may have been looking at a "temporary" rise in our debt, but you and I know that the temporary rise has become a permanent burden.

Thus, my first goal in getting our economy back on track is to tell the truth and to quit manipulating definitions.

I wish that we could magically undo all this damage. We can't, and we won't. But we can start by being honest with ourselves.

I'm not asking you to be patient; I'm asking you to use your impatience to make sure this difficult process is seen through to the end. I won't ask you to do with less because when the times are most difficult, our people have always done the right thing.

Now, let me briefly describe to you the four basic elements of the plan I will be submitting to the Congress when it returns from its recess.

First, I am going to propose the largest reduction in Federal spending ever presented by an American President. I am determined to break the cycle of inflationary expectation and balance the budget at the earliest possible date.

Government does not voluntarily cut its own size.
~~No government in history has voluntarily cut its own size.~~ That is why we must take this action on our own.

As parents we know that we can repeatedly lecture our children on the evils of waste and extravagance, but nothing is so effective as simply cutting back their allowance. The Federal Government will cut its spending only when we take action to stop it from spending.

In this process, all essential needs of our society will be met, and our efforts will be as even-handed as possible. My cuts will affect everyone but the truly

needy, and ultimately everyone will benefit from this program including the truly needy.

Only those who unfairly and unnecessarily feed at the Federal trough need fear what we do. For example:

- We will not subsidize businesses at the expense of the American people. Our policy will be to encourage business to earn its profits in the marketplace and not in the Federal budget.
- We will cut ^{those} grants that benefit mostly the grantsmen. These professional middlemen and clever long-term budget manipulators will be a special target.
- We will not continue programs simply because "that is the way it's always been done." It's time to get away from business as usual.

To help cut the budget, without hurting the needy, I plan an assault against the fraud and waste that we have in government. I will be rigidly intolerant of wasteful activities, and I will seek tough criminal enforcement against fraudulent ones.

Since taking office, I have already taken several actions to begin the trimming process. I've placed a freeze on the hiring of civilian Federal employees. I've ordered cuts in government travel, ^{a reduction in} ~~reduced~~ the number of consultants to the government, and ^{a freeze on} ~~stopped~~ the procurement of certain items. Other decisions to cut the size of the government include a

(grammatical changes)

freeze on pending regulations, elimination of remaining Federal controls on U.S. oil production and marketing, and elimination of the totally ineffective wage and price program of the Council on Wage and Price Stability.

I don't think, at this point, that I need to dwell on the obvious. From your personal experience, each of you knows that inflation is destroying our economy -- inflation fed by huge deficits and paid for by printing-press money.

I will, however, restate one of my most serious personal concerns, and that is the effect of inflation on the family unit. I approve of and support women who wish to enter the work force. Yet, there is no question that hundreds of thousands of wives and mothers are working today only because they have no other choice. They are simply trying to help their families stay even.

This has resulted in incalculable social and cultural costs. It has cut down on the intimacy of family life by reducing leisure time for family activities. Among working people it has led to feelings of frustration and demoralization -- even rage and exhaustion. In my opinion, these developments are in great measure responsible for the serious rise in family instability and unhappiness. That price is unacceptable to me.

My second proposal will be to reduce personal income tax rates 10 percent each year for the next three years. And I will call for an acceleration in the ability of all

businesses, small as well as large, to write off capital investments against their taxes.

Personal cuts will restore your opportunities to work and save and invest. It will result in economic growth and the creation of more jobs.

Business cuts will encourage investment in new plant and equipment and provide the capital for badly-needed productivity growth. The result: more jobs, better products, and less inflation.

Just as our personal tax laws are structured to achieve certain goals, so must our business taxes. As an individual, you can deduct mortgage interest which encourages homeownership, and you can deduct charitable contributions which encourages works of benevolence. Business must also ~~be able~~ ^{have incentives} to improve its work, renew the quality of its equipment, and prepare for the future. ✓

The sum of business expansion and growth is personal well-being and jobs. I know there are those who oppose

~~as a cost of doing business.~~

The third step in my plan will be to lessen government interference through the regulatory process. We must reform government regulation, eliminating needless and excessively costly rules and requirements. But while we act to reduce the burdens of government, we will never lose sight of the

legitimate ends that they serve. Our food will remain safe to eat; our medicine will cure and not cripple or cause disease; our products will not threaten our lives.

However, we will review all old regulations and keep only those which are absolutely essential. We will look at alternative ways of achieving regulatory objectives and screen all new regulations. We will make assessments of regulations based upon the costs they impose compared to the benefits they provide.

Fourth, we must act with a close understanding of how important the monetary element is. In plain language, I am confident we can work with the Federal Reserve system towards the objective of a stable monetary policy. When we combine this with our control of Federal spending, we can drive down inflation and restore the purchasing power of the dollar.

My proposals are based on very simple principles. If you want less of something, you tax it. If you want more of something, you reward it. If you want more productivity, you reward productivity. If you want to stop going into debt, you stop rewarding the accumulation of debt.

Since the early 1960s, the Federal Government has followed policies based on the hope that we could "fine tune" our way out of inflation and unemployment. The result has been "stop-and-go" policies -- fighting inflation one year and unemployment the next. Whenever inflation became

too high, Washington would increase unemployment by raising taxes and interest rates. When unemployment then became too high, Washington would open the budget flood gates and print more money. And our problems only worsened. I think cutting spending and cutting taxes go together.

But as deep as our problems are and as long as they will take to resolve, I have faith that together we will get the job done. It is in the nature of the American people not to shrink from the tough decisions.

I am confident that in time we will return not only to prosperity but to a prosperity that preserves the value of our wealth. We can create the incentives which take advantage of the genius of our economic system -- a system, as Walter Lippman observed more than 40 years ago, which for the first time in history gave men "a way of producing wealth in which the good fortune of others multiplied their own."

Our aim is not to limit our wealth and merely allocate it differently. Nor is it to favor the few while ignoring the majority. Instead, we seek to increase our national wealth by rewarding hard work and risk-taking. We seek also to make our national wealth worth something by forcing this government to live within its means.

Over the years we have let negative economic forces run out of control. We have stalled the judgment day. We no longer have that luxury.

Tonight I have frequently made statistical comparisons to the year 1960. Of course, much has changed for the better since then. But in terms of our economy, how can we dispute that ^{MANY} things have gotten worse? ✓

Since 1960 our government has spent \$5.1 trillion; our debt has grown by \$648 billion. Prices have exploded by 178 percent. Now, let us ask ourselves: how much better off are we for it all? And, how much worse off are we for it all? ✓

When we measure how harshly ~~these~~ years of inflation, ^{lagging productivity growth} ~~lower productivity~~, and uncontrolled government ^{expansion} ~~growth~~ have affected our lives, we know we must act quickly. ✓

We will not be timid. We must not be timid.

We will restore the freedom of all men and women to excel and to create. We will unleash the energy and genius of the American people -- traits which have never failed us. ✓

To the Congress of the United States, I extend my hand in cooperation.

To my colleagues in the Executive Branch of government and to all Federal employees I ask that we work in the spirit of service. We have no powers except those that we derive from the people.

To those great institutions in America -- business and labor -- I urge you to be guided by the national interest. The only special interest we will serve is the interest of the people.

To my fellow citizens, I propose that we join to do no less than shake -- and then rebuild -- the very foundations of our economic system. We will work together and act responsibly. We will do so with the most profound respect for that which we must preserve and with sensitive understanding for those who must be protected.

Please give me your help.

Thank you and good night.

Good evening:

I have asked for this time tonight to give you a report on the state of our Nation's economy. A few days ago I was presented with a report I had asked for -- a comprehensive audit if you will of our economic ~~condition~~ ^{problems}. You won't like it, I didn't like it, but we have to face the truth and then go to work to turn things around. And make no mistake about it, we can turn them around.

I'm not going to subject you to the jumble of charts, figures, and economic jargon of that audit but rather will try to explain where we are, how we got there, and how we can get back.

First, however, let me just give a few "attention getters" from the audit. The Federal budget is out of control and we face runaway ^{total} deficits, \$80 billion for this budget year that ends ~~October 1~~ ^{Sept. 30th}. That deficit is larger than the entire Federal budget in 1957, and ~~so~~ ^{it} is the ^{also almost as large} \$80 billion we ~~now~~ ^{will} pay in interest on the national debt ~~every~~ ^{this} year. OK suggest off and on

Twenty years ago, in 1960, our Federal Government payroll was less than \$13 billion. Today it is \$75 ^{or} billion. During these twenty years, our population has only increased by ~~26.3~~ ^{23.3} percent. The Federal budget has gone up 528 percent. ok
check

We have just had two years of back-to-back double digit inflation, 13.3 ^{or} percent in 1979 -- 12.4 ^{or} percent last year. The last time this happened was in World War I. ok
check

In 1960 mortgage interest rates averaged about 6 ^{or} percent. They are 2½ times as high now, 15.4 ^{or} percent. The percentage of your earnings the Federal Government took in taxes in 1960 has check

almost doubled. And finally there are 7 million Americans caught up in the personal indignity and human tragedy of unemployment. If they stood in a line -- allowing 3 feet for each person -- the line would reach from the Coast of Maine to California.

Well, so much for the audit itself. Let me try to put this in personal terms. Here is a dollar such as you earned, spent, or saved in 1960. Here is a quarter, a dime, and a penny -- 36¢. Thirty-six cents ^{is} what this 1960 dollar is worth today. And if the present inflation rate ~~should~~ ^{would} continue ~~a couple~~ ^{for years (three)} more years, that dollar of 1960 ~~will~~ ^{would} be worth a ~~dime~~ ^{quarter or}.

What has happened to that American dream of owning a home? Only ten years ago a family could buy a home and the monthly payment averaged little more than a quarter -- 27¢ out of each dollar earned. Today it takes 42¢ out of every dollar of income. So, fewer than 1 out of 11 ^{prospective first-time homebuyers} ~~families~~ can afford to buy a ^{new} home.

Regulations adopted by government with the best of intentions have added \$666 to the cost of an automobile. It is estimated that altogether regulations of every kind, on shopkeepers, farmers, and major industries add ~~\$100~~ ^{almost} billion to the cost of the goods and services we buy. And then another ~~\$20 or \$30~~ billion ^{is more} spent by government handling the paperwork created by those regulations.

I'm sure you are getting the idea that the audit presented to me found government policies of the last few decades responsible for ^{many of} our economic troubles. We ~~forgot~~ ^{forget}, or just overlooked ₃ the fact, that government -- any government -- has a

built-in tendency to grow. We all had a hand in looking to government for benefits as if government had some source of revenue other than our earnings. Many, if not most, of the things we thought of or that government offered to us seemed attractive.

In the years following the 2nd World War it was easy (for awhile at least) to overlook the price tag. Our income more than doubled in the 25 years after the War. We increased our take home pay in those 25 years by more than we had amassed in all the preceding 150 years put together. Yes, there was some inflation, less than 3 percent, that didn't bother us. But if we look back at those golden years we recall that even then voices had been raised warning that inflation, like radioactivity, was cumulative and that once started it could get out of control. Some government programs seemed so worthwhile that borrowing to fund them didn't bother us.

~~check~~

~~check~~

some kinds of poison

kind 45-70
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out
D.?

By 1960 our national debt stood at \$284 billion. Congress in 1971 decided to put a ceiling of \$400 billion on our ability to borrow. Today the debt is \$932 billion. So-called temporary increases ^{(4)?} ^{or extensions} in the debt ceiling have been allowed 21 times in these 10 years, and now I must ask for another increase in the debt ceiling or the government will be unable to function past the middle of February, ^{And} and I've only been here 2 ^{weeks} months. We face in the near future a public debt that could exceed a trillion dollars. This is a figure literally beyond our comprehension.

has been fueled by

We know now that inflation ~~is the result of~~ all that deficit spending. Government has only two ways of getting money other than raising taxes. It can go into the money market and borrow, competing with its own citizens and driving up interest rates, which it has done, or it can print money, and ~~it's doing both~~. *both* Both methods are inflationary. *The consequence has been rising int. and raising interest rates*

new word

you bank and borrow

We're victims of language, the very word "inflation" leads us to think of it as high prices. Then, of course, we resent the person who puts on the price tags forgetting that he or she is also a victim of inflation. Inflation is not high prices, it is a reduction in the value of our money. When the money supply is increased but the goods and services available for buying are not, we have too much money chasing too few goods.

Wars are usually accompanied by inflation. Everyone is working or fighting but production is of weapons and munitions not things we can buy and use. *(add)*

*inc. sup
out*

One way out would ~~be to~~ *seem to be to* raise taxes so that government need not borrow or print money. But in all these years of government growth we've ~~reached~~ *reached??* -- indeed surpassed -- the ability of our people to bear an increase in the tax burden. *and the supply of goods would suffer.*

Prior to World War II, taxes were such that on the average we only had to work between 5 or 6 weeks each year to pay our total Federal, state, and local tax bill. Today ~~we have to~~ *the average* ~~work between 5 or 6 months~~ to pay that bill. *It is*

circle

16 weeks

Some say shift the tax burden to business and industry but business doesn't pay taxes. Oh, don't get the wrong idea, ~~outcompete pos in w/ market~~ business is being taxed, so much so that we are being priced ~~is being threatened.~~ out of the world market. But business must pass its costs of ~~operation~~ ^(shareholders, and workers) and that includes taxes, onto ~~the~~ customers, ~~in the~~ ~~price of the product.~~ Only people pay taxes -- all the taxes.

out
??

[Government first uses business in a kind of sneaky way to help collect the taxes.] Today, this once great industrial giant of ours has the lowest rate of gain in productivity of ~~virtually all the~~ ^{most} industrial nations with whom we must compete in the world market. We can't even hold our own market here in America against foreign automobiles, steel, and a number of other products.

Shack
OK

^{add prod. statement} Japanese production of automobiles ^{is 80%} ~~is 20 times as greater~~ ^{than} per worker as it is in America. The Japanese steel worker ~~out-produces~~ ^{this} his American counterparts by about 25 percent.

OK

Shack

This isn't because they are better workers. I'll match the American working man or woman against anyone in the world. But we have to give them the modern tools and equipment that workers in the other industrial nations have.

We invented the ~~assembly~~ ^{or} assembly line and mass production, but punitive tax policies and excessive and unnecessary regulations plus government borrowing have prevented us from updating plant and equipment. When capital investment is made it is ~~usually~~ ^{all too often} for some unproductive alterations demanded by government to meet various of its regulations.

all too often

✓

Excessive taxation of individuals has robbed us of incentive and made our time ^{less} profitable.

We once produced about 40 percent of the world's steel. We now produce 19 percent.

Check

We were once the greatest producer of automobiles, producing more than all the rest of the world combined. ^{In the past year,} ~~Today~~ ^{ok} ~~the big 3~~, the major auto companies in our land, have sustained tremendous losses ~~in the past year~~ and have been forced to lay off thousands of workers.

4
??

(All of you who ^{working Americans} know that even with cost of living pay raises ^{it is hard to} ~~you can't~~ keep up with inflation. ^{major expenses} In our progressive tax system as you increase the number of dollars you earn you find yourself moved up into higher tax brackets, paying a higher tax rate just for trying to hold your own.

The result? ~~The standard of living in our country is going down.~~ ^{Even w/ higher wages, your standard of living is not increasing.} ^{you (add)} *Check*

Over the past decades we've talked of curtailing government spending so that then we can lower the tax burden. Sometimes we've even taken a run at doing that. But always we held that taxes couldn't be cut until spending was reduced. Well, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance simply by reducing their allowance.

It is time to recognize that we have come to a turning point. We are faced with an economic calamity of tremendous proportions and the old business as usual treatment can't save us.

Together, we must chart a different course. We must increase productivity and that means putting Americans back to work. That means making it possible for industry to modernize and make use of the technology which we ourselves invented. That means above all bringing government spending back within government revenues which is the only way, together with increased productivity, that we can reduce, and yes eliminate, inflation.

In the past we've tried to fight inflation one year and then when unemployment increased turn the next year to fighting unemployment with more deficit spending as a pump primer. So again, up goes inflation. It hasn't worked. We don't have to choose between inflation and unemployment -- they go hand in hand. It's time to try something different and that's what we're going to do.

We've already placed a freeze on hiring replacements for those who retire or leave government service. We have ordered a cut in government travel, ~~reduced~~ ^{a reduction in} the number of consultants to the government, and ~~stopped~~ ^{stopped} the buying of office equipment and other items. We have put a freeze on pending regulations and set up a task force under Vice President Bush to review existing regulations with an eye toward getting rid of as many as possible. We have decontrolled oil which should result in more domestic production and less dependence on OPEC. And last we have eliminated the ineffective wage and price program of the Council on Wage and Price Stability.

But it will take more, much more and we must realize there is no quick fix. At the same time, however, we cannot delay ~~in~~ implementing an economic program aimed at reducing tax rates to stimulate productivity and ~~reducing~~ ^{slow??} the rate of increases in government spending to reduce unemployment and inflation. ?

On February 18th, I will present in detail an economic program to Congress embodying the features I have just stated. I will ~~propose~~ budget cuts in ~~virtually~~ every department of government. It is my belief that these ~~actual~~ budget cuts will only be ^{the start} ~~part~~ of the savings. As ~~our~~ ^{myself} Cabinet Secretaries take charge of their departments, they will search out areas of waste, extravagance, and costly administrative overhead which ~~could~~ ^{we could} yield substantial reductions.

At the same time we are doing this, we must go forward with a tax relief package. I shall ask for a 10 percent reduction across the board in the personal income tax for each of the next three years. Proposals will also be submitted for accelerated depreciation allowances for business to provide necessary capital so as to create jobs.

Now here again, in saying this, I know that language, as I said earlier, can get in the way of ^a clear understanding of what our program ~~is intended~~ to do. Budget cuts can sound as if we are going to reduce government spending to a lower level than was spent the year before. This is not the case. The budgets will increase as our population increases and each year

*only they will come
to a level that is in
the past needs*

we'll see spending increases ~~to match our growth~~. Government revenues will increase as the economy grows but the burden will be lighter for each individual because the economic base will have been expanded by reason of the reduced ~~rates~~.

Let me show you a chart I've had drawn to illustrate how this can be. Here you see 2 slanting lines. The bottom line shows the increase in tax revenues. The red line on top is the increase in government spending. Both lines turn sharply upward reflecting the giant tax increase already built into the system for this year 1981 and the increases in spending built into the '81 and '82 budgets and on into the future.

*red
B+W*

As you can see, the spending line rises at a steeper slant than the revenue line and does so increasingly toward the end. That ever-widening gap between those lines measures the constant deficits we've been running including this year's *estimate of*

nearly \$80 billion ~~deficit~~.

Now ~~so~~ the dotted lines represent the reduced rate of increase that will follow if Congress accepts our economic program. Both lines continue to rise allowing for necessary growth but they don't rise as steeply and the gap narrows as spending cuts continue over the next few years, until finally the two lines come together meaning a balanced budget and the end of

inflation. *We are determined that this w/ happen during this admin.*

~~We think that will happen by 1983 and~~ At that point tax revenues, in spite of reductions, will be increasing faster than spending which means we can have further reductions in the tax rates.

*a major cause
of
check*

In all of this we will, of course, work closely with the Federal Reserve System toward the objective of a stable monetary policy. (add)

Our spending cuts will not be at the expense of the truly needy. We will, however, seek to eliminate benefits to those who are not really qualified by reason of need.

As I've said before, on February 18th, I will present this economic package of budget reductions and tax reform to a joint session of Congress and to you in full detail.

Our basic system is sound. We can, with compassion, continue to meet our responsibility to those who, through no fault of their own, need our help. We can meet fully the other legitimate responsibilities of government. We cannot continue any longer our wasteful ways at the expense of the workers of this land or our children.

Since 1960 our government has spent \$5.1 trillion; our debt has grown by \$648 billion. Prices have exploded by 178 percent. How much better off are we for it all? We all know, we ~~are~~ ~~very~~ ~~much~~ ~~worse~~ ~~off~~. ~~How things gotten better~~ stat
in many ways

When we measure how harshly these years of inflation, lower productivity, ^{growth} and uncontrolled government ~~growth~~ ^{expansion} have affected our lives, we know we must act and act now.

We must not be timid.

We will restore the freedom of all men and women to excel and to create. We will unleash the energy and genius of the American people -- traits which have never failed us.

To the Congress of the United States, I extend my hand in cooperation and I believe we can go forward in a bi-partisan manner.

I have found a real willingness to cooperate on the part of Democrats and members of my own Party.

To my colleagues in the Executive Branch of government and to all Federal employees I ask that we work in the spirit of service.

I urge those great institutions in America -- business and labor -- to be guided by the national interest and I'm confident they will. The only special interest we will serve is the interest of the people.

We can create the incentives which take advantage of the genius of our economic system -- a system, as Walter Lippmann observed more than 40 years ago, which for the first time in history gave men "a way of producing wealth in which the good fortune of others multiplied their own."

Our aim is to increase our national wealth so all will have more, not just redistribute what we already have ~~which is~~ just a sharing of scarcity. We can begin by rewarding hard work and risk-taking, by forcing this government to live within its means.

Over the years we have let negative economic forces run out of control. We have stalled the judgment day. We no longer have that luxury.

And to you my fellow citizens, let us join in a new determination to rebuild the foundations of our society; to work together to act responsibly. Let us do so with the most profound respect for that which must be preserved as well as with sensitive understanding and compassion for those who must be protected.

We can leave our children with an unrepayable massive debt and a shattered economy or we can leave them liberty in a land where every individual has the opportunity to be whatever God intended them to be. All it takes is a little common sense and recognition of our own ability. Together we can forge a new beginning for America.

Thank you and good night.




OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

January 31, 1981

MEMORANDUM FOR KEN KHACHIGIAN

FROM: David L. Chew 
Executive Assistant
to the Secretary

SUBJECT: Items for the President's TV Address

We have been asked to provide some descriptive material on the state of the economy and government spending for possible use by the President.

Attached are our suggestions. If you need additional information or clarification on any of these points, please feel free to give me a call on 566-5901.

Attachments

cc: Craig Fuller

ECONOMIC "HORROR STORIES"

INFLATION

Inflation is out of control and impacts every American.

- The inflation rate has nearly tripled since 1976, and was 12.4% (CPI) last year.
- The inflation rate today is ten times that of the early 1960's (CPI).
- Real after-tax personal income per worker was virtually flat from 1976 to 1980 (up 0.3% per year).
- A retired family living on \$10,000 fixed income in 1976, has only the equivalent of \$7,200 today.
- The average monthly payment on a mortgage to buy a new home has more than doubled (up 137%) since 1976, from \$310 to \$736 per month (December, 1980).
- \$5,000 invested in a passbook savings account in 1976 would be worth \$4,300 today after adjusting for inflation -- even including all the interest that would have been earned (\$1,200, less taxes at the minimum 14% rate).
- Inflation and regulation have increased the average price of a domestically produced new car 37% (\$2,060) in four years.

UNEMPLOYMENT

- Unemployment rate is 7.4%.
- 7.8 million people were out of work at the end of 1980.
- 38% of black and other minority teenagers are unemployed.
- 14% of construction workers are unemployed.
- 220,000 fewer auto workers today (November, 1980) than in 1978.
- 65,000 fewer steel workers today (November, 1980) than in 1978.

BUSINESS

- Failure rates of business as a whole increased by 36% from 1976 to late 1980.
- Failures of small businesses (under \$100,000 liabilities) were up 51% in late 1980 over 1979.
- Chrysler and Ford each lost more than \$1.5 billion in 1980.
- Total auto industry earnings fell from \$4.3 billion in 1976 to a loss of about \$4 billion in 1980.

TAXES AND SAVINGS

- A family of four that earned \$20,000 in 1972 was in the 25% tax bracket (assuming it took the standard deduction). In 1980, due to inflation that family earned \$36,000, but found itself in the 37% tax bracket despite the tax cuts of the past nine years. By 1986 if inflation continues, it will be in the 50% (highest) tax bracket.
- If inflation and taxes are not controlled, within twenty years every family of four now paying any income tax will be in the 50% tax bracket, even those barely earning enough now to pay any tax at all.
- Inflation and taxes drive down personal savings. From 1965-75 Americans saved 7.6% of their disposable income. In the past few years, they saved only about 5.5%, only 1/5 to 1/3 the rate in Japan, Germany, France, Italy.
Low savings rates
 - Help raise interest rates
 - Make it harder for young people to buy homes
 - Make it harder for older people to retire
 - Mean less money to expand and modernize America's businesses, which means fewer jobs, lower productivity, and lower real wages.
- A four-person family earning \$20,000 in 1980 will see its income and social security taxes increase \$291 in 1981 due to inflation and tax increases. For a family earning \$30,000, the increase is \$539 in one year due to inflation and tax increases.
- Per capita personal income and social security taxes (Federal, State and local) increased from \$1,172 in 1976 to \$1,915 in 1980. (Up 63%, or \$743). Even after adjustment for inflation, per capita taxes increased 20% in just those four years.

NATIONAL DEBT

- National debt now exceeds \$900 billion.
- Federal debt increased \$282 billion between 1976 and 1980.
- Under the Carter budget, the national debt would grow to \$1 trillion by the end of 1981 -- almost \$4,500 for every man, woman, and child. The debt likely will get that high despite our best efforts to curb spending and stimulate growth.

Inflation

- o The consumer price index rose by 12.4% during 1980 (measured December to December), on top of a 13.3% increase in 1979. These compare with increases of 4.8% in 1976 and 6.8% in 1977. During the first half of the 1960s, the consumer price index rose on average by about 1-1/4% per year.

The tabulation shows various measures of aggregate inflation:

	Percent change, yearly rate				
	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
CPI (Dec. to Dec.)	4.8	6.8	9.0	13.3	12.4
GNP deflator (Q-IV to Q-IV)	4.7	6.0	8.4	8.1	9.9
Deflator for personal consumption exp. (Q-IV to Q-IV)	5.0	5.9	7.8	9.5	10.1

Standards of Living

- o One measure of standards of living is real after-tax personal income per person employed. This series rose by 2-1/2% per year during the 1970, by 1.4% per year from 1970 to 1976, but was virtually unchanged from 1976 to 1978, rising by only 0.2%. (Deflator used for this series is the personal consumption expenditure deflator, not the CPI.)
- o Corresponding figures for growth of real disposable personal income excluding government and other transfers on a per person employed basis are:

	Percent change year rate
1960 to 1970	2.2
1970 to 1976	0.4
1976 to 1980	0.3
1979 to 1980	-0.8

The peak for this series was 1973. From 1973 to 1980, the series declined by 0.2% per year.

2

Effect of inflation on a savings account

Corrected info

- o If \$5,000 had been invested in a passbook savings account in late 1976, by the end of 1980, compound interest would have raised that to about \$6,200. Assuming even the minimal tax rate, taxes on that would have been \$165. However, during that period, the CPI increased by 39%, so that the savings account would be worth only about \$4,300.
- o If someone retired on a fixed income of \$10,000 at the end of 1976, that retirement would now be worth only about \$7,200.

Unemployment rates, December 1980

	<u>Percent</u>
Total	7.4
Teenagers	17.8
White	15.4
Black & other minorities	37.5
Construction workers	13.8
Manufacturing	8.8
Durable	9.0
Nondurable	8.5
Michigan	12.8
Ohio	9.3
Illinois	9.4

Employment in autos and steel

	<u>Motor vehicles & equip. (thous.)</u>	<u>Steel (thous.)</u>
1965	842.7	657.3
1970	799.0	627.0
1976	881.0	549.4
1977	947.3	554.3
1978	1004.9	560.5
1979	994.6	569.1
1980 (p)	776.8	508.1
1980 - Nov. (p)	783.3	495.4

Business failures

Failure rate (per thousand)

1976	34.8
1979 - yr.	27.8
1980 - III	47.5

Failures of small business (under \$100,000 liabilities)

	<u>Number</u>
1979	3,930
1980-III, annual rate	5,928

Housing

- o The average monthly payment of principal and interest on a mortgage to buy the typical new single-family home rose by 140.3% between the end of 1976 and the end of 1980. Increased costs of upkeep -- heating, cooling, taxes, etc. -- would raise that increase further.
- o Disposable personal income and disposable per capita personal income rose by 52.6% and 47.4%, respectively, between 1976 and 1980.

	<u>Disposable personal income</u> (bil. \$)	<u>Per capital disposable incomes</u> (\$)	<u>Average payment on mortgage</u> (end of year,\$)
1976	1,194.4	5,550	306.2
1979	1,641.7	7,441	563.2
1980	1,822.2	8,178	735.7
% change 1976 to 1980	52.6	47.4	140.3

Inflation is rapidly pushing up tax rates. If current inflation rates of 12% and more are not brought down, the impact will be devastating.

A family of four which was earning \$20,000 in 1972 was in the 25% tax bracket. Today, just to keep up with inflation, that family would need to earn \$36,000. But if it did, it would be in the 37% tax bracket, in spite of all the tax cuts we have had in the last nine years, tax cuts which paid no attention to these damaging marginal tax rates. By 1986, a family still earning exactly the same real income, after inflation will be in the 50% top tax bracket for wages and salaries.

The same sort of increases face all taxpayers. For some, it just takes longer. But by 1999, if nothing is done, every taxpaying family of four now paying income tax will end up in the 50% top tax bracket on its wages and salaries, even those who are now barely earning enough to pay any income tax at all!

For individuals, inflation and the progressive tax code combine to push taxpayers into higher tax brackets, even when they have received no increase in real income. Over the last decade the percentage of tax returns that fell into or above the 25 percent, 30 percent, 36 percent, 40 percent, and 50 percent brackets at least tripled. The result is a reduced after-tax reward for additional effort. This is particularly true for saving, since today marginal tax rates on interest and dividend income reach the prohibitive levels of 50 to 70 percent.

The result of this inflation and these tax increases has been a sharp drop in how much Americans are willing to save. From 1965-1975, Americans on average saved between 7 and 8% of their after tax personal income (7.6%). In the last 5 years, they were only able to save on average between 5 and 6% (5.7%, or 5.5% if we take the 4 years 1977-1980). That means that saving fell 25% from normal levels. We cannot afford that. We are saving only 1/3 to 1/5 as much as people in Japan, Germany, France and Italy. Our low savings rates help raise interest rates. Low savings rates make it harder for young families to buy a home, and for older couples to retire. Low savings rates mean less money to expand and modernize America's businesses, which means fewer jobs, lower productivity, and lower real wages.

A prime example of the problem is the situation in the auto industry. Over the last four years, auto prices have been driven up by inflation and government regulation by 37%, or \$2,060 for the average car. Yet, inflation, high interest rates, and government regulations have pushed profits down to where Chrysler and Ford have been losing more than \$1.5 billion each per year on their U.S. operations. Profits for the industry as a whole are down from \$4.3 B in 1976 to \$(4 B) in 1980. Thousands of auto workers are losing their jobs, thousands more are taking pay cuts, and even those who are still on the job and are not taking pay cuts are paying higher taxes.

Personal and Social Security Taxes

o The following tabulation presents the total (both Federal and State and local) of personal income taxes and employee social security taxes on per capita and per employee bases. Figures are for calendar years and are from national income and product accounts. (They are not quite comparable to unified budget concepts.)

	<u>1965</u>	<u>1970</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Current dollars</u>							
Taxes per capita	402	701	1,172	1,326	1,502	1,734	1,915
per employee	1,100	1,827	2,884	3,176	3,480	3,947	4,386
<u>Constant (1972) dollars</u>							
Taxes per capita	521	758	891	950	1,007	1,069	1,070
per employee	1,425	1,975	2,192	2,277	2,334	2,432	2,451
Taxes as a percent of taxable personal income*	15.8	19.8	21.4	22.1	22.4	23.1	23.5

* Personal income plus contributions for social insurance minus the total of other labor income (contributions to retirement funds, etc.) and transfer payments.

o The figures in constant dollars show that the tax burden on the typical worker has been rising faster than prices generally. The following tabulation presents percent changes for these series. (Note that the deflator used here is the deflator for personal consumption expenditures, not the CPI.)

	percent change, yearly rate	
	<u>1965 to 1976</u>	<u>1976 to 1980</u>
<u>Current dollars</u>		
Taxes per capita	10.2	13.1
per employee	9.2	11.0
<u>Constant dollars</u>		
Taxes per capita	5.0	4.7
per employee	4.0	2.8
Deflator for personal consumption exp.	5.0	8.0

Income Tax and Social Security Tax Burdens for 1980 and 1981

Four Person - One-earner Families

1980 Income level.	(dollars)								:Change in tax due to change in effective tax rate		
	1980				1981 ^{1/}				Income tax	Social security tax	Total tax
	Income tax ^{2/}	Social security tax ^{3/}	Total tax	Effective tax rate (percent)	Income tax ^{2/}	Social security tax ^{3/}	Total tax	Effective tax rate (percent)			
\$20,000	\$2,013	\$1,226	\$3,239	16.2%	\$2,439	\$1,496	\$3,935	17.5%	\$174	\$117	\$291
25,000	2,901	1,532	4,433	17.7	3,513	1,870	5,383	19.1	249	146	395
30,000	3,917	1,588	5,505	18.4	4,757	1,975	6,732	19.9	350	188	538

Office of the Secretary of the Treasury
Office of Tax Analysis

January 28, 1981

Note: Details may not produce totals due to rounding.

^{1/} Calculated under 12.5 percent inflation.

^{2/} Assumes deductible expenses equal to 23 percent of gross income.

^{3/} Employee share of FICA tax.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 31, 1981

Note to Rich Williamson

Attached are the back-up text and charts for the President's speech on the economy. Murray Weidenbaum has not reviewed them in their final form. They should not be distributed until you hear from him.

Sprung
x5084

Attachments

THE WHITE HOUSE
Office of the Press Secretary

FACTS AND FIGURES ON
ECONOMIC PROBLEMS FACING
THE UNITED STATES

February 5, 1981

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Highlights

The American economy is not performing well and surely not as well as it could. The basic economic strength of this nation has been drained by rising tax burdens, expanding Federal Government deficit spending, and increasingly burdensome rules and restrictions that weigh on every business firm, farm, and professional person. The results are higher levels of unemployment simultaneous with high rates of inflation.

It is convenient to blame these economic failings on factors beyond our control -- world oil price increases, poor harvests. But the fact of the matter is that the basic source of most of the economic distress is in the past economic policies of government itself.

Inflation, unemployment, interest rates, taxes, and the Federal deficit -- all of which are higher than they were four years ago -- are the legacy of a discredited notion: that the government is the basic source of economic well-being. The facts and figures in the following pages illustrate that sad but clear lesson of recent American economic history. Yet, nevertheless, the fundamental and durable nature of the private enterprise system still shows through the dismal statistics of our current economic performance. Americans, for example, continue to be the world's most productive workers -- 20 percent more than their counterparts in West Germany and 50 percent greater than in Japan. Furthermore, the recent sustained strengthening of the dollar in world currency markets, business analysts generally agree, in large part reflects rising confidence at home and abroad that the Federal Government is embarking on a new direction in economic policy.

It is becoming increasingly clear that the creativity of individuals and the free exchange of the market place is now, as it always has been, the overriding source of our Nation's wealth and progress.

Heavier Tax Burdens

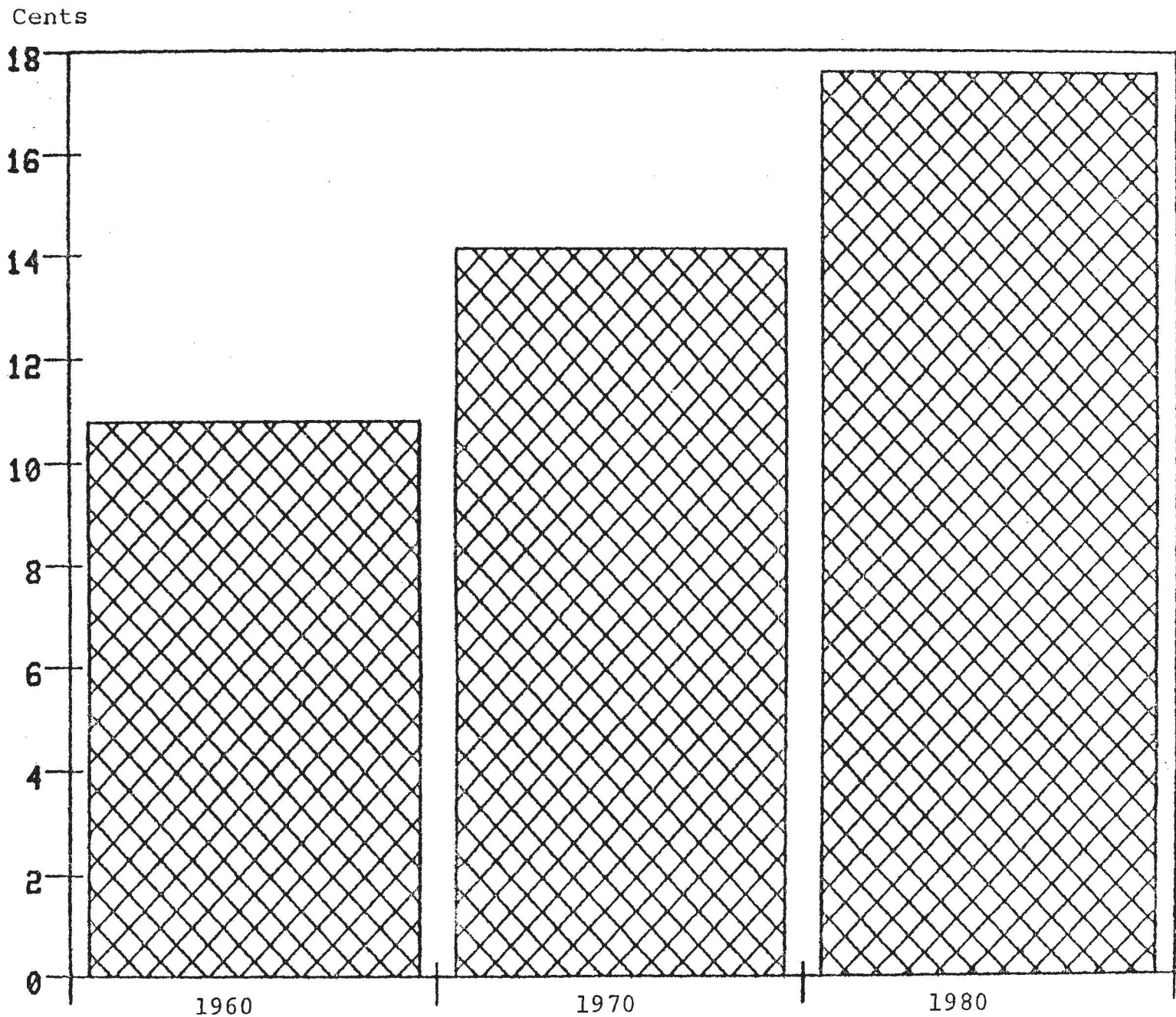
Taxes are the life blood of governments. The weight of taxation to support the growth of government has become excessive. For individuals, the continuation of inflation and the progressive income tax has pushed taxpayers into ever-higher brackets, even when their real incomes have not increased at all. For example, the fraction of taxpayers paying more than 25 cents to the Federal Government from each additional dollar they earned has quadrupled in the last fifteen years.

Another way of looking at the rising burden by the typical taxpayer is to consider that, in 1960, the average family of four earned enough income by February 8 to pay its total federal tax bill for the year. By 1980, however, the average family had to work nearly an additional month -- until March 5 -- to earn enough income to pay the taxes it owed to the Federal Government.

For businesses, the tax burden has also grown very substantially. Companies are taxed on "nominal" or "book" profits which are artificially distorted by inflation. As a result, many businesses have neither the incentive nor the after-tax real income required to invest in exceedingly costly but necessary new productive technologies and expanded facilities.

CHART 1

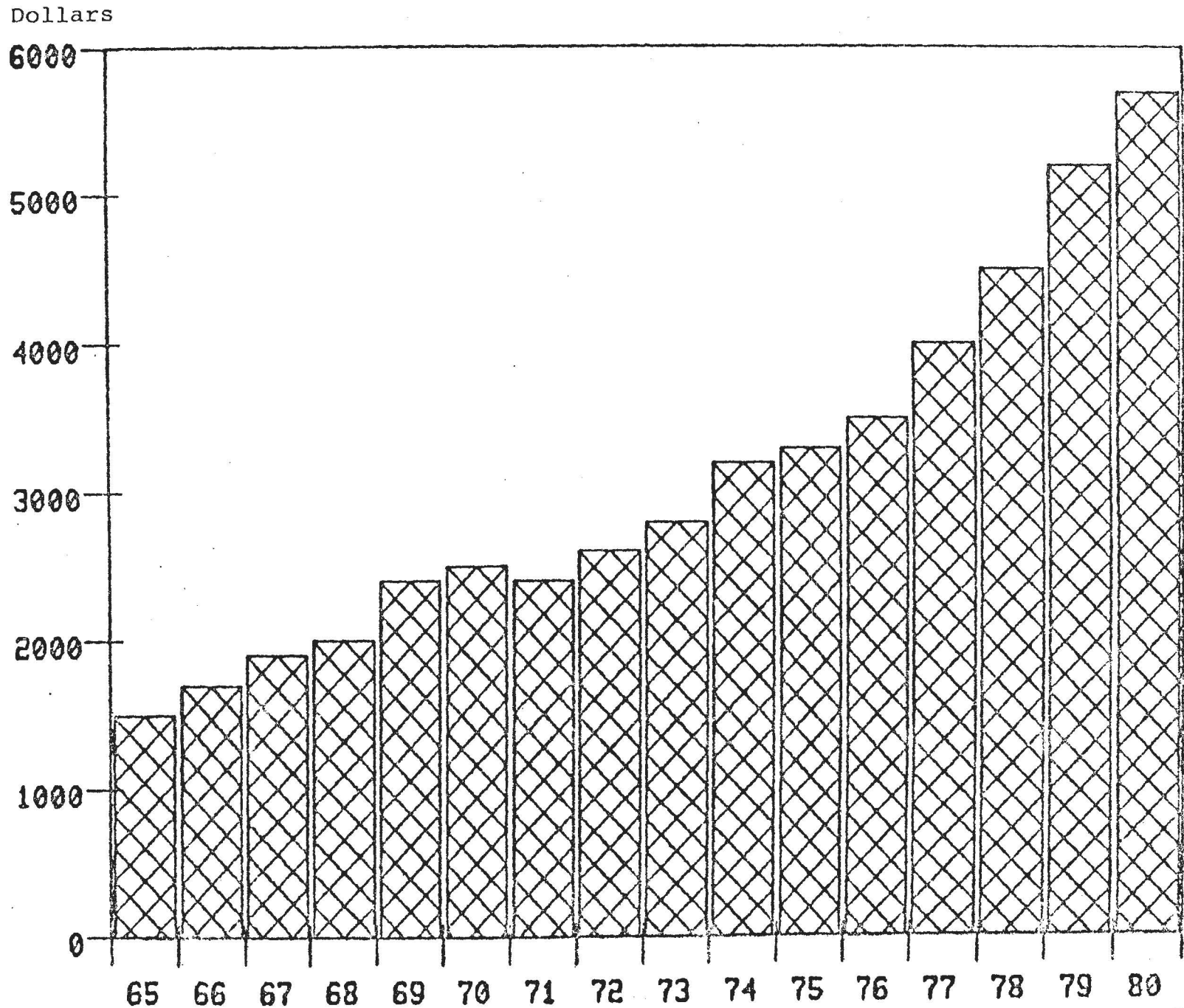
THE RISE IN AVERAGE FEDERAL TAXES PER DOLLAR OF INCOME



Note:-- Federal personal income and social security taxes per dollar of personal income plus employee social security contributions.

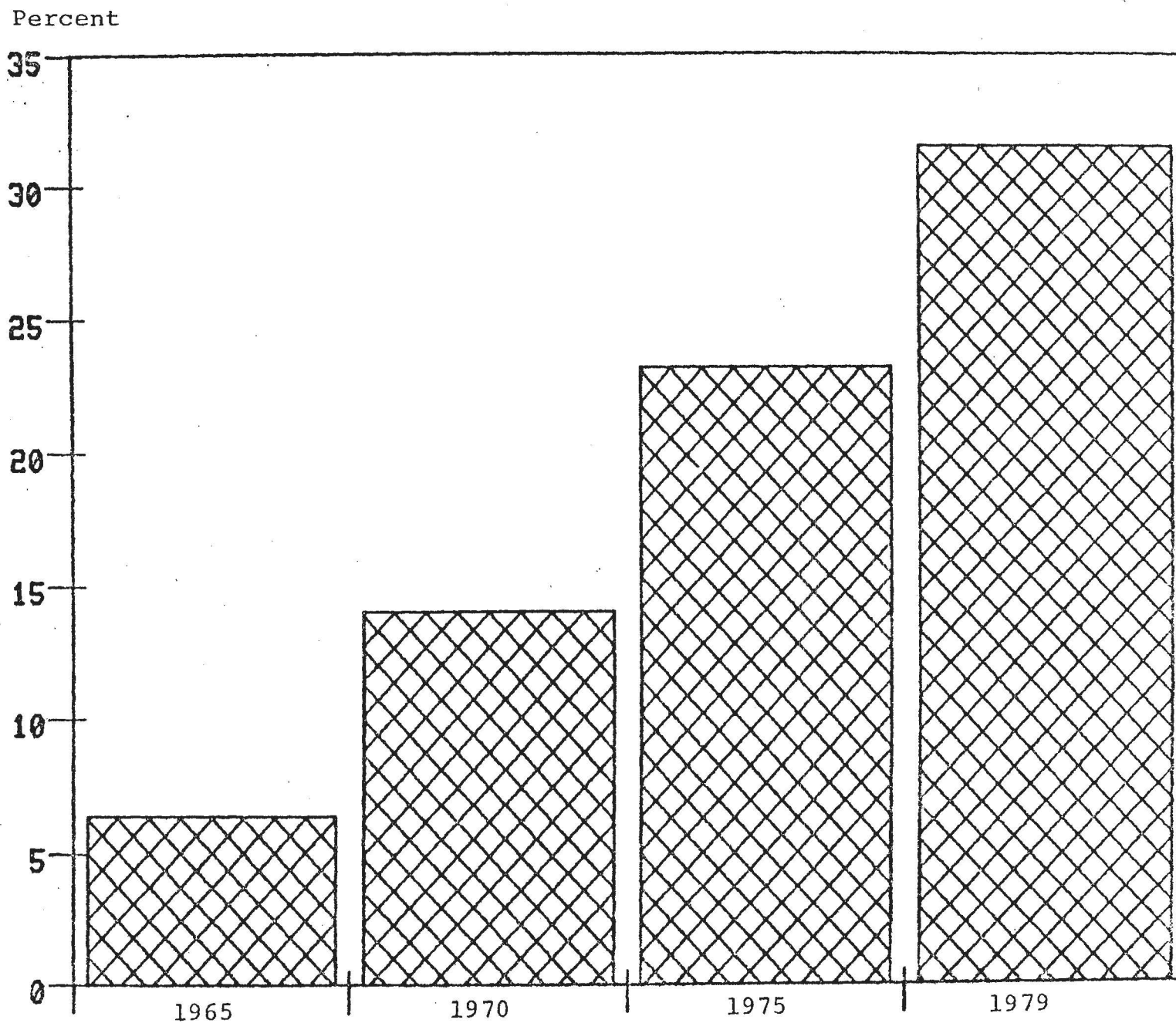
Source: Department of the Treasury.

GROWTH IN PERSONAL FEDERAL TAXES PER FAMILY



Note.- Federal personal taxes include individual income taxes, employee share of social insurance contributions, and other Federal personal taxes.

RISING PORTION OF TAXPAYERS PAYING MARGINAL TAX RATES OF 25% OR MORE



Note.-- Marginal tax rate is the highest rate at which a taxpayer's income is taxed.

Source: Department of the Treasury.

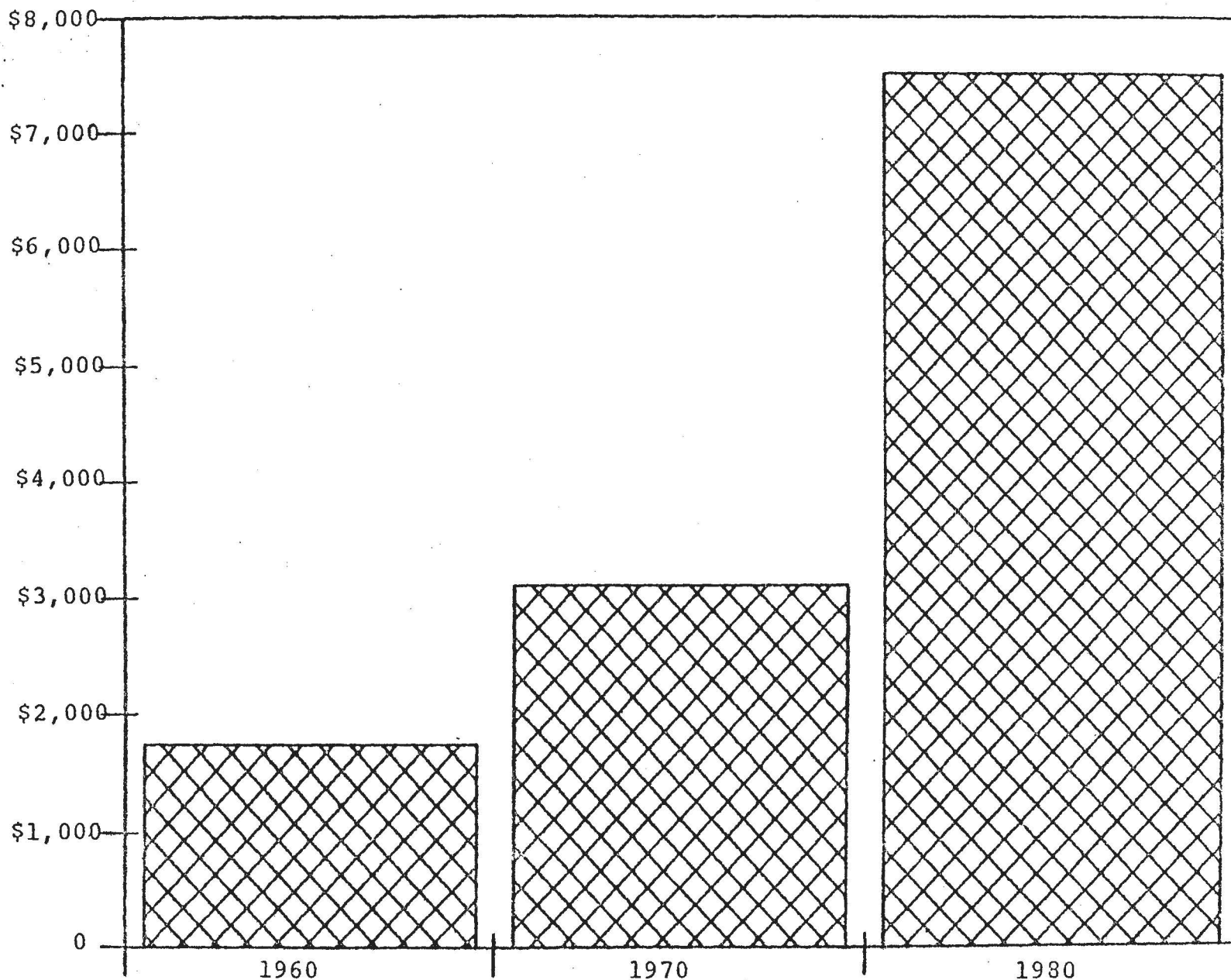
The Growth of Government

Despite record-high tax burdens on the American people, the Federal Government is unable to live within its means. Huge budget deficits follow year after year and the burden of the public debt rises year after year. In the last fiscal year, the deficit was \$60 billion, the second highest on record. The previous administration's budget for this fiscal year is almost as high.

Twenty years ago, the Federal Government took for itself only 18½ percent of our national output (the "Gross National Product"). Last year, it took 23 percent.

And even these numbers understate the costs the government has imposed. Regulations have proliferated, requiring businesses to spend enormous amounts to satisfy the commands of obscure agencies far removed from those who are regulated. The costs of compliance with government directives are a form of "hidden" tax which ultimately is paid by the consumer in the form of higher prices.

THE EXPANDING FEDERAL PRESENCE
(TOTAL FEDERAL EXPENDITURES PER HOUSEHOLD)

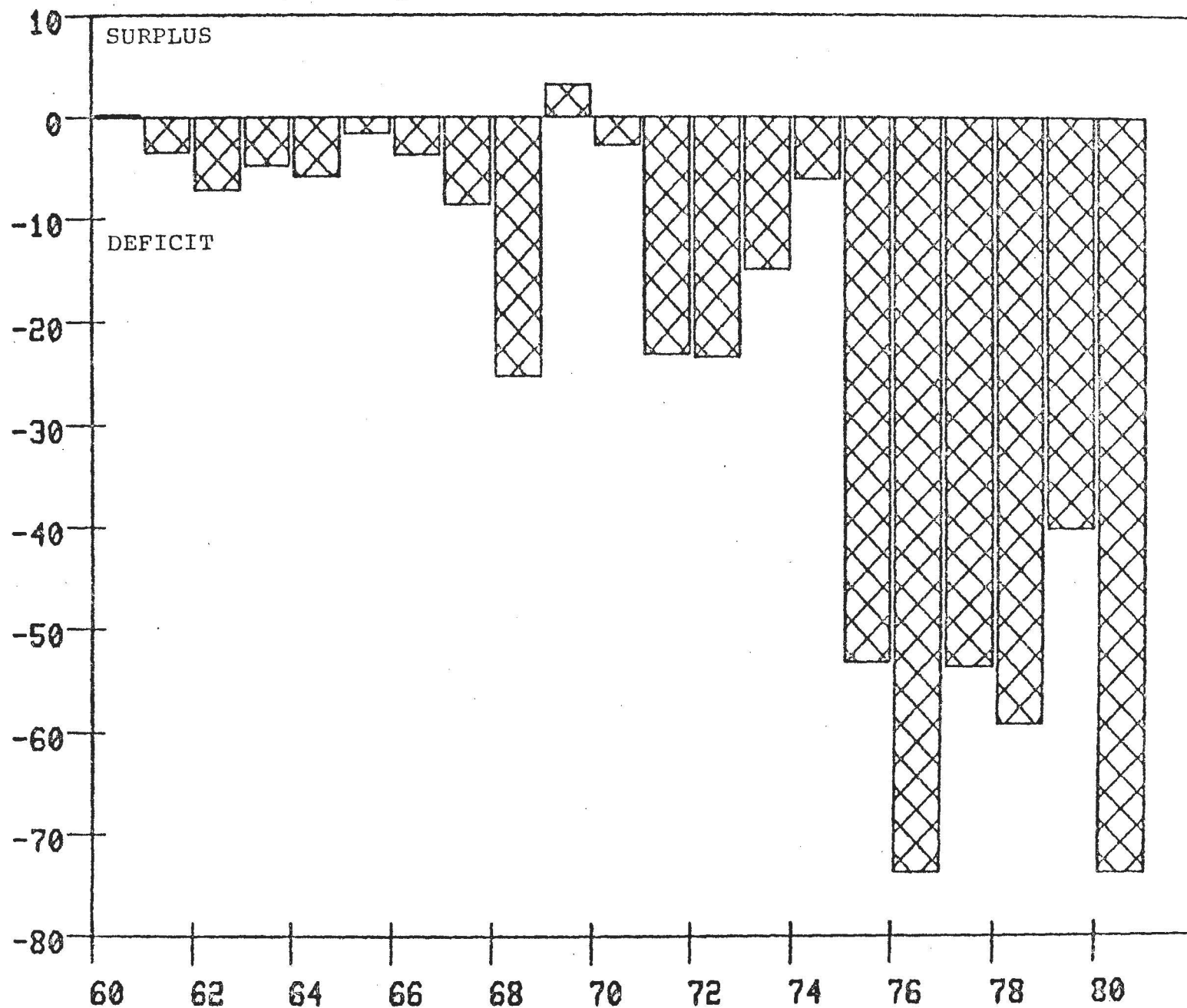


Note.--Includes on-budget outlays plus so-called "off-budget" outlays of the Federal Government.

Source: Office of Management and Budget

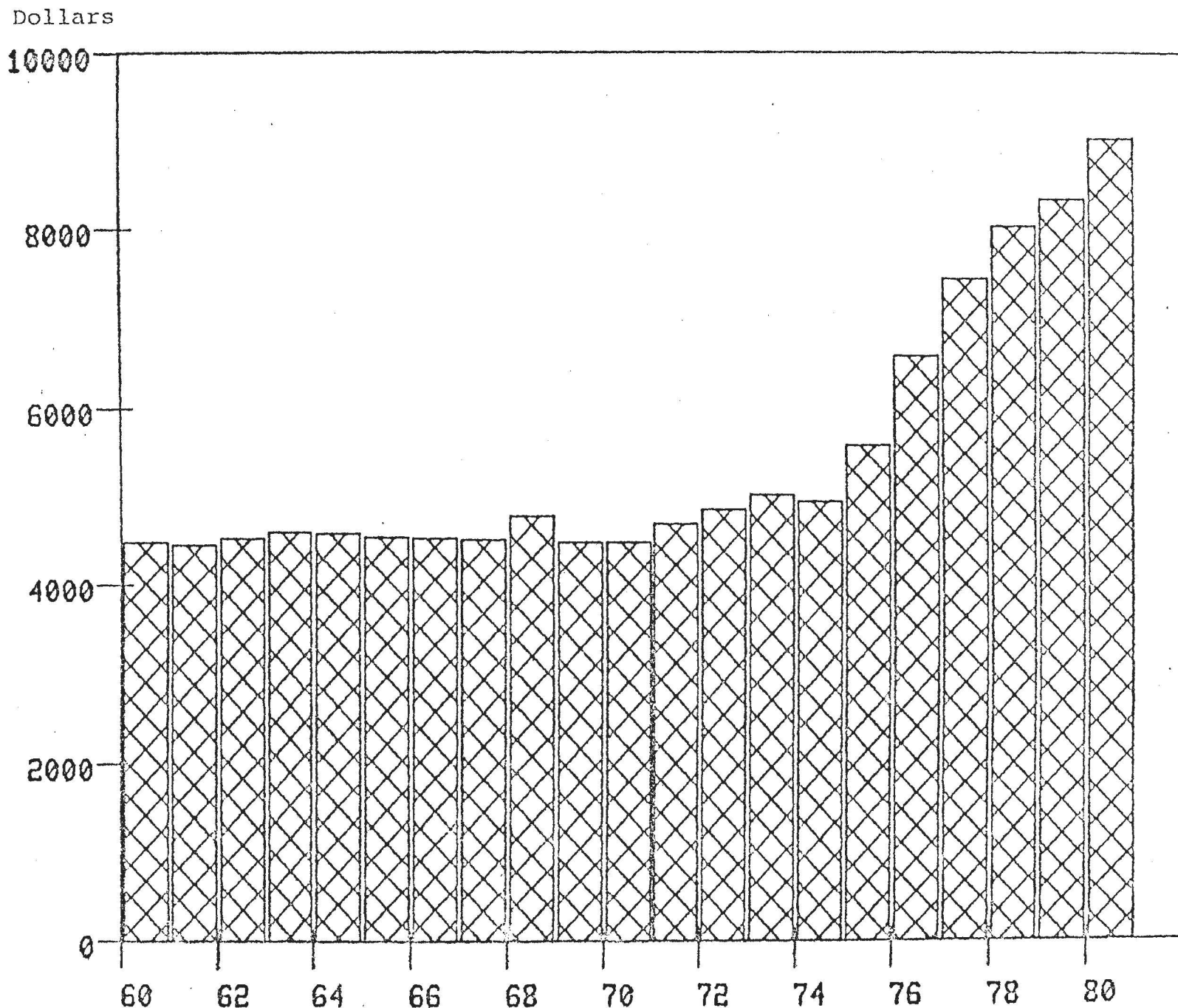
TWENTY YEARS OF INCREASING FEDERAL DEFICITS

(Fiscal years, billions of dollars)



Note.--The difference between total Federal receipts and total Federal outlays including off-budget outlays.

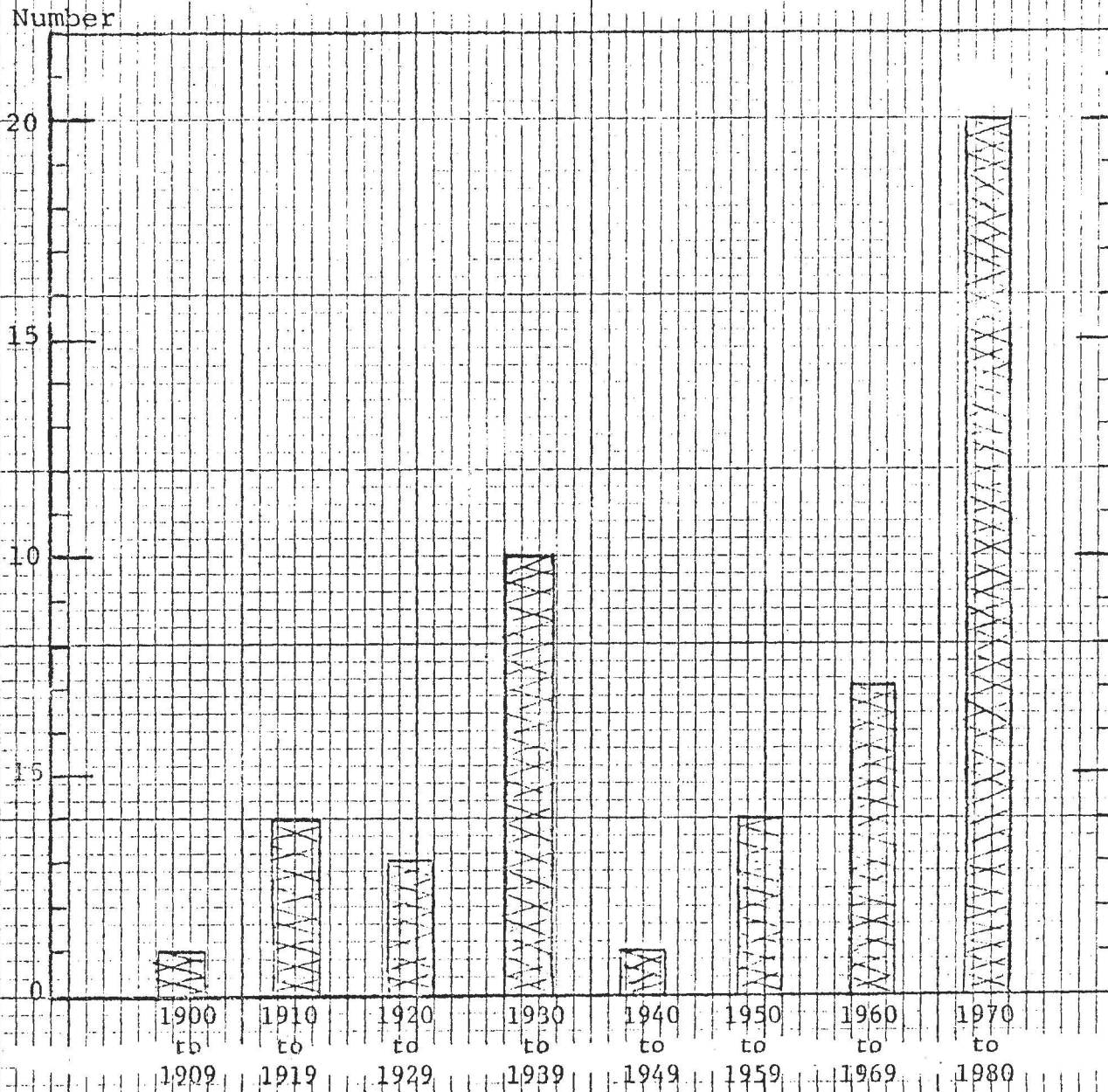
SOURCES: Department of the Treasury and Office of Management and Budget.



Note.--Federal debt held by the public at the end of each fiscal year divided by the number of households. Adjusted for price increases, the average debt burden per household declines steadily until 1973. Between 1973 and 1980 this inflation-adjusted series grows very rapidly.

CHART 7

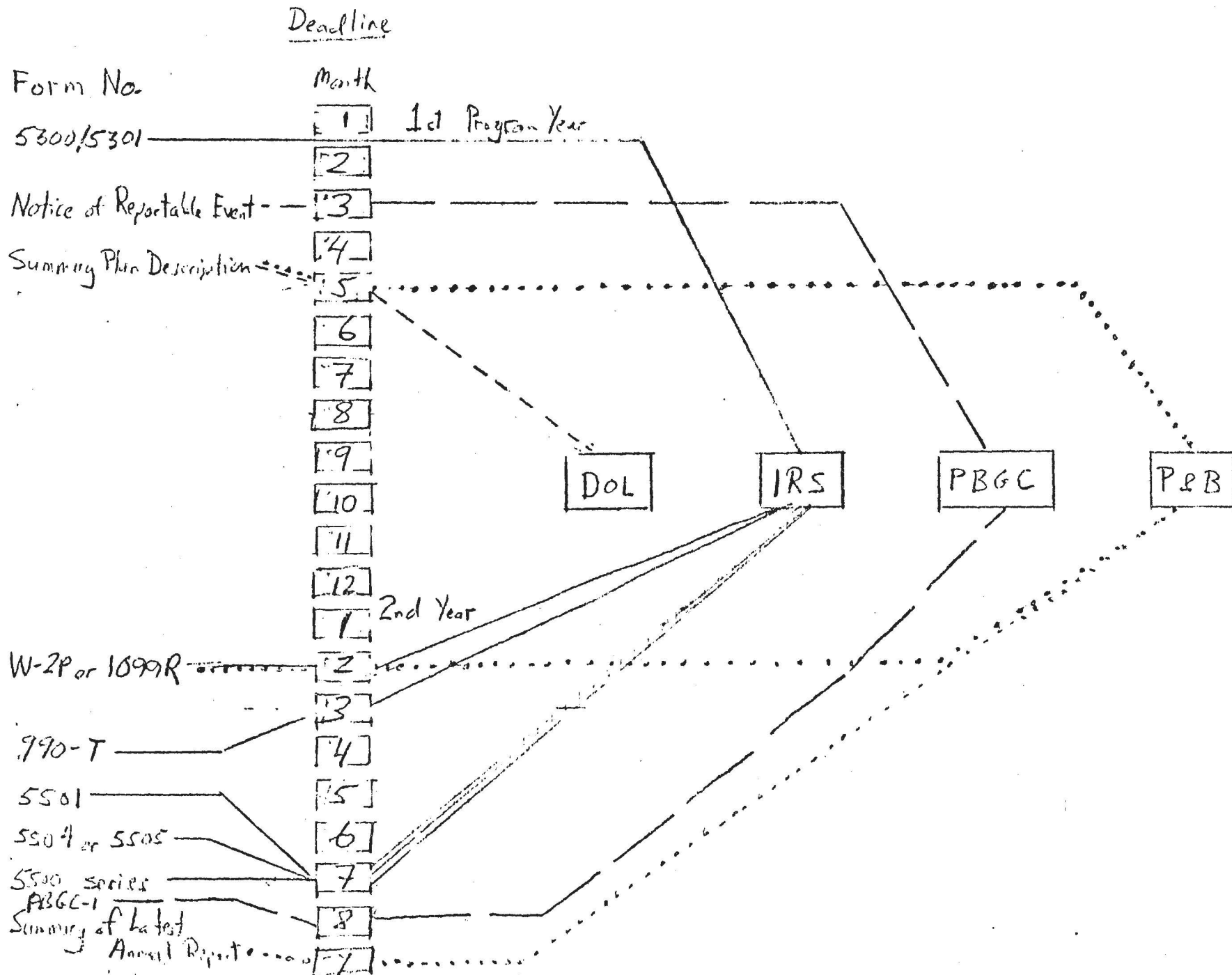
THE RECENT ACCELERATION OF REGULATORY GROWTH



Note.--Data are the number of new Federal regulatory agencies.

Source: Center for the Study of American Business, Washington University of St. Louis.

THE PAPERWORK BURDEN IMPOSED ON A NEW PENSION PLAN



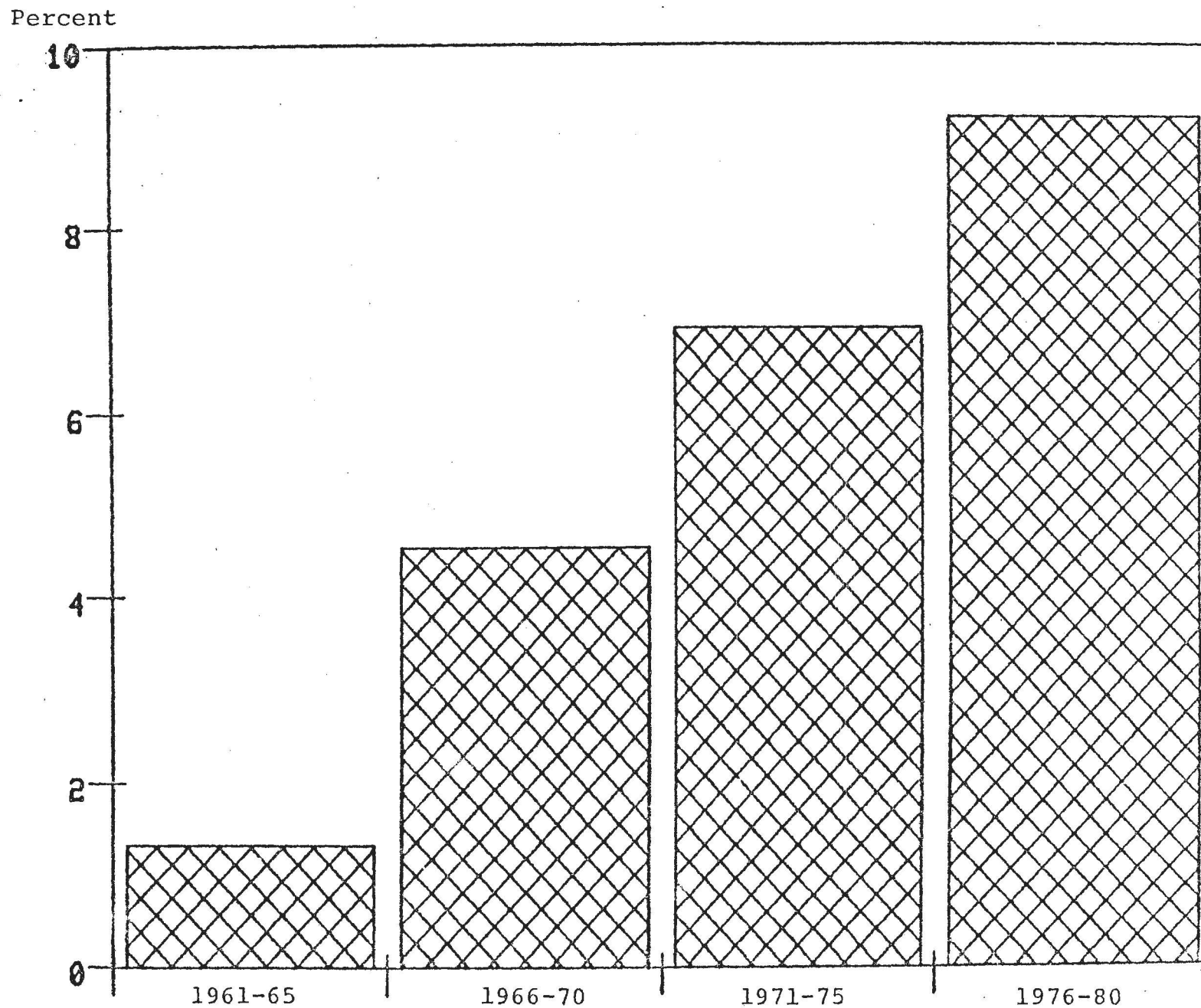
Note.--Forms which a plan is required by ERISA (Employment Retirement Income Security Act of 1974) to file. DOL, Department of Labor; IRS, Internal Revenue Service; PBGC, Pension Benefit Guaranty Corporation; P&B, participants and beneficiaries.

Rising Inflation

Inflation, which averaged near 1 percent in the early 1960s, has risen with few interruptions to over 10 percent at the end of 1980. The costs of this inflation are enormous.

- . Uncertainty and risk have increased.
- . The purchasing power of those on fixed incomes, typically the elderly and the poor has eroded.
- . The basic attractiveness of investment in new productive capital has fallen.
- . The cost of buying a home has gone beyond the reach of many Americans.
- . The purchase of a new automobile has become more difficult.
- . The average consumer has become a speculative borrower who buys now hoping to pay later with inflation-cheapened dollars.

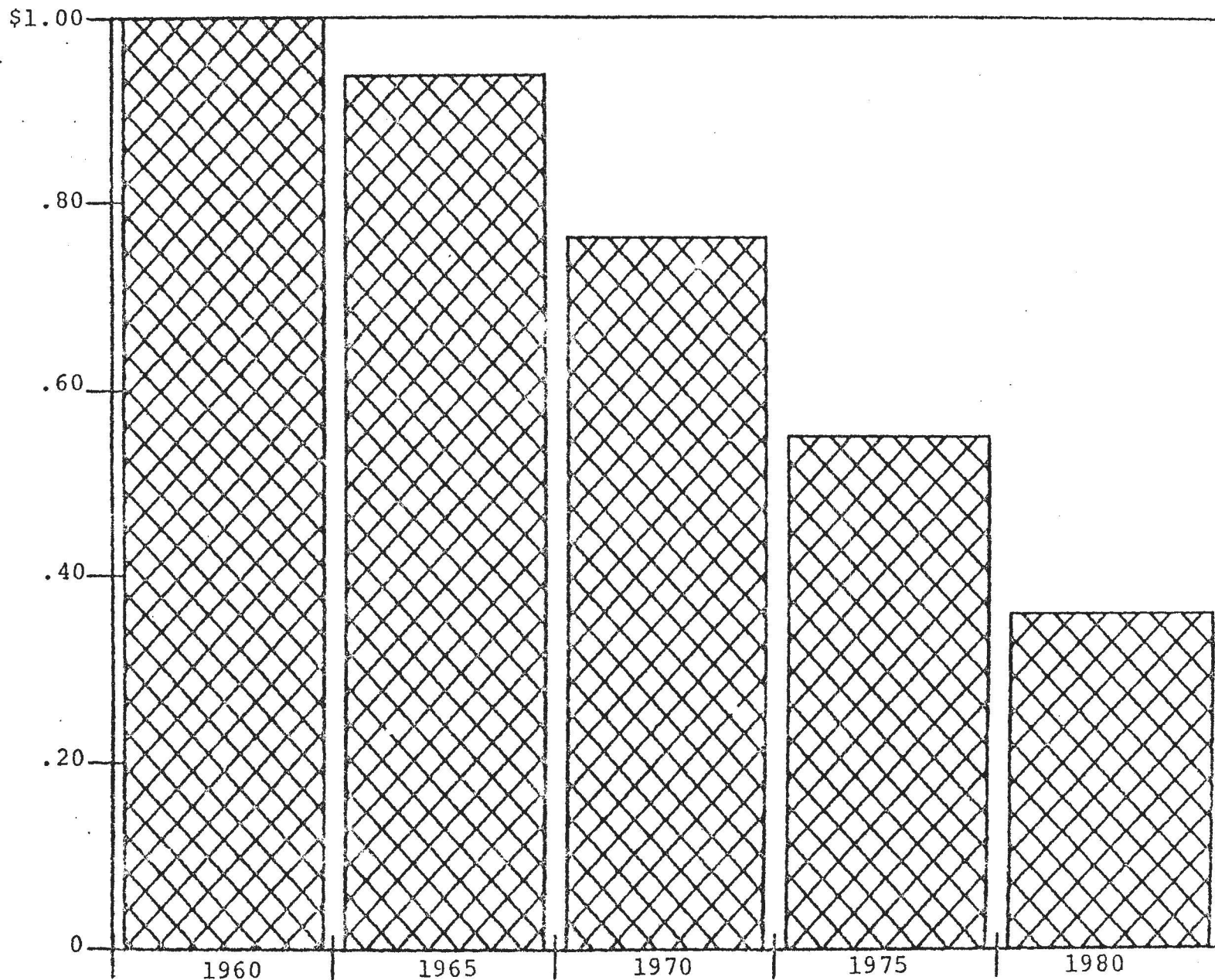
INCREASING CONSUMER PRICE INFLATION, 1960-1980



Note.--Average year-to-year change in the consumer price index, all urban consumers.

SOURCE: Department of Labor

THE DECLINING PURCHASING POWER OF THE DOLLAR (1960=\$1.00)

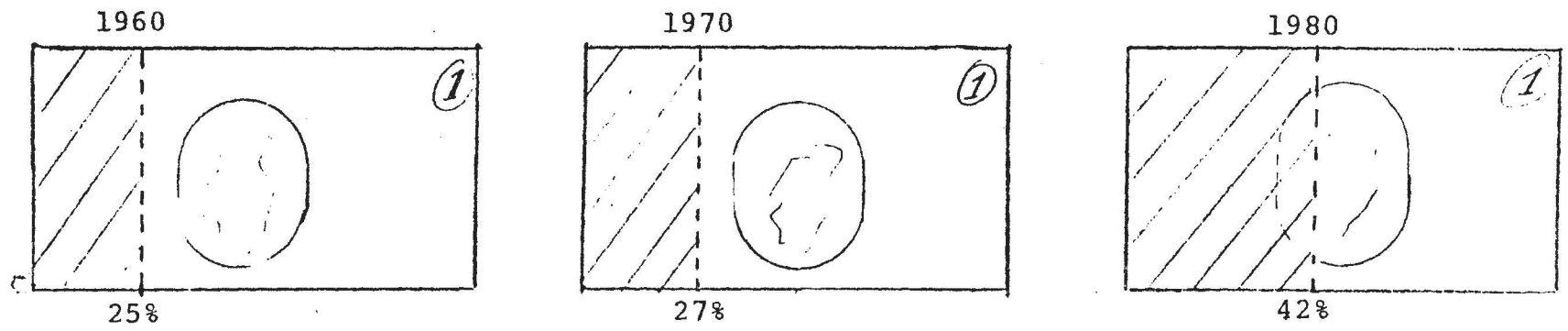


Note.--Inverse of average level of consumer price index, all urban consumers.

Source: Department of Labor

THE RISING COST OF OWNING A NEW HOME

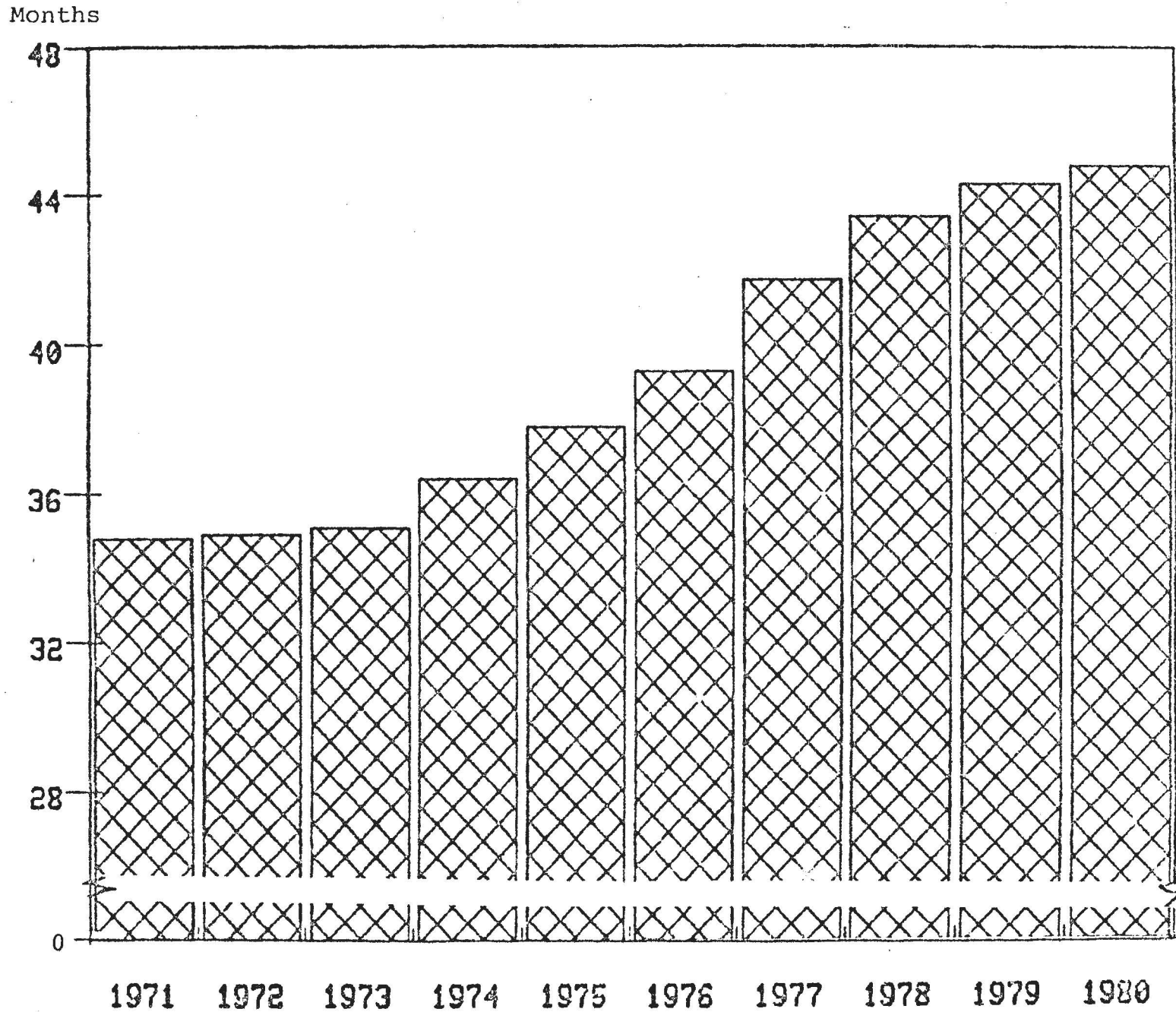
(Portion of Typical Family Income Devoted to Monthly Home Payments)



Note.--Annual data. Home payments include principal, interest, taxes, and insurance for the median-priced new home.

Source: Department of Housing and Urban Development.

NUMBER OF MONTHS NEEDED TO PAY OFF A CAR LOAN



Note.--End-of-year data for the average length of car loans made by major automobile finance companies.

SOURCE: Board of Governors of the Federal Reserve System.

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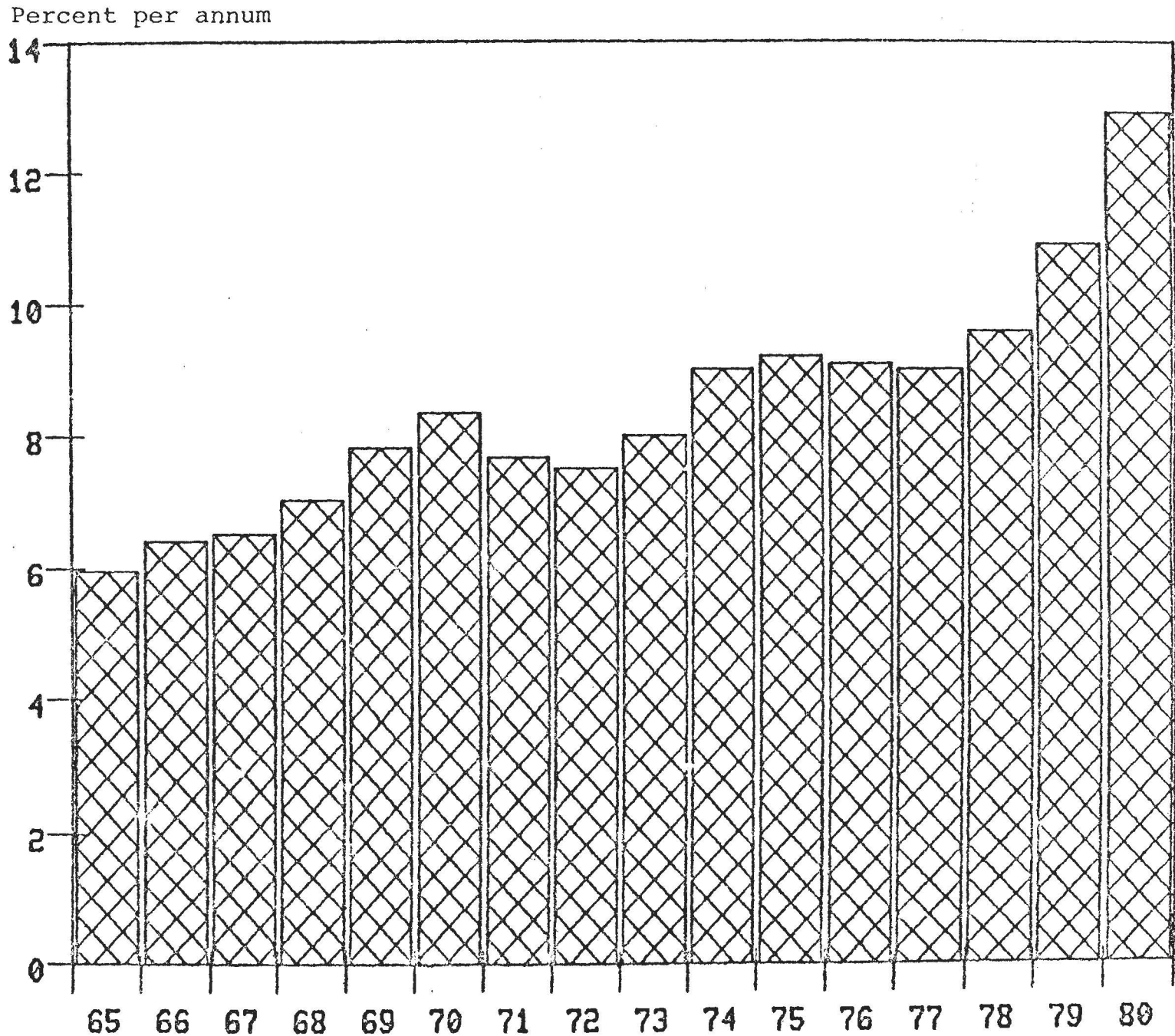
Escalating Interest Rates and Other Effects

One of the most direct and dramatic ways in which many citizens feel the effects of inflation is in the rising costs of the money they borrow. Higher interest rates on home mortgages, for example, are a major cause of the slowdown in new home building throughout most of the nation.

For many businesses, especially smaller companies, higher costs of financing are compounded by taxes, regulatory compliance, and other burdens imposed by government. The result frequently is inadequate capital for expansion and often bankruptcy or otherwise going out of business.

There is of course an important international dimension to all this. The sharp deterioration in the foreign trade balance of the United States is the most dramatic evidence of the current weakness of our economy.

MORTGAGE INTEREST RATES REACH RECORD HIGH

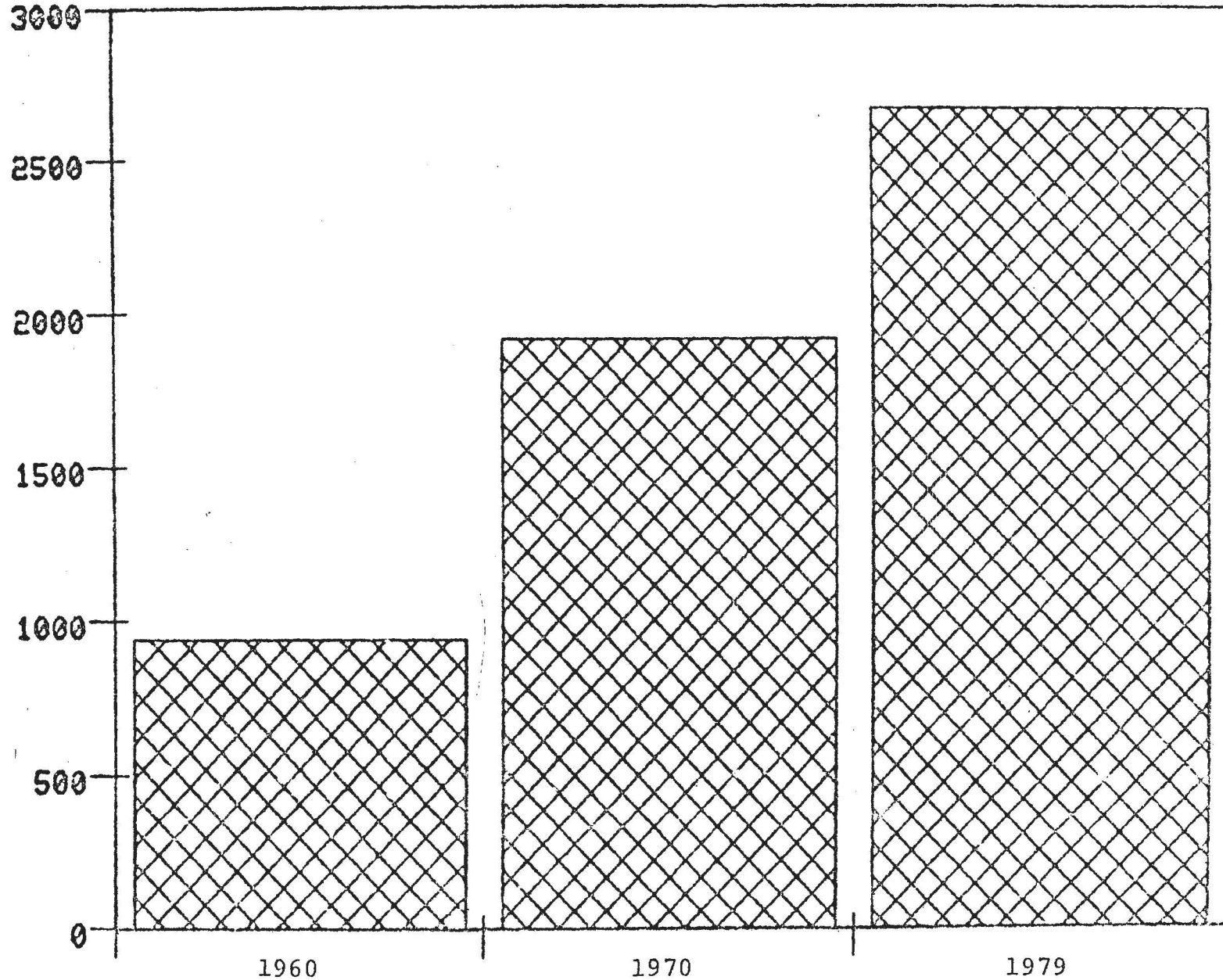


Note.--New home mortgage rate is effective rate on conventional mortgage in the primary market.

Source: Federal Home Loan Bank Board

THE UPWARD TREND OF BUSINESS FAILURES

Millions of Dollars

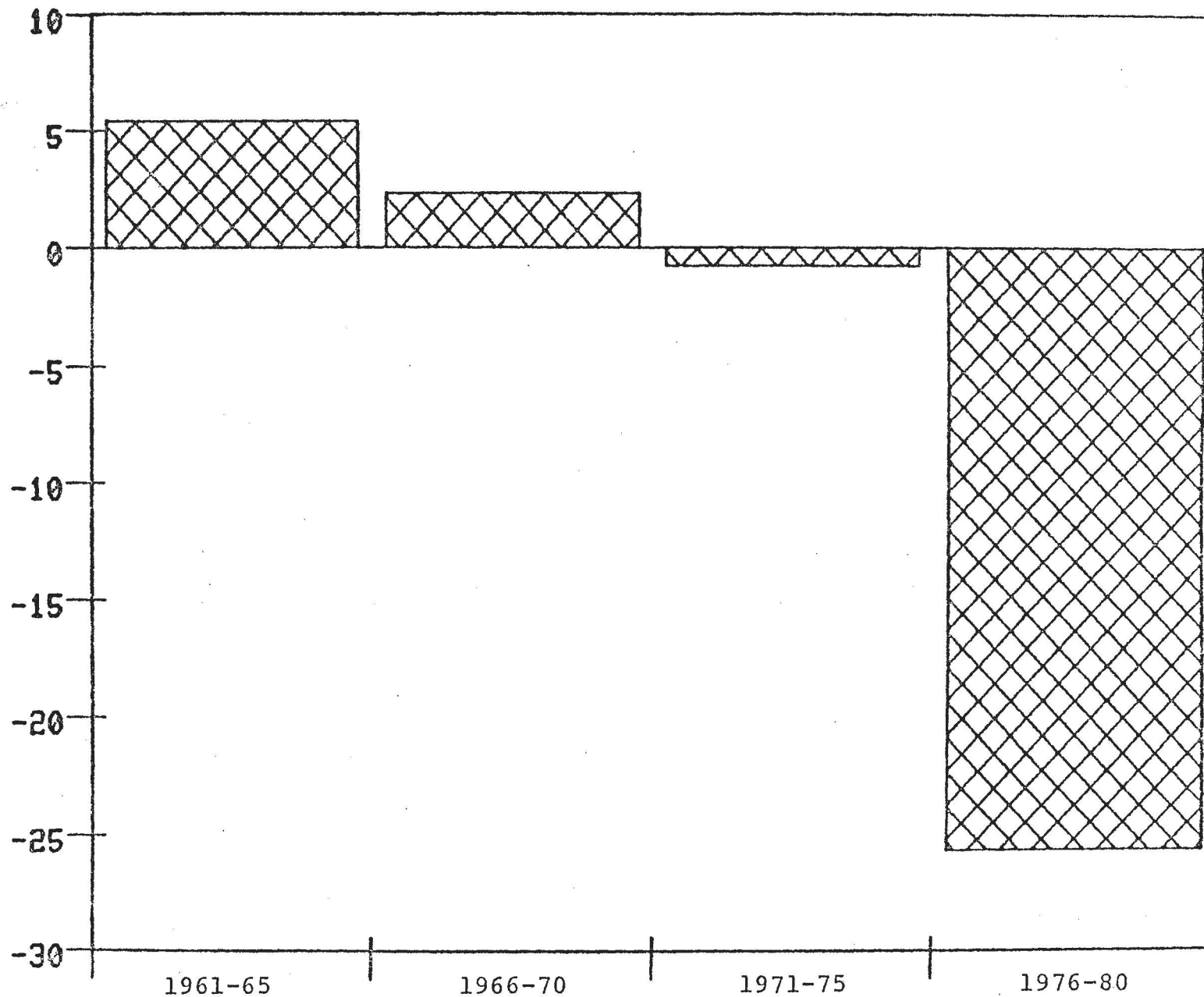


Note.--Data are annual averages for current liabilities of businesses that failed.

Source: Dun and Bradstreet, Inc.

U.S. MERCHANDISE TRADE BALANCE TURNS DOWN

Billions of Dollars



Note.--International payments basis, average of annual figures, 1980 estimated.

Sources: Department of Commerce and Council of Economic Advisers.

Measures of Family Hardship

The cold statistics on economics do not adequately describe the hardships and deprivation that a weak economy has brought to so many American families. Yet some key economic indicators are revealing on that score.

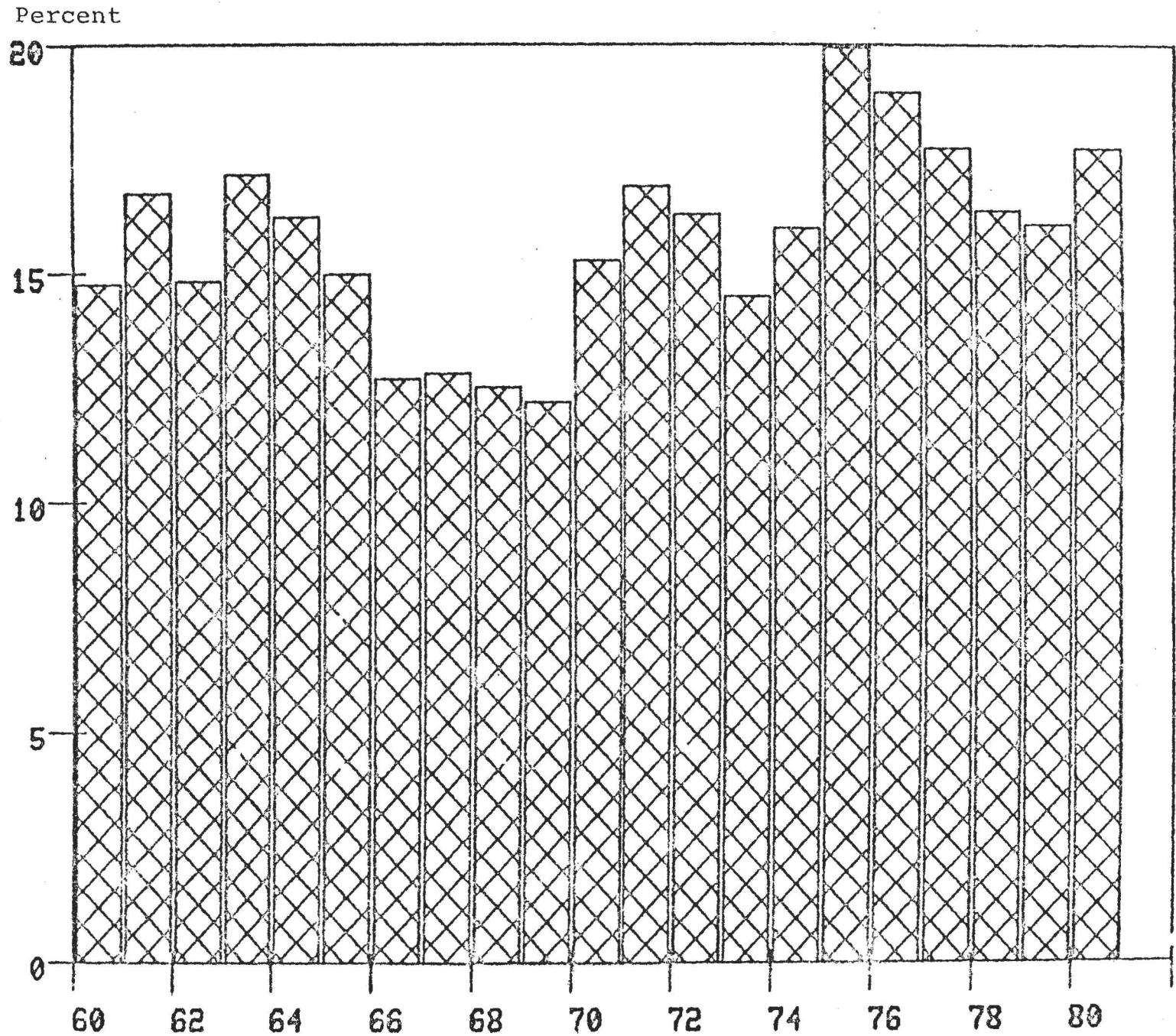
For example, the unemployment rate among our youth has fluctuated between 15 and 20 percent for a decade. The rate of joblessness among minority youngsters is almost twice that. And, moreover, many of these sad statistics reflect not neglect by government but rather misguided and counterproductive intervention such as statutory minimum wage laws.

For American families as a whole, the traditional expectation of rising living standards has at least temporarily halted. It has been replaced by weekly take-home pay which is stagnating at best and actually declining at times, such as the past two years.

And even those families who are fortunate enough to make ends meet and save something for the proverbial "rainy day" find that inflation has eaten up much of the value of their assets. Economic hardship has not been limited to few sectors of the economy or regions of the country. For example, total real farm income was 9 percent lower in the past 5 years than in the early sixties.

CHART 16

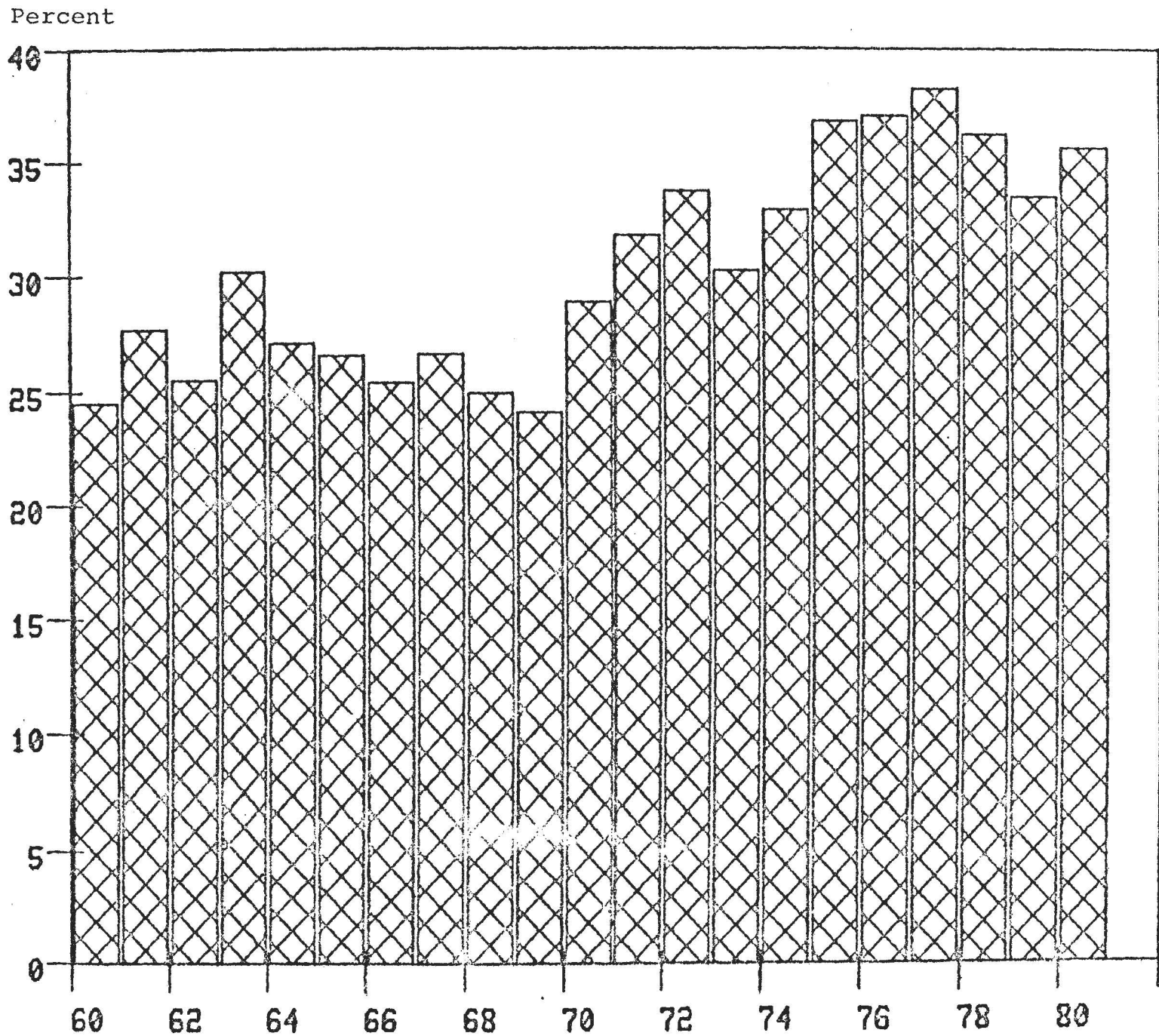
THE PERSISTENTLY HIGH RATE OF UNEMPLOYMENT FOR YOUTH



Note.--Unemployment rate, 16-19 years of age.

Source: Department of Labor.

UNEMPLOYMENT FOR MINORITY TEENAGERS

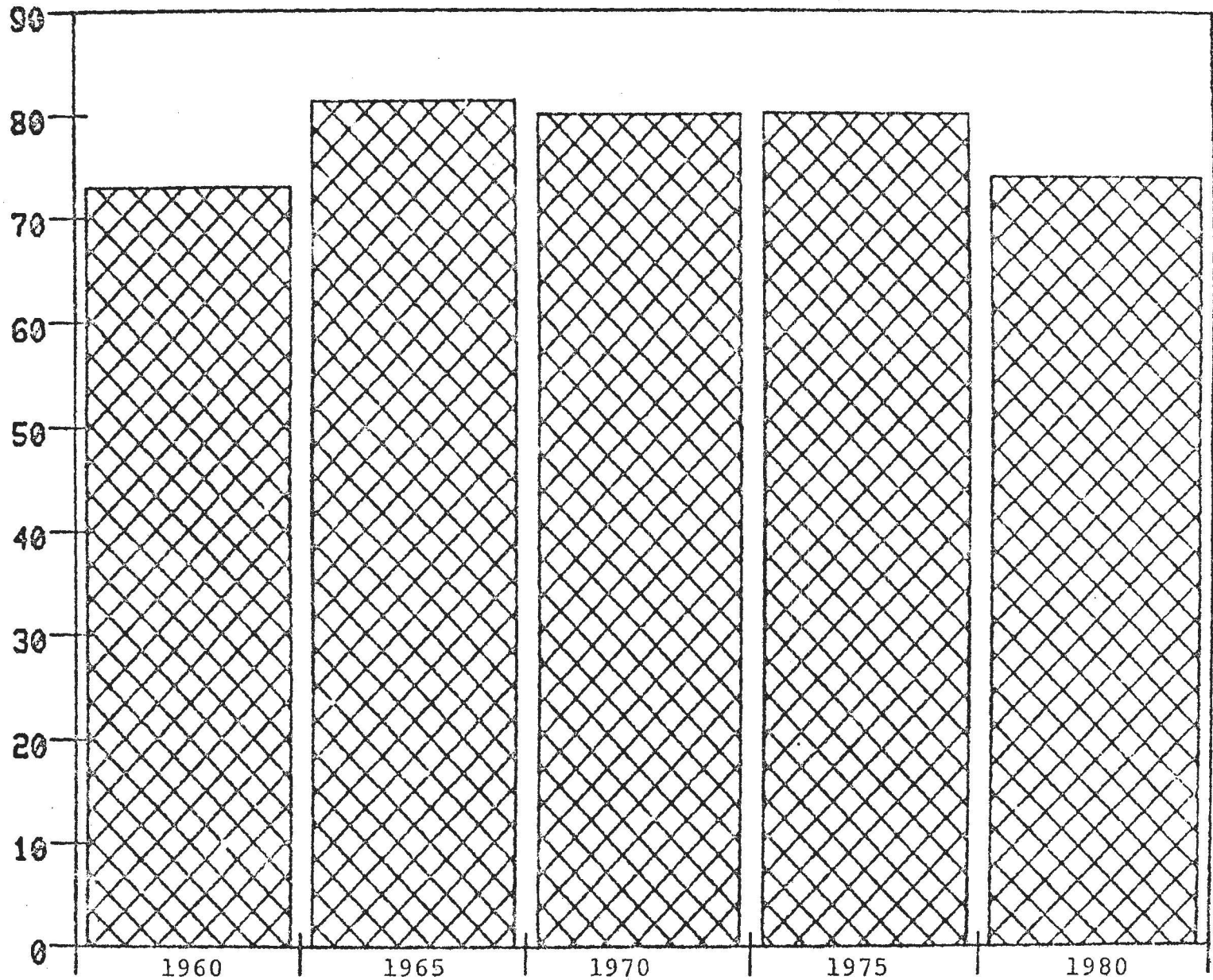


Note.--Unemployment rate, black and other, 16-19 years of age.

Source: Department of Labor.

AVERAGE WEEKLY TAKE-HOME PAY ADJUSTED FOR INFLATION IN 1960 DOLLARS

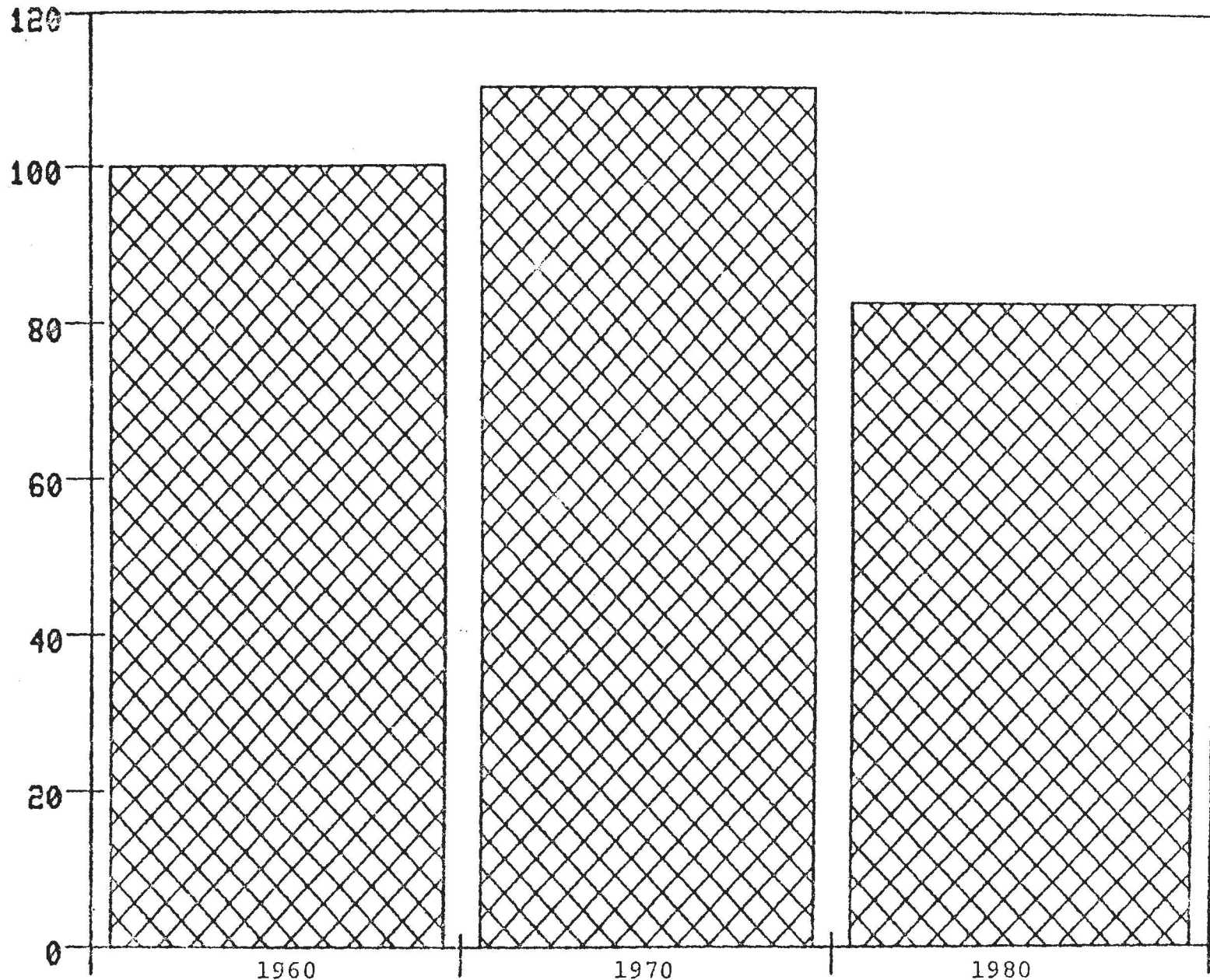
DOLLARS



Note.--Real spendable earnings; i.e., average weekly earnings reduced by social security and Federal income taxes applicable to a married worker with 3 dependents deflated by CPI for urban wage and clerical workers.

SOURCE: Department of Labor.

DOLLARS (Value of a \$100 "Savings" Deposit Made in 1960, in 1960 Dollars)



Note.--End of year figures. Savings deposit at a commercial bank earns interest at the highest rate allowed by law, compounded daily. Buying power based on consumer price index.

SOURCES: Board of Governors of the Federal Reserve System and the Department of Labor.