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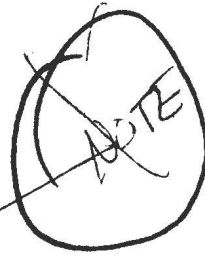
Mr. Speaker, Mr. President, Distinguished Members of THE }
Congress, Honored Guests and fellow citizens:

Only a month ago^{oh} I was your guest^{oh} in this historic building and I pledged to you my cooperation^{oh} in doing what^{oh} is right for this Nation we all love so much.

mlc

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the "last, best hope of ^{Earth}man."^{oh}

mlc



All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. ^{oh} Interest rates ^{oh} have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. ^{oh} ~~across this land one can see newly built homes standing vacant, unsold because of mortgage interest rates.~~ ^{oh}

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of para

Almost eight million Americans are out of work. ^{oh} These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, ^{oh} and all who work are frustrated by ^{the difficulty} ~~their inability~~ to keep up with inflation.

One worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of an American worker ^{oh} ~~in 1972 was \$122 a week. If we figure his take home~~

mlc
Feb 17 1981

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, our program can help America create ¹³/₁₂ million new jobs, three million more than we would without these measures. It will also help us gain control of inflation, cutting it in half by 1984, and to less than five percent by 1986.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

I am asking that you join me in reducing the proposed budget for 1982 by \$___^{1.4} billion. This will still allow an increase of \$___^{1.4} billion over 1981 spending.

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 35 million ^{at} ~~Society~~ Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs. There will be about \$3.5 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.

All in all, ^{nearly} ~~more~~ than \$216 billion in some 20 programs -- providing help for tens of millions of Americans -- will be maintained at the present growth level. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

Historically the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of \$128 million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the ^{DOE} synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save \$ _____ billion by leaving to

private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

[Handwritten signature]
OMB

And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent and not more than 5 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- of course, are paying that high interest rate and it just makes all other interest rates higher.

treasury
OMB
[Handwritten signature]

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

OMB

Understand?!
Fed financing
the economy

Analyses book
P. 191
Rea-1935
4.4% 35 yrs
\$1.1 billion
Appendix
I-ES
II-4
FFB
OFF BUDGET
RSA
2015
ACT 1936

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save \$2.8 billion by removing from eligibility those who are not in real need or who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save \$570 million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be \$1.2 billion.

Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. And yet, because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must

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Cabinet

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agree that this is unfair. Putting these two programs on the same footing will save \$1.15^{ole} billion^{ole} omb

Earlier[✓] I made mention of changing categorical grants to (page 7) States[✓] and local governments into block grants. We know of course that categorical grant programs burden[✓] local and State governments with a mass of Federal regulations and Federal paperwork[✓]

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources[✓] and decision-making[✓] authority to local and State government. This will also consolidate[✓] programs[✓] which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save \$^{2.3}~~1.5~~ billion over the next five[✓] years. omb

Our program for economic renewal deals with a number[✓] of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited[✓] matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage[✓] the program[✓]. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility[✓] in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year. omb

Chesler
\$1.03 billion
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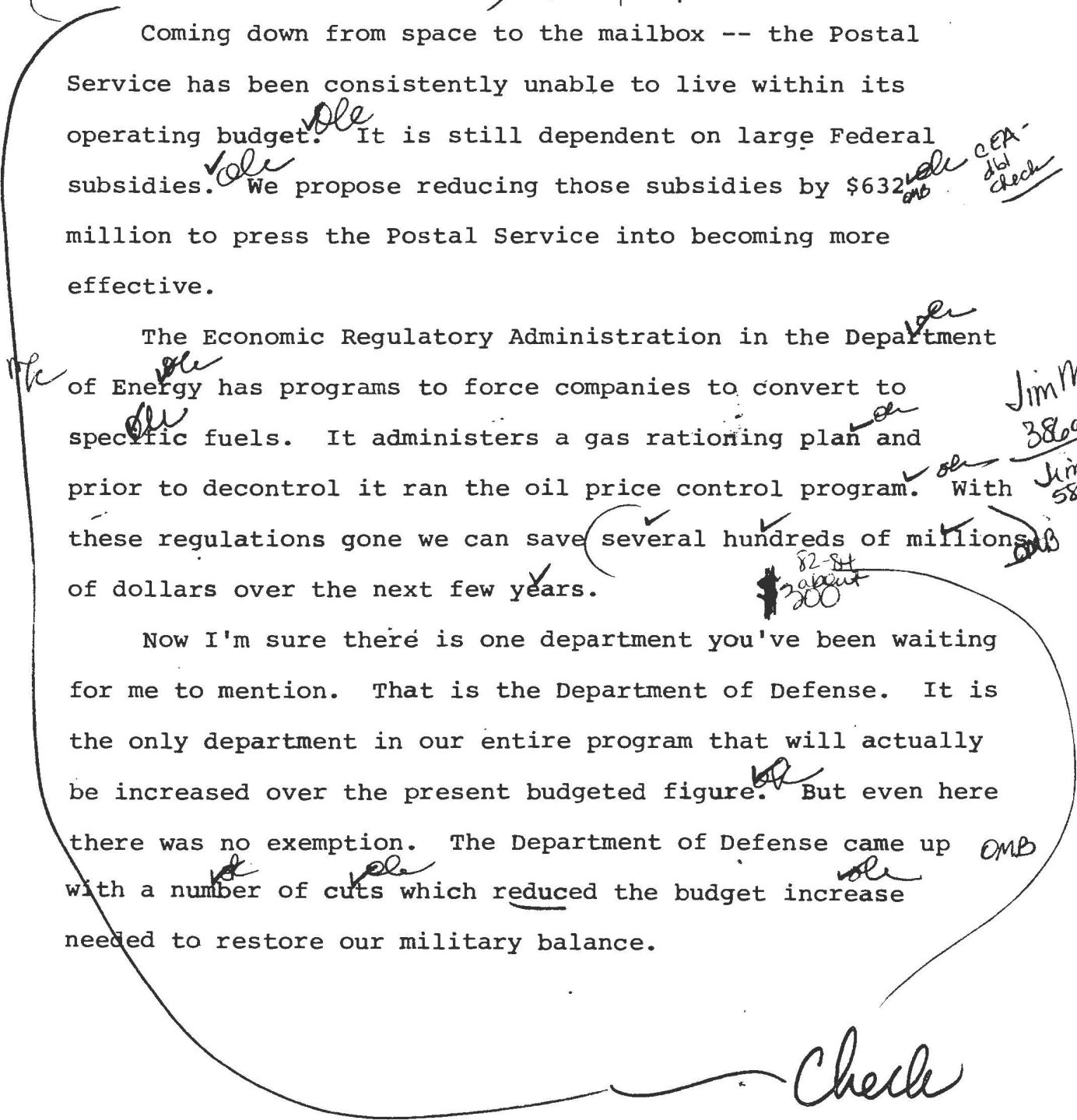
The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars. (1982) \$241 million

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million to press the Postal Service into becoming more effective.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan and prior to decontrol it ran the oil price control program. With these regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance.

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Jim Miller

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OMB

I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs. These measures will save \$3.9 billion in 1982 and \$28.2 billion by 1985. The aim will be to provide the most effective defense for the lowest possible cost.

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Let me say a word here about the general problem of waste and fraud in the Federal Government. ~~The Department~~

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Bill Schneider
OMO
(Committee do subsequent statement)

One Govt estimate ind

~~of Justice has estimated that~~ fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

me

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud, and we are planning to appoint as inspector generals highly-trained professionals who will spare no effort to do this job.]

ok

OMB

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

(Create specific)

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Check

Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but [the explosion of the Federal deficit since last September has ruled that out] We also learned that making it retroactive would work a hardship on States where the State income tax is tied to the Federal tax. Their budgets, already in place, would be thrown out of balance.

Therefore, the effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction, while it will leave the taxpayers with \$500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms" this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

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Feb 12-933

IRS etc

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Some will argue, I know, that a reduced^{ing} tax rates^{now} will be inflationary. A solid^{du} body of economic experts does not agree. ~~(And certainly tax cuts adopted over the past three-fourths of a century indicate the economic experts are right.)~~ The advice I have had is that by 1985^{du} our real production of goods and services will grow by 20^{du} percent and will be \$300 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by 8[✓] percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

CEA
IRS

OMB
CEA/
Treasury

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase[✓] in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.[✓]

OMB

du

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a five-year write-off for machinery; three^{du} years for vehicles and trucks; and a ten-year write-off for plant.

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OMB

In ~~calendar~~ year 1982 under this plan business would acquire ^{nearby} \$10 billion for investment and by 1985 the figure would be ^{nearby} \$45 billion. These changes are essential to provide the new investment which is needed to create three million ^{more} new jobs between now and 1986 and to make America competitive ^{OMB} once again in world markets. These are not makework jobs, they are jobs for the future. ^{OMB}

I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. ^{There are numerous other desirable changes, such as removing the} ~~There is the~~ just discrimination against married couples if both are working and earning ^{and changing} tuition tax credits, the unfairness of the inheritance tax ^{introducing} especially to the family-owned ^{and changing} farm and the family-owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date. ^{MC}

American society experienced a virtual [explosion in government regulation during the past decade] Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations nearly doubled. ^{has increased by} 2/3

Jim Miller

MC 64%
nearly 2/3

The result has been higher prices, ^{higher unemployment} ~~less employment~~, and lower productivity ^{growth}. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

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The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply. *OMB*

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth. *etc*

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic ^{Progress} Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better. *OMB* *time*

Can we do the job? The answer is yes. But we must begin now. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only ~~10~~¹⁰ percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that ~~10~~¹⁰ percent will amount to ^(very little) of the total cost of education. It will, however, restore ^{more} authority to States and local school districts. MTC

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

In the months left in this fiscal year we can reduce the budget by \$~~4.1~~^{4.1} Billion and in 1982 by \$~~4.4~~^{4.4} Billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will put an end to inflation. ✓
No!

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an

economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

To pay your taxes, you'll work to May

WASHINGTON [UPI]—The average American worker will have to work three days longer this year, until May 11, to pay off combined federal, state, and local taxes, a citizens' group said Sunday.

Each year, economists from the Tax Foundation, Inc., calculate when Tax Freedom Day will fall—the date the average worker's taxes would be paid if all earnings from Jan. 1 went directly to satisfying obligations to federal, state, and local governments.

Last year the group estimated May 8 as Tax Freedom Day, compared to May 6 in 1978.

This year, it says, Tax Freedom Day will fall on May 11.

^{Tax} THE FOUNDATION said total taxes are estimated at \$820 billion this year, up from \$738 billion in 1979. The share of the average paycheck claimed by taxes will rise from 34.7 per cent to 35.8 per cent, the foundation said.

"Over the years, tax payments have gradually increased more than incomes, and Tax Freedom Day has come later each year," the foundation said.

"From 1930 to 1970, for example, Tax Freedom Day advanced from Feb. 13 to April 30. In the first half of the 1970s, however, taxes generally rose proportionately to earnings with the result that, by 1975, Tax Freedom Day was still computed as April 30. That lull has faded in the last five years, with the extension of the day to May 11 for 1980."

On a daily basis, the foundation estimated that the average American spends 2 hours and 52 minutes of an 8-hour workday earning enough money to pay taxes.

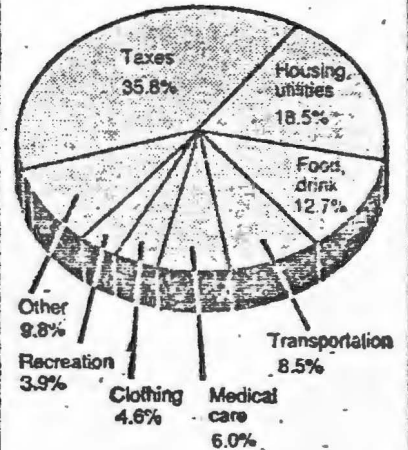
"NO OTHER MAJOR item in the family budget takes as much," the foundation said. "Earning money for food and beverages takes 1 hour and 1 minute; housing and household operation, 1 hour, 29 minutes; clothing, 22 minutes; transportation, 41 minutes; medical care, 29 minutes; and recreation, 19 minutes."

The remaining 47 minutes go for such items as personal care, personal business, and private education.

The Tax Foundation, Inc., describes

Average American family's budget

In per cent of 8-hour workday, 1980



Figures do not add to 100% due to rounding.

Source: Tax Foundation, Inc.

Tribune Chart

itself as a nonprofit research and public education organization founded in 1957 to monitor tax and fiscal policies of all levels of government.

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MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO KEN KHACHIGIAN

From: Misty L. Church *Mlc*
Date: 2/16/81
Subject: TAX FREEDOM DAY

The attached article may shed some light on the question that came up in the State of the Economy speech regarding Tax Freedom Day. I came across it while unpacking boxes and going through the clipping files.

According to the article, Tax Freedom Day was February 13th in 1930, which could indeed back-up the President's statement, "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 out total Federal, state, and local tax bill." because February 13th is almost six weeks into the new year.

The article states that in 1980 Tax Freedom Day was May 11th. This is 4½ months into the new year, while the speech originally stated 5 or 6 months. (I think it was stated that way because May is the 5th month and June is the 6th month and it was in between the two. But it is actually only 4 whole months and one half month into the new year.)

I am going to call the Tax Foundation to see if they've made a new prediction for 1981 to update our files.

Also, you will note they make several other estimates, such as: "the average American spends 2 hours and 52 minutes out of an 8-hour workday earning enough money to pay taxes." These estimates may be useful in subsequent speeches.

Maybe a Memorandum to the President is in order bringing his attention to the article and the Tax Foundation estimates since he was sure he'd seen it somewhere and since we couldn't verify it. It might help alleviate questions along this line in the future.

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR KEN KHACHIGAIN

FROM: Misty L. Church *MLC*
DATE: 2/18/81
SUBJECT: JUSTICE DEPARTMENT FRAUD NUMBERS

We still have not been able to substantiate the section in tonight's speech regarding Justice's estimation of fraud in social programs.

We have Civelletti's testimony before the Senate Budget Committee (attached) stating there have been some GAO reports regarding fraud. We have not been able to get a hold of GAO. They are not answering their phones (for the past two hours).

Until such time that we can prove whether Civelletti said it or it was in a GAO report, we should put a flag on the statement.

Doug, Kevin, and I all remember those figures. We can remember them from last year when the news was buzzing about it. We can't put our fingers on the right source, however.

LOSS TO FRAUD AND ABUSE UNDETERMINABLE

I have in my testimony proposed answers to the major questions asked by this committee as a window into the problem of Government fraud and abuse. For example, how much is lost each year from fraud and abuse in Federal programs?

Mr. Staats, I think, answered most accurately in saying we don't know. Certainly we in the Justice Department have handled simply the most aggravated and clearest cases of fraud, and are not able to put an accurate handle on total fraud or abuse, some of which in the abuse area particularly, goes totally undetected.

We have estimated and it has appeared in some GAO reports based on limited experience in the prosecution of a particular area that anywhere from 1 to 10 percent of a particular program's expenditures, depending on whether it is a procurement program or a benefit program may be lost through fraud or waste or gross abuse, but that is not a basis from which to extrapolate to an overall figure of 10 percent or 1 percent or 5 percent of total expenditures, no matter how appealing that figure might be to demonstrate the true seriousness of the fraud problem.

To do so would be a guess and we must recognize that it would be a guess with only a semblance to reality, but with no data to support it.

CAUSES OF FEDERAL FRAUD AND ABUSE

What are the causes of Federal fraud and abuse? What are the causes of crime or what are the causes of greed or incompetence? Putting aside human failings and frailties what are the causes which make program fraud or Federal fraud and abuse different perhaps from those general human and weaknesses?

One, programs are enacted without enough serious attention being paid to their effect on the Federal and State criminal justice systems, on the program's internal integrity or on enforcement responsibilities within that program. There is a tendency to have oratorical prohibitory language with regard to abuse or violations of the program both in statutory terms as well as regulatory terms instead of utilizing positive incentives to encourage integrity with a combination of the stick-and-carrot approach.

Two, implementing regulations under Federal programs often place too much reliance on non-Federal institutions without any evaluation of the capacity or competency of the State or local or city institution to handle the burden. For example, a basic assumption in Federal loan insurance and guarantee programs is that the private financial institutions will operate as prudent lenders in reviewing the borrower's qualifications. Instead, as our investigations show, Federal insurance may lead to a relaxation of standards in an effort to implement the program and because of the reduced financial exposure of the lending institution itself.

AGENCIES NOT COMPLYING WITH REGULATIONS

Perhaps the most serious problem, however, is not in the adequacy of the regulations generally, but the extent of compliance with those regulations.

OMB

Director's Office

Director	David Stockman	4840
Deputy Director	Edwin Harper	4742
Executive Assoc. Director	Glenn Schleede	3184
Executive Assistant	David Gersen	3060
Counsel	Michael Horowitz	

Civil Rights

Assistant to Director	Nathaniel Scurry	3556
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Public Affairs

Vacant		4747
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General Counsel

General Counsel	William Nichols	4550
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Administration

Assistant to Director	Linda L. Smith	4790
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Legislative Affairs

Assistant Directors	Sue Hause	3381
	J. L. Cullen	3381

Federal Procurement Policy

Administrator	William Mathias	5802
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Regulatory Policy

Associate Director	Jim Miller	3864
Deputy Assoc. Director	Jim Tozzi	5897

Nat'l Security/Int'l Affairs

Associate Director	Bill Schneider	6190
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Economics and Government

Associate Director	Annelise Anderson	3120
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Human Resources, Veterans, Labor

Associate Director Don Moran 5044

Natural Resources, Energy, and Science

Associate Director Fred Khedouri 4844

Economic Policy

Associate Director Larry Kudlow 5873

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR KEN KHACHIGIAN

FROM: John Roberts/Misty Church *MC*
DATE: 2/13/81
SUBJECT: CONTACTS FOR THIS WEEKEND

Attached is our list of contacts for the agencies and departments we'll be dealing with on the economic package the next few days.

Pursuant to your request, it would be helpful to have the following people here tomorrow (and perhaps Sunday):

Treasury

Norman Ture	(Saturday, on call Sunday and Monday)
John Chapaton	(Saturday and Sunday)
Craig Roberts	(in town and available all weekend)

We've talked with David Chew in the Secretary's Office at Treasury, and he provided us with the information indicated as to when those people would be in their office. Chew also indicated they would have plenty of support staff for all areas over the weekend to handle the load. Steve Entin is out of town.

CEA

Steve Brooks
Susan Nelson

These two people have their finger on the pulse of all information up in CEA. They should be more than capable of verifying or locating any fact or figure we need. (Also, any other people Murray Weidenbaum suggests should be on hand.)

OMB (all should be present anyhow this weekend)

Domestic Policy

Doug and/or Kevin both days this weekend.

CONTACTS FOR ECONOMIC PACKAGE

Treasury

		<u>Office</u>	<u>Home</u>
David Chew	(Executive Asst. to Secy.)	566-5901	
George Cross	(Secretary's office)	566-7166	
Norman Ture	(Undersecy for Tax & Economy)	566-5847	751-8930
John "Buck" Chapaton	(Asst. Secy. for Tax Policy)	566-5561	362-5194
Craig Roberts	(Asst. Secy. for Economy)	566-2551	548-8809
Steve Entin	(Asst. to Asst. Secy./Economy)	566-2768	527-2450

Council of Economic Advisers

Nick Portapopo	(Deputy)	X5084	
Jim Burnham	(Special Asst. to Chairman)	X5084	
Steve Brooks	(Statistician/Economist)	X5012	
Susan Nelson	(Statistician/Economist)	X5096	
Kitty Furlong	(Statistician)	X5062	
David Munroe	(Inflation Projections)	X4666	

OMB

David Stockman	(Director)	X4840	
Edwin Harper	(Deputy)	X4742	
Glenn Schleede	(Executive Associate Director)	x3184	
David Gersen	(Executive Asst. to Director)	X3060	
Annelise Anderson	(Assoc Director/Economics & Govt.)	X3120	
Bill Schneider	(Assoc Director/Nat'l Secy.)	X6190	
Don Moran	(Assoc Director/Human Resources, Veterans, Labor)	X5044	
Fred Khedouri	(Assoc Director/Natural Resources, Energy, Sciences)	X4844	
Larry Kudlow	(Assoc Director/Economic Policy)	X5873	

Domestic Policy

Kevin Hopkins	6556
Doug Bandow	2132

memorandum

DATE: February 13, 1981

REPLY TO
ATTN OF: David Munro

SUBJECT: Purchasing power of 1980 median income

TO: Misty Church

I. Median income after taxes for a family of four with average tax burden in 1980 was about \$19,400. 24,400

II. Consumer prices compared to 1980

	Inflation rates		Price index (1980=100)	
	<u>Continued 13-1/2%</u>	<u>Reagan Budget</u>	<u>13-1/2%</u>	<u>Reagan</u>
1980	13.5	13.5%	100.0	100.0
1981	13.5	11.1	113.5	111.1
1982	13.5	8.3	128.8	120.3
1983	13.5	6.2	146.2	127.8
1984	13.5	5.5	165.9	134.8
1985	13.5	4.7	188.4	141.1

III. Buying power of 1980's \$19,400 median income -- in 1980 dollars (equals \$19.4 divided by indexes in II)

	<u>13-1/2%</u>	<u>Reagan</u>	<u>Difference</u>	<u>Pre-tax difference</u>
1980	\$19.4 thous.	\$19.4 thous.	0	
1981	17.1	17.5	\$400	503.
1982	15.1	16.1	1,000	1260.
1983	13.3	15.2	1,900	2390.
1984	11.7	14.4	2,700	3400.
1985	10.3	13.7	3,400	4277.

IV. Caveat:

This says what 1980's \$19.4 thousand will buy in the out years.

Because inflation adds to wages and profits in equal measure as to prices, one cannot say that the buying power of a median 1985 income will be this much lower than in 1980. It won't. Median family income by 1985 is very liable to be in the upper \$30,000s if inflation stays high and in the low \$30,000s if inflation is reduced.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

This is saying that this type of comparison relates to a 1980 median income and not to the probable 1985 median family income.

V. How to relate the tax cut.

To be consistent with the 1980 purchasing power comparison under inflation, you need to:

- . know that each 10 percent cut in across-the-board Federal rates would boost the base \$19.4 thousand by \$268, or 1.4 percent.
- . know that each out year purchasing power would be upped 1.4 percent as a result.

(NOTE: ASSUMES \$45 billion FY'82 budget cuts)

(in billions)	<u>1981</u>	Carter <u>1982</u>	Reagan <u>1982</u>	% Increase <u>FY'81-82</u>
Federal	685.8	753.1	708.1	3.2%
State/Local	<u>386.2</u>	<u>421.3</u>	<u>421.3</u>	<u>9.1%</u>
Total	1072	1174.4	1129.4	5.3%

<u>Federal</u>	<u>1981</u>	Carter <u>1982</u>	Reagan <u>1982</u>
Non-defense	533.2	579.9	534.9
Defense	<u>152.6</u>	<u>173.2</u>	<u>173.2</u>
Total	658.8	753.1	708.1

Carter 1982

Federal	753.1	Total Government	1174.4
Defense	152.6	Defense	152.6
Percentage	20%	Percentage	13%

Reagan 1982

Federal	708.1	Total Government	1129.4
Defense	152.6	Defense	152.6
Percentage	21.5%	Percentage	13.5%

memorandum

DATE: February 13, 1981

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Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

*We will fill in
the blanks with
figures want we?
RR*

February 17, 1981
Second Draft

(X)

Mr. Speaker, Mr. President, Distinguished Members of Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the ~~fast~~ ^{fast}, best hope of man. ~~Consensus~~ ^{Consensus}

(+)

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of an American worker in 1972 was \$122 a week. If we figure his take home

Hourly earnings of the American worker, after adjusting for inflation, have declined five percent over the past five years. And furthermore, in the last five years, Federal personal taxes for the average family increased 67 percent.

✓

pay last year in those same 1972 dollars, he only received \$105. And inflation isn't the only cause of this. In the last four years Federal personal taxes for the average family increased by ⁶⁰58 percent.]

We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse.

Can we who man the ship of state deny it is out of control? Our National debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills 67 miles high.

The interest on ^{the public} ~~our~~ debt this year will be ^{over \$90,} ~~\$86~~ billion. And unless we change the proposed spending for the fiscal year beginning October 1st we'll add another almost \$80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that ^(is estimated to add) adds \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, ^{one of} once the highest in the world, is ~~now~~ ^{has} among the lowest of all major industrial nations. Indeed, it ^{has} actually declined ^{the last three years.} ~~last year~~.

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, our program can help America create ¹³ ~~12~~ million new jobs, ^{nearly} three million more than we would without these measures. It will also help us gain control of inflation, ~~cutting it in half by 1984, and to less than five percent by 1986.~~

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

Direct Federal spending by \$41.4 billion in fiscal year 1982, along with \$7.7 billion in user fees and off-budget savings for a total savings of \$49.1 billion.

I am asking that you join me in reducing ~~the proposed budget for 1982 by \$___ billion.~~ This will still allow an increase of \$40.8 billion over 1981 spending.

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million ~~Social Security~~ Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs. ~~There will be about \$3.5 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.~~

*J. Thompson
are we cutting
this?? (that sure
is CETA Arizona)
of part what
about leaving
it if checks
the college
figs.?
RR*

All in all, ^{nearly} ~~more than~~ \$216 billion ~~in some 20 programs~~ providing help for tens of millions of Americans -- will be ^{fully funded.} ~~maintained at the present growth level.~~ But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government^s, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

Insert paragraph from P. 17

Historically the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of ^{\$85} ~~\$128~~ million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the ^(Department of Energy) synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save ^{at least} \$ 3.2 billion by leaving to

private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent, ~~and not more than 5 percent.~~ What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- of course, are paying that high interest rate and it just makes all other interest rates higher.

By terminating the Economic Development Administration we can save ~~\$500~~ ^(hundreds of) million ^{of dollars} in 1982 and ~~\$2~~ ⁵ billion ^{more over the next few} ~~(through 1985)~~ ^{years.}

There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save ~~\$2.6~~^{1.8} billion ^{in FY 1982} by removing from eligibility those who are not in real need or who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save ~~\$672~~⁵²⁰ million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be \$1.⁶~~A~~ billion ^{in FY 1982}.

Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. And yet, because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are ~~laid~~^{laid} off due to domestic competition. Anyone must

agree that this is unfair. Putting these two programs on the same footing will save \$1.15 billion *in just one year.*

Earlier I made mention of changing categorical grants to States and local governments into block grants. We know of course that categorical grant programs burden local and State governments with a mass of Federal regulations and Federal paperwork.

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and State government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save ^{\$23.9} ~~\$5~~ billion over the next five years.

Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year.

ⓧ

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million ^{in 1982} to press the Postal Service into becoming more effective. *In subsequent years, the savings will continue to add up.*

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. ^{has the authority to} It ~~administers~~ a gas rationing plan and prior to decontrol it ran the oil price control program. With ^{and other} these regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance. ⓧ from p. 10

(X)

I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless, the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency in its existing programs.

[These measures will save \$2.9 billion in 1982 ^{outlays} and by 1986 a total of \$28.2 billion ~~by 1986~~ _{will have been saved.}] The aim will be to provide the most effective defense for the lowest possible cost.

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Let me say a word here about the general problem of waste and fraud in the Federal Government. ~~The Department~~

one gon't estimate indicated
~~of Justice~~ *has* ~~estimated~~ that fraud alone may account for anywhere from 1 to 10 percent -- as much as \$25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud, ~~and~~ ^{also} we are planning to appoint as inspectors general highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.



Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but the explosion of the Federal deficit since last September has ruled that out. We also learned that making it retroactive would work a hardship on States where the State income tax is tied to the Federal tax. Their budgets, already in place, would be thrown out of balance.

Therefore, the effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction, ^{in marginal rates} while it will leave the taxpayers with \$500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that a ~~reduced~~ ^{reducing} tax rate ^{s now} will be inflationary. A solid body of economic experts does not agree. And certainly tax cuts adopted over the past three-fourths of a century indicate ^{THESE} ~~the~~ economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be ~~\$400~~ ^{\$300} billion higher than it is today. The average worker's wage will rise (in real purchasing power) by eight percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a five-year write-off for machinery; three years for vehicles and trucks; and a ten-year write-off for plant.

In ^{fiscal} ~~calendar~~ year 1982 under this plan business would ^{nearly} acquire \$10 billion for investment and by 1985 the figure would be ^{nearly} \$45 billion. These changes are essential to provide the new investment which is needed to create ~~three~~ million\$ of new jobs between now and 1986 and to make America competitive once again in world markets. These are not makework jobs, they are ^{productive} jobs ~~for the~~ ^{WITH A} future.

I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family-owned farm and the family-owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations ~~nearly doubled.~~ ^{increased} by nearly two-thirds.

The result has been higher prices, ^{higher unemployment,} ~~less employment,~~ and lower productivity. ^{growth} Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply.

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only ~~10~~^{eight} percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that ~~10~~^{eight} percent will amount to very little of the total cost of education. It will, however, restore more authority to States and local school districts.

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

← To Page 5

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

~~In the months left in this fiscal year we can reduce the budget by \$ _____ billion and in 1982 by \$ 41.4 billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will ~~put an~~ end to inflation.~~
Next year we can reduce the budget by \$ 41.4 billion, without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus help bring an end to inflation.

~~My indirect question to those who have indicated unwillingness to accept this plan for a new beginning: an~~

In the Health ^{and social} services ^{area} the plan we are proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations and 5000 ^{FED.} employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 mil. men & women hours of work by state & local officials are required to fill out Fed. Co.

This came from Dave Strickman

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation ^{and a growing tax burden.} will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

Checked for general economy
Biggs. Not checked for Tax
OMB nos.

February 16, 1981

P1
P13

Mr. Speaker, Mr. President, Distinguished Members of Congress, Honored Guests and fellow citizens:

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, "last, best hope of man."

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20% and over 15%

for those who would borrow to buy a home. All across this land one can see newly built homes standing vacant, unsold because of mortgage interest rates.

Almost 8 million Americans are out of work. These are people who want to be productive. But as the weeks go by despair dominates their lives. The threat of layoff and unemployment hangs over other millions and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: he said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of American workers in 1972 was \$122 a week. If we figure their take home pay

no inf. made
GNP deflator
1946 +15.7%
1947 +12.9%

349,000 in Dec 1980 -
a little below
average for past decade
Jan '81
7.8 mos. adj.
8.5 not mos. adj.

OK

pay last year in those same 1972 dollars they only received \$105. And inflation isn't the only cause of this. In the last 4 years Federal personal taxes for the average family increased by 58%.

Can we who man the ship of state deny it is out of control? Our National debt is ^{close to} \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only a few inches high would make you a million. A trillion dollars would be a stack of \$1,000 bills 60 miles high.

The interest on our debt this year will be \$86 billion. And unless we change the proposed spending for the fiscal year beginning October 1st we'll add another almost \$80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that adds \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, once the highest in the world, is now among the lowest of all industrial nations. Indeed, it actually declined last year.

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong

with our internal strengths. There has been ^{NO}~~A~~ breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence and sometimes through a belief that we could finetune the economy and get a tune more to our liking, I am proposing a 4-part program. I will now outline and give in some detail the principal parts of this program but you will each be provided with a completely detailed copy of the program in its entirety.

The plan is aimed at reducing the rate of increase in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive. And encouraging a consistent monetary policy aimed at maintaining the value of our currency.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. It is a plan designed to get our economy moving again; to increase productivity and thus create the jobs our people must have.

I am asking that you join me in reducing the proposed budget for 1982 by \$_____ billion. This will still allow an increase of \$_____ billion over 1981 spending.

I know that exaggerated and inaccurate stories about the proposed cuts have disturbed many people, particularly those dependent on grant and benefit programs for their livelihood. Some of you have heard from constituents afraid that Social Security checks for example might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderl^y, all those with true need, can rest assured that programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million ~~Society~~ ^{Social} Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs. There will be about \$3.5 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.

All in all, more than \$216 billion in some 20 programs are being maintained at the present growth level. But

government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save \$2.6 billion by removing from eligibility those who are not in real need and who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

Welfare will be tightened with more attention being given to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save \$671 million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by eliminating meals for families who can afford to pay, the savings will be \$1.2 billion.

Historically the American people have supported by voluntary contributions more artistic and cultural activities

than all the other countries in the world put together. I ~~whole~~heartedly support this and believe Americans will continue to do this. Therefore, I am proposing a cut of \$128 million in the subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such is the synthetic fuels program. We will continue support of research leading to development of new technologies but we can save \$_____ billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority be reduced by 33% in 1982. And this brings me to a number of other lending programs in which government makes low interest loans, some of them for an interest rate as low as 2% and not more than 5%. What has not been very well understood is that the Treasury Department has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers, of course, are paying that high interest rate. Government doesn't have any money of its own.

The Rural Electrification program came into being at a time when rural America was almost totally without electric power. A program of low interest loans to rectify this made sense then. I believe the recipients today of R.E.A. loans will understand the fairness of switching to the private capital market and borrowing at the commercial interest rate. Doing this will save the taxpayers \$2 billion in 1981 and '82 with ongoing savings of \$15 billion through 1985.

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

I mentioned the elimination of duplicating programs. This is true among the lending agencies. For example, the Farmers Home Administration is a duplicate of several other lending programs. By trimming its lending activities 25% we can remove the useless duplication in 1982 and save \$105 million.

Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and lay off of workers. But these benefits are paid in addition to regular unemployment insurance which anyone must agree is unfair. Incidentally the Trade Adjustment payments have a higher ceiling than Unemployment Insurance. By putting both kinds of unemployment on the same footing, savings will amount to \$1.15 billion.

Another \$204 million can be saved by ending or reducing neighborhood housing programs which simply duplicate other such programs in the Department of Housing and Urban Development.

Earlier I made mention of changing categorical grants to states and local governments into block grants. We know of course that categorical grants fund programs mandated on local and state governments by the Federal Government accompanied by strict rules and regulations as to how the programs are to be implemented and of course with vast amounts of paperwork to comply with reporting procedures.

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and state government. This will also consolidate programs which are scattered throughout the Federal bureaucracy. It will bring government closer to the people and will save \$5 billion over the next five years.

Our program for economic renewal ^{leads} ~~(treats/?)~~ with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of \$1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million to press the Postal Service into becoming more effective.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan and prior to decontrol it ran the oil price control program. With these regulations gone we can save several hundreds of millions of dollars over the next few years.

In the Department of Housing and Urban Development there is a loan guaranty program which encourages communities to, in effect, mortgage their block grants as security for repayment on loans to purchase and rehabilitate property. It also allows communities to exceed their own legal debt limits. We plan changes here that will save \$275 million in this coming year amounting to more than a billion through 1985.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. Secretary

of Defense Weinberger came up with a number of cuts which reduced the amount of the addition we had to make in order to restore our military balance.

I believe my duty as President requires that I recommend increases in defense spending over the coming year. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. They now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial sacrifice beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency. The aim will be to provide the most effective defense for the lowest possible cost.

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry and give the American people room to do what they do best. And that can only be done with a tax program which provides incentives to increase productivity for both workers and industry.

Our proposal is for a 10 percent across-the-board cut every year for three years in the tax rates for all individual income tax payers making a total tax cut of 30 percent. This three year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

I had hoped we could make this retroactive to January 1st but the deterioration of the economy in the months since September has ruled that out. We also learned that making it retroactive would work a hardship on states where the state income tax is tied to the Federal tax. Their budgets already in place would be thrown out of balance.

Therefore the effective starting date for these 10 percent personal income tax reductions will be July 1st.

Again, let me remind you this 30 percent reduction while it will leave the taxpayers with ^{\$560} \$500 billion more in their pockets over the next five years is actually only a reduction in the tax increase already built into the system.

Unlike some past tax (quote, unquote) "reforms" this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that a reduced tax rate will be inflationary. A solid body of economic experts don't agree. And certainly tax cuts adopted over the past three-fourths of a century indicate the economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow to \$400 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by _____ percent, ~~and these are after-tax dollars.~~ This of course is predicated on our complete program of tax cuts and spending reductions being implemented.

1986?
1985 is
\$300
billion

The other part of the tax package is aimed directly at providing business and industry with ^{more and newer} ~~the~~ capital needed ^{expand and} ~~to~~ modernize ^{our production capability} (and to engage in more research and development. This will involve an ^{improvement} ~~increase~~ in ^{capital recovery} ~~depreciation~~ allowances and this part of our tax proposal will be retroactive to January 1st.

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, materials, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a 5 year write-off for ~~tools~~ ^{machinery and equipment};

~~a _____ year write-off for machinery;~~ 3 years for

vehicles and trucks; and a 10 year write-off for plant.

Rental ^{real} property would be depreciated over 15 to 18 years instead of the present 30 years or more.

In calendar year 1982 under this plan business would acquire ^{close to} \$10 billion for investment and by 1985 the figure would be ^{almost} \$45 billion. If one accepts \$50,000 as the investment necessary to create 1 new job, \$45 billion could create 4½ million jobs.

I'm well aware that there are many other desirable tax changes such as indexing the income tax ~~brackets~~ to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family owned farm and the family owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations nearly doubled.

The result has been higher prices, less employment, and lower productivity. Overregulation causes entrepreneurs to defer or terminate plans for expansion and since they are responsible for most of our new jobs those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect ^{the} environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. My economic message will contain a list of over 100 additional regulations that we will be reviewing over the coming months. Finally, just yesterday, I signed an executive order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by executive order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our monetary base.

I fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. However, I plan to consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in ~~maintaining~~ ^{providing slow and steady} monetary growth.

NB: Do not use "Economic Recovery" -- it has the short-run connotations of demand mgt. and is inconsistent with President's *emphasis*.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic ^{Progress} ~~Recovery~~." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin. Our social, political, and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

Already some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only 10% of total educational funding.

For this the Federal government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that 10% will amount to very little of the total cost of education. It will, however, restore more authority to States and local schools districts.

The question is are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More importantly, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the shops. They are the services provided in ten thousand corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create, and produce.

For too long now we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must ^{not} be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

In the months left in this fiscal year we can reduce the budget by \$ _____ billion. In 1982 by \$ _____ billion without harm to government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates will put an end to inflation.

If we don't do this, inflation will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market. We have an alternative to that, a program for economic recovery. Reducing inflation from 12% just to 10 is equivalent to giving the average family of 4 \$ _____ in cash. Cutting the present rate in half would be worth \$ _____ to that average family. Wiping it out entirely should be our aim.

It will take time for the favorable effects of our proposal to be felt. So let us begin now.

The people are watching and waiting. They don't demand miracles but they do expect us to act. Let us act together.

Thank you and good night.

End

R. E. L.

The following ~~part~~ would be added to the

President's Economic Address

My domestic economic program will establish a solid basis for the role of the United States in the world economy. In short, I fully recognize that our international economic policies begin at home. A decline in domestic inflation will strengthen the role of the dollar abroad. Greater productivity will stimulate U.S. exports, ~~while a~~ stronger, more vigorous domestic economy will provide growing markets for developing and industrialized countries alike. Greater domestic energy production will ease U.S. demands on the world oil markets.

THE WHITE HOUSE
Office of the Press Secretary

EMBARGOED FOR WIRE TRANSMISSION UNTIL
4:00 pm - February 18, 1981

FEBRUARY 18, 1981

EMBARGOED FOR RELEASE UNTIL 9:00 pm

TEXT OF THE ADDRESS BY THE PRESIDENT
TO A JOINT SESSION OF CONGRESS
ON A PROGRAM FOR ECONOMIC RECOVERY

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the last, best hope of man on earth.

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates. CPI
1915/1919
CPI/FHLBB

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, and all who work are frustrated by their inability to keep up with inflation. D. HSE
ECON. IND.

One worker in a Midwest city put it to me this way: He said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. Hourly earnings of the American worker, after adjusting for inflation, have declined five percent over the past five years. And furthermore, in the last five years, Federal personal taxes for the average family increased 67 percent. ?

We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse.

Can we who man the ship of state deny it is out of control? Our national debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills 67 miles high. TREASURY
TREASURY

The interest on the public debt this year will be over \$90 billion. And unless we change the proposed spending for the fiscal year beginning October 1, we'll add another almost \$80 billion to the debt. BUDGET S2

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that is estimated to add \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American C&A

MORE

productivity, once one of the highest in the world, is among the lowest of all major industrial nations. Indeed, it has actually declined the last three years.

CEA
CEA

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, our program can help America create 13 million new jobs, nearly three million more than we would without these measures. It will also help us gain control of inflation.

OMB
OMB

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

I am asking that you join me in reducing direct Federal spending by \$41.4 billion in fiscal year 1982, along with \$7.7 billion in user fees and off-budget savings for a total savings of \$49.1 billion. This will still allow an increase of \$40.8 billion over 1981 spending.

OMB
OMB
OMB

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million Social Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

OMB

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs.

All in all, nearly \$216 billion providing help for tens of millions of Americans -- will be fully funded. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local governments, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost effective.

OMB

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only eight percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that eight percent will amount to very little of the total cost of education. It will, however, restore more authority to States and local school districts.

FY '82
BUDGET

Historically the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of \$85 million in the Federal subsidies now going to the arts and humanities.

NOT
BUDGET

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the Department of Energy's synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save at least \$3.2 billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

OMB

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

OMB

And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- of course, are paying that high interest rate and it just makes all other interest rates higher.

FY 81/82
APPENDIX

By terminating the Economic Development Administration we can save hundreds of millions of dollars in 1982 and billions more over the next few years. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

OMB

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save \$1.8 billion in FY 1982 by removing from eligibility those who are not in real need or who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

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Let me just touch on a few other areas which are typical of the kind of reductions we have included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. And yet, because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must agree that this is unfair. Putting these two programs on the same footing will save \$1.15 billion in just one year.

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The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by \$632 million in 1982 to press the Postal Service into becoming more effective. In subsequent years, the savings will continue to add up.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It has the authority to administer a gas rationing plan, and prior to decontrol it ran the oil price control program. With these and other regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance. These measures will save \$2.9 billion in 1982 outlays and by 1986 a total of \$28.2 billion will have been saved. The aim will be to provide the most effective defense for the lowest possible cost.

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I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

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Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

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Our proposal is for a 10-percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

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Unlike some past tax "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

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Some will argue, I know, that reducing tax rates now will be inflationary. A solid body of economic experts does not agree. And certainly tax cuts adopted over the past three-fourths of a century indicate these economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be \$300 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by eight percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

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I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family-owned farm and the family-owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

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 American society experienced a virtual explosion in Government regulation during the past decades. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations increased by nearly two-thirds.

The result has been higher prices, higher unemployment, and lower productivity growth. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

RES
 DEC 1981
 I have asked Vice President Bush to head a Cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an Executive Order that for the first time provides for effective and coordinated management of the regulatory process.

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 Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by Executive Order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply.

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

MORE

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the ships. They are the services provided in 10,000 corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by Government must be limited to those functions which are the proper province of Government. We can no longer afford things simply because we think of them.

OMB Next year we can reduce the budget by \$41.4 billion, without harm to Government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will help bring an end to inflation.

OMB In the health and social services area alone the plan we are proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations and 5000 Federal employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 million man and woman hours of work by state and local officials are required to fill our Federal forms.

MORE

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation and a growing tax burden will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

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*Research
Major Speech*

THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR WIRE TRANSMISSION UNTIL
4:00 pm - February 18, 1981

FEBRUARY 18, 1981

EMBARGOED FOR RELEASE UNTIL 9:00 pm

TEXT OF THE ADDRESS BY THE PRESIDENT
TO A JOINT SESSION OF CONGRESS
ON A PROGRAM FOR ECONOMIC RECOVERY

Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this Nation we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the last, best hope of man on earth.

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by, despair dominates their lives. The threats of layoff and unemployment hang over other millions, and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: He said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. Hourly earnings of the American worker, after adjusting for inflation, have declined five percent over the past five years. And furthermore, in the last five years, Federal personal taxes for the average family increased 67 percent.

We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse.

Can we who man the ship of state deny it is out of control? Our national debt is approaching \$1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of \$1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of \$1,000 bills 67 miles high.

The interest on the public debt this year will be over \$90 billion. And unless we change the proposed spending for the fiscal year beginning October 1, we'll add another almost \$80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that is estimated to add \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American

MORE

productivity, once one of the highest in the world, is among the lowest of all major industrial nations. Indeed, it has actually declined the last three years.

I have painted a grim picture but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, our program can help America create 13 million new jobs, nearly three million more than we would without these measures. It will also help us gain control of inflation.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth, and thus create the jobs our people must have.

I am asking that you join me in reducing direct Federal spending by \$41.4 billion in fiscal year 1982, along with \$7.7 billion in user fees and off-budget savings for a total savings of \$49.1 billion. This will still allow an increase of \$40.8 billion over 1981 spending.

I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those who through no fault of their own must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety net of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million Social Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, aged and disabled. Funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs.

All in all, nearly \$216 billion providing help for tens of millions of Americans -- will be fully funded. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local governments, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local government entities and States more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost effective.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only eight percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that eight percent will amount to very little of the total cost of education. It will, however, restore more authority to States and local school districts.

Historically the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe Americans will continue their generosity. Therefore, I am proposing a savings of \$85 million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the Department of Energy's synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save at least \$3.2 billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers -- your constituents -- of course, are paying that high interest rate and it just makes all other interest rates higher.

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A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the ships. They are the services provided in 10,000 corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by Government must be limited to those functions which are the proper province of Government. We can no longer afford things simply because we think of them.

Next year we can reduce the budget by \$41.4 billion, without harm to Government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will help bring an end to inflation.

In the health and social services area alone the plan we are proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations and 5000 Federal employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 million man and woman hours of work by state and local officials are required to fill our Federal forms.

MORE

May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation and a growing tax burden will put an end to everything we believe in and to our dreams for the future. We do not have an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

#

Labor and the Reagan Plan

Organized labor's officially sour reaction to President Reagan's economic program upset few predictions. Many leaders of the union movement feel they have no choice but to defend every inch of the ground they have helped to win for their chosen social goals over the last four or five decades. They are not about to embrace their traditional political adversaries or quickly abandon familiar patterns of economic thought.

With that understood, it was still unfortunate that the AFL-CIO issued a nearly automatic rejection of the Reagan budget and taxation plan. The 35-member executive council of the labor federation, from its warm winter refuge in Florida, criticized the Reagan proposals as being too hard on the poor. Lane Kirkland, the AFL-CIO president, said the organization will join civil rights, environmental and social-service lobbying groups in a coalition to seek the defeat of the administration's proposals on Capitol Hill.

Mr. Kirkland's prediction that the Reagan program would put another 1.1 million Americans on the jobless queue awaits the test of experience. If it's true, there may not be much future in the president's way of approaching the nation's economic ills, even though his predecessors' more conventional policies have already left some 8 million out of work. Mr. Kirkland also attributed Mr. Reagan's ideas to "an excessive plague of economists," in seeming denigration of the whole profession. This was strange in view of labor's own habit of invoking the views

of economists it finds congenial.

But there were hints of realistic thinking behind the formal opposition. More than one labor leader winked at the results of the last presidential election, won by Mr. Reagan with admitted backing from much of the unions' rank and file, and said the new approach to inflation and lack-luster production deserves a chance. Secretary of Labor Donovan, at the AFL-CIO conference, said he found this moderation to be the attitude of about half of the executive council. More significantly, some union leaders were willing to be quoted to that effect, whatever the official AFL-CIO line.

Not that the relationship between labor and Reaganomics is likely to be a honeymoon. Some of the willingness to see supply-side economics tried is in the expectation that it will fail spectacularly, causing a return to policies more in line with the unions' priorities and leading to a reversal of the 1980 political results. The AFL-CIO, meanwhile, is groping for ways of waging a more successful electoral campaign next time.

And outside the AFL-CIO, in the troubled precincts of the United Mine Workers, Mr. Reagan could face one of his stiffer challenges. UMW President Samuel Church threatens a nationwide coal strike to fight any effort to "gut" the black lung program, for which the president has proposed new restrictions. This kind of extremism, fortunately, does not seem to have infected much of the labor movement.



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Soviet and US Defense Activities, 1970-79: A Dollar Cost Comparison

A Research Paper

*Information available as of 31 December 1979
was used in the preparation of this paper*

Comments and queries on this unclassified report
are welcome and may be directed to:

Director for Public Affairs
Central Intelligence Agency
Washington D.C., 20505
(703) 351-7676.

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the inside of front cover.

Soviet and US Defense Activities, 1970-79: A Dollar Cost Comparison

Introduction

The military establishments of the USSR and the United States are difficult to compare because they differ so much in missions, structure, and characteristics. Any common denominator used for comparative sizing is imperfect, and its limitations must be understood in interpreting such comparisons. The approach taken here is to compare the defense activities of the two countries using the familiar common denominator of dollar cost.

This paper presents estimates of what it would cost to produce and man in the United States a military force of the same size and with the same weapons inventory as that of the USSR and to operate that force as the Soviets do. It then compares these estimates with known US defense outlays. This approach provides a general appreciation of the relative magnitudes of the defense activities of the two countries. Dollar cost data also provide a means of aggregating elements of each country's military program into comparable categories and thus can show trends and relationships between the two defense establishments that are difficult to discern and measure in other ways.

Definitions

The defense activities used in this comparison encompass the following:

- National security programs that in the United States would be funded by the Department of Defense.
- Defense-related nuclear programs such as those funded in the United States by the Department of Energy.
- Selective Service activities.
- The defense-related activities of the US Coast Guard and the Soviet Border Guards.

The following activities are not included in this comparison:

- Military retirement pay, which reflects the cost of past rather than current military activities.
- Space activities that in the United States would be funded by the National Aeronautics and Space Administration.
- Civil defense, foreign military sales, and military assistance programs, except for the pay and allowances of uniformed personnel engaged in such programs.
- Veterans' programs.
- Soviet Internal Security Troops who perform police functions and Soviet railroad and construction troops who are not directly involved in national security matters.

US Data

US data are derived from the US budget and *The Five Year Defense Program* issued by the Department of Defense in September 1979. The US data have been converted to calendar year outlays, and defense-related activities of the Department of Energy and the Coast Guard have been added. All data are expressed in constant prices to eliminate the effects of inflation. The US figures in this report, therefore, do not match actual defense budget authorizations or appropriations.

Estimates of Soviet Defense Activities

The dollar costs of Soviet defense activities are developed on the basis of a detailed identification and listing of Soviet forces and their supporting elements. The components that make up these forces and their support are multiplied by estimates of what they would cost in the United States in dollars. The results are then aggregated by military mission and by resource category.

The reliability of the estimates depends on the precision and accuracy of our estimates of the Soviet activities and the cost factors applied to that data base. In sum, we believe that our dollar cost estimate for total defense activities is unlikely to be in error by more than 10 percent in the current period or by more than 15 percent early in the decade. This judgment, while aided by the use of statistical techniques, nonetheless contains a large subjective element. Moreover, the margin of error can be much wider for some of the individual items and categories. We are more confident in the higher levels of aggregation than in the lower ones, and within the lower levels our confidence varies from category to category.

We place our highest confidence in the estimate of the pay and allowances for uniformed personnel. These costs represent about 35 percent of the total estimated dollar cost of Soviet defense activities for the 1970-79 period. We obtain these manpower costs by applying US factors for pay and allowances to our estimates of Soviet military manpower. Soviet military personnel performing duties similar to those of US counterparts are assigned the same rates of pay as their counterparts.

We also have substantial confidence in our estimate of total military investment, which represents about 30 percent of the estimated total dollar cost. The investment category includes the procurement of weapons and equipment and the construction of facilities. These dollar costs are based primarily on detailed estimates of Soviet weapons production rates and characteristics which can be ascertained with confidence through intelligence methods.

Although we have continued to make improvements in our estimates of operation and maintenance (O&M) costs, which are about 20 percent of the total dollar estimate, we remain somewhat less confident in these estimates than in those for investment.

The estimated dollar costs for Soviet research, development, testing, and evaluation (RDT&E), which are derived in the aggregate using a less certain methodology, should be regarded as significantly less reliable than those for either investment or operating. The level and trend of these estimates, however, are consistent with the judgment, made with high confidence, that

the Soviet military RDT&E effort is large and growing.

Dollar Costs and Military Capabilities

US defense expenditures and our estimates of the dollar costs of Soviet defense activities are measures of the annual flows of resources devoted to defense. Such measures can be used to compare the overall magnitudes and trends of the defense activities of the two countries in terms of resource inputs. They have an important advantage over many of the other input measures—such as the numbers and types of weapons—in that they are a common denominator which permits aggregative comparisons. Dollar cost valuations, for example, take into account differences in the technical characteristics of military hardware, the number and mix of weapons procured, manpower strengths, and the operating and training levels of the forces.

But dollar valuations still measure input rather than output and should not be used alone as a definitive measure of the relative effectiveness of US and Soviet forces. Assessments of capability must also take into account strategic doctrine and battle scenarios; the tactical proficiency, readiness, and morale of forces; the numbers and effectiveness of weapons; logistic factors; and a host of other considerations. As with other input measures, dollar valuations are probably more instructive as general indicators of changes in the military capabilities of the two nations' forces over time than as indicators of the comparative capabilities of the forces.

Dollar Costs and Soviet Perceptions

Estimated dollar costs do not measure actual Soviet defense expenditures or their burden on the Soviet economy. These questions are addressed by different analytical techniques that yield estimates of the ruble costs of Soviet military programs.

Similarly, dollar cost analysis does not reflect the Soviets' view of the distribution of their defense effort. Neither the system of accounts nor the structuring of expenditures by military mission is the same for the Soviet Ministry of Defense and the US Department of Defense. In addition, the sharp differences between relative prices of various defense activities in the United States and the USSR affect the distribution of

defense expenditures significantly. How the Soviets view their own defense effort is best inferred from estimates made in terms of rubles, not dollars.

Price Base

The data presented here are expressed in constant dollars so that trends in cost estimates will reflect real changes in military forces and activities rather than the effects of inflation. This paper uses prices that represent the purchasing power of the dollar for defense goods and services at midyear 1979.

Dollar Cost Comparisons

Aggregate Defense Costs

For the 1970-79 decade, the cumulative estimated dollar costs of Soviet defense activities exceeded US outlays by almost 30 percent. The trends of the defense activities of the two countries, moreover, differed markedly. Estimated in constant dollars, Soviet defense activities increased at an average annual rate of 3 percent.¹ While growth rates fluctuated somewhat from year to year—reflecting primarily the phasing of major procurement programs for missiles, aircraft, and ships—the pattern was one of continuous growth throughout the decade. Evidence on weapon systems currently in production and development, continuing capital construction at major defense industries plants, and the increasing costs of modern weapons indicate that this long-term trend in Soviet defense activities will continue into the 1980s at about the same rate of growth.

In contrast, the trend in US outlays was downward for most of the period. US outlays fell from the beginning of the decade until 1976. Since then they have grown somewhat, as increases in procurement, RDT&E, and O&M offset continuing declines in military personnel costs and in construction.

As a result of these diverging trends, the estimated dollar costs of Soviet defense activities caught up with US defense outlays in 1971 and exceeded them by a widening margin through 1979. In 1979 the Soviet total was about \$165 billion, approximately 50 percent higher than the US total of \$108 billion.

¹ When valued in rubles this growth rate is 4.5 percent, reflecting the different pricing structure in the Soviet Union.

If uniformed personnel costs (which are based on US pay rates) are excluded from both sides, the estimated dollar costs of Soviet defense activities exceed US outlays in 1979 by 40 percent and are 15 percent greater for the entire decade. If RDT&E costs (estimates for which are considerably less reliable than those for other activities) are excluded from both sides, the estimated Soviet dollar cost total exceeds the US total in 1979 by about 45 percent and is 25 percent greater for the decade.

The Index Number Problem

Evaluating the defense activities of both countries in dollar terms introduces a basic measurement problem common to all international economic comparisons and known to economists as the index number problem. Because of this problem, a comparison will yield different results depending on which country's prices are used. Given different resource endowments and technologies, countries tend to use more of the resources that are relatively cheap—and less of those that are relatively expensive—for a given purpose. A comparison drawn in terms of the prices of one country thus tends to overstate the relative value of the activities of the other. This tendency is more pronounced the greater the disparity between the two countries' resource endowments and technologies.

The degree of overstatement of Soviet defense activities relative to those of the United States inherent in the dollar cost comparison cannot be measured precisely. We can obtain an appreciation of its magnitude, however, by the reverse calculation—that is, by computing the ratio of Soviet to US defense activities measured in ruble cost terms, which overstates US activities relative to Soviet. Whereas our dollar cost comparison shows the total cost of Soviet defense activities in 1979 to be approximately 50 percent higher than the US total, a ruble cost comparison shows it to be about 30 percent higher.

Economic Impact of Defense Activities

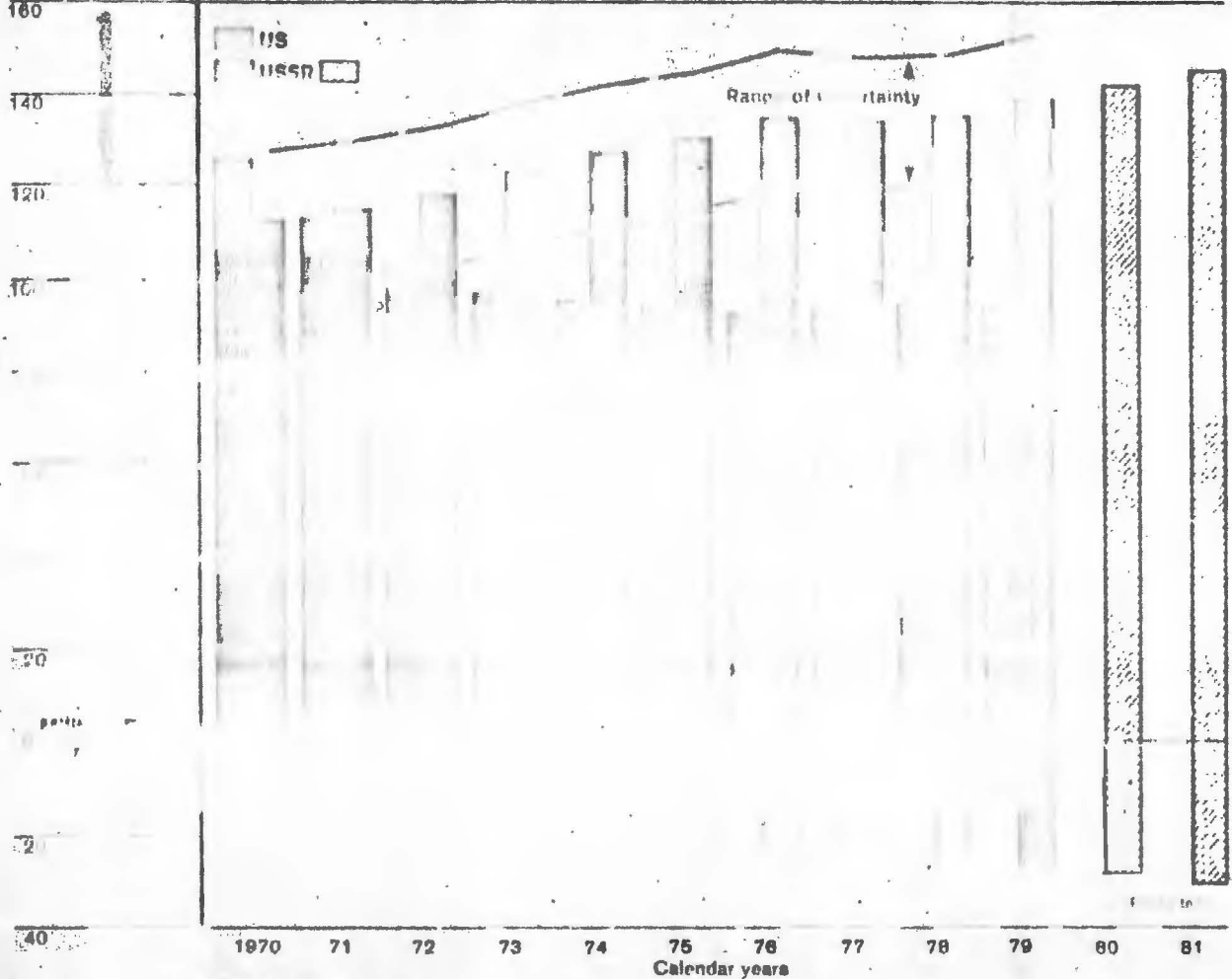
Although no single measure accurately describes the economic impact or burden of defense activities, defense spending as a share of GNP is often used for this purpose. This measure uses each country's own prices to reflect relative scarcities and efficiencies in production. Measured in 1970 rubles and calculated at factor cost, the Soviet defense activities in 1979 in

Total US and Soviet Defense Activities

Figure 1

A comparison of US outlays with estimated dollar costs of Soviet activities if duplicated in the United States

Billion 1979 dollars



Cumulative Costs, 1970-78



The dollar cost estimates reflect the cost of producing and manning in the US a military force of the same size and weapons inventory as the Soviet force and of operating that force as the Soviets do. The costs shown for military forces are investment and operating costs excluding pensions; they are best estimates, with possible error margins displayed. The costs shown for Soviet RDT&E are estimates derived in the aggregate, using a less certain methodology, because they provide only rough measures, they are shown separately from the dollar costs of military forces. The US defense costs are in terms of outlays based primarily on the Department of Defense Total Obligational Authority (TOA) in *The Five-Year Defense Program, September 1979*. The estimated dollar costs of projected Soviet defense activities for 1980 and 1981 are preliminary assessments and are subject to greater uncertainty than those for earlier years. Comparable US data were not available.

this report accounted for some 11 to 12 percent of Soviet GNP throughout the decade of the seventies. Defense activities in the United States accounted for approximately 8 percent of US GNP in 1970 and 5 percent in 1979.

Resource Comparisons

Soviet and US defense activities can be compared in terms of the major resource categories—military investment, operating, and RDT&E costs:

- The investment category covers the dollar cost of the procurement of equipment (including major spare parts) and the construction of facilities. Investment costs represent the flow of equipment and facilities into the defense establishment. They are not an indication of the size of the force in any given year.
- The operating category covers the costs associated with maintaining current forces (including personnel costs). They are directly related to the size of the forces and to the level of their activity.
- The RDT&E category covers a variety of activities including exploring new technologies, developing advanced weapon systems, and improving existing systems.

Military Investment. The trends in military investment in both countries followed those for the respective totals over the decade of the seventies. US investment fell sharply from 1970 to 1976 but then grew by more than 3 percent per year until the end of the period. Soviet investment showed an upward trend but displayed cycles in annual growth rates that were related to the phasing of major procurement programs—especially those for missiles and aircraft. The estimated dollar cost of Soviet investment programs rose throughout the decade. This growth rate is expected to continue in the early 1980s.

The estimated dollar cost of Soviet military investment compared favorably to US spending by 80 percent in 1979. (The difference was as large as 95 percent in 1976.) Over the decade, the estimated dollar costs were 55 percent larger than comparable US outlays.

Operating Costs. Measured in dollar terms, operating costs made up the largest share of the total defense costs for both countries.² US outlays declined rapidly from 1970 to 1973, reflecting the scaling down and eventual termination of the Vietnam involvement. Since then, growth in O&M costs has partially offset the continuing decline in military personnel costs, slowing the decrease of total operating costs. Estimated Soviet dollar costs for operating, on the other hand, grew continuously during the period—reflecting growing force levels—and exceeded those of the United States by a widening margin after 1971. By 1979 they were 35 percent higher than comparable US outlays. Over the entire decade, they exceeded the US total by 15 percent.

RDT&E. Estimates of the dollar costs of Soviet RDT&E are derived in the aggregate using a less certain methodology than the other estimates in this assessment. Although we consider the estimates to be less precise, it is clear there is a substantial Soviet military RDT&E program. The available information on particular RDT&E projects and published Soviet statistics on science indicate that military RDT&E expenditures were both large and growing during the 1970-79 period. This assessment is reinforced by evidence on increases in the manpower and facilities devoted to Soviet military RDT&E programs. US outlays for RDT&E, on the other hand, declined steadily over the early years of the period, before turning up in 1977. As a result, the estimated dollar cost of Soviet RDT&E activities over the decade was approximately one and one-half times the US total.

Military Manpower

The Soviets historically have maintained a large standing force that has a broader range of responsibilities than the US military. The uniformed personnel strength of Soviet forces in 1979 was estimated to be 4.3 million—about twice the US total. The Soviet figure includes the five armed services of the Ministry of Defense and the Soviet Border Guard.

² This results from the use of US pay rates in estimating dollar operating costs for the USSR. In ruble terms, operating costs constitutes the largest share of estimated total Soviet defense costs.

US and Soviet Defense Activities

Figure 2

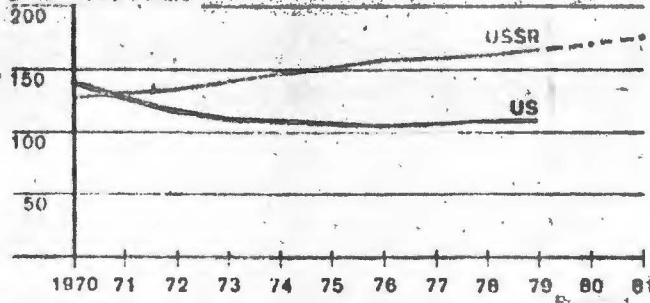
Dollar cost of Soviet activities and US defense outlays

Dollar cost of Soviet activities as a percent of US defense outlays

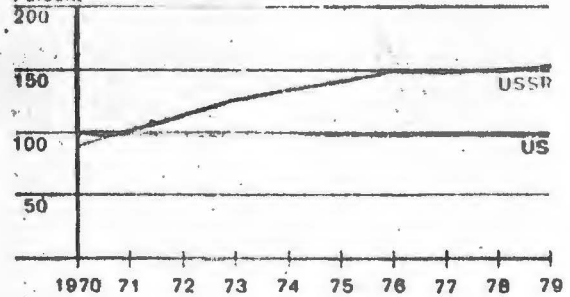
Total (with ROT&E)

Billion 1979 dollars

Note: Scales vary

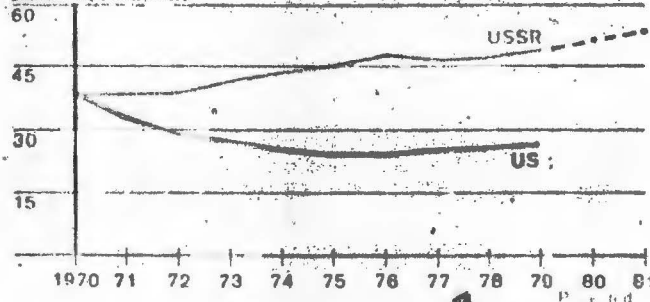


Percent

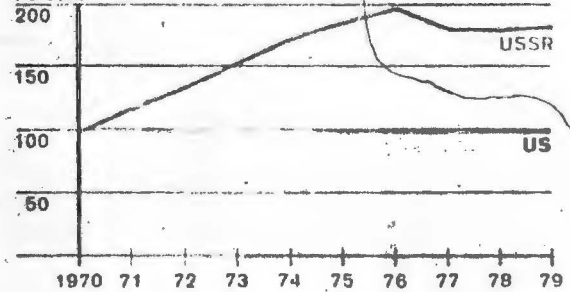


Investment

Billion 1979 dollars

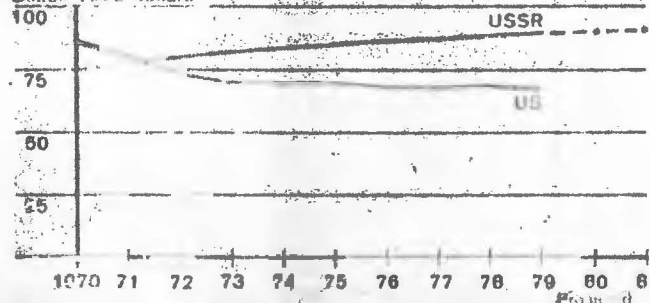


Percent

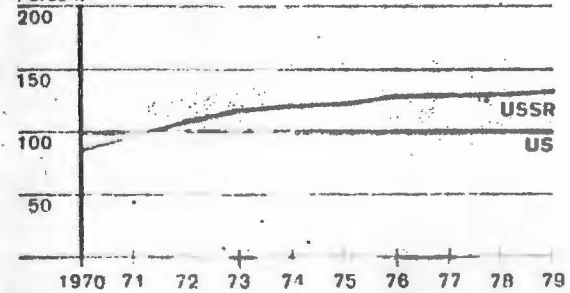


Operating

Billion 1979 dollars



Percent



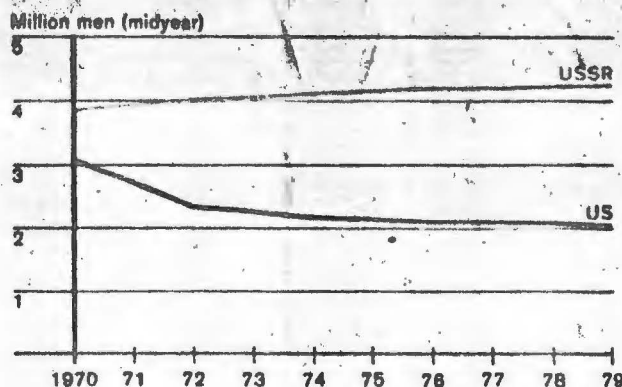
Cumulative Costs, 1970-79



Investment includes all costs for the procurement of military hardware and the construction of facilities, but excludes ROT&E. Operating includes all personnel-related costs (with the exception of pensions) and all costs associated with the operation and maintenance of weapon systems and facilities.

US and Estimated Soviet Active Military Manpower

Figure 9



The USSR line excludes Internal Security Troops and construction troops—well over half a million men—who do not fill what in the US would be considered national security roles.

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which are subordinate to the Committee for State Security but have some military responsibility. Well over a half million men in the internal security forces of the Ministry of Internal Affairs and in railroad and construction troop units are not included in the comparison, because they do not fill what in the United States would be considered national security roles.

Military manpower trends paralleled those for total costs in the two defense establishments. Estimated Soviet military manpower grew by more than 400,000 men between 1970 and 1979. The largest increase—200,000 men—occurred in the Ground Forces. In contrast, the level of US military manpower has fallen every year since the peak of the Vietnam buildup from 2.4 million in 1970 to 2.1 million in 1979.

Military Mission Comparisons

Comparisons of Soviet and US activities can also be made by US accounting definitions, which are used to array defense authorizations by the missions they are designed to support. The missions in this section follow the guidelines in the *Defense Planning and Programming Categories (DPPC)* issued by the Department of Defense in November 1979.

Strategic Forces. This mission includes all assigned to intercontinental attack, strategy and strategic control and surveillance, plus peripheral attack forces, but excludes RD level of Soviet activity for strategic forces (the Soviet peripheral attack forces, for which the United States has no counterpart), in 1979 dollars, was two and two-thirds times that of the United States over the 1970-79 period and 2.5 times the US level in 1979. If Soviet peripheral forces are included, the estimated dollar cost of Soviet forces were three times the US outlays over the period.

Within the strategic forces mission, intercontinental attack forces accounted for about 35 percent of the total dollar cost estimate of Soviet strategic forces for the period. US outlays for intercontinental forces accounted for 65 percent of US strategic outlays for the period.

Estimated dollar costs of Soviet intercontinental activities dipped in the early 1970s with the start of third-generation ICBM deployment but rose sharply in the mid-1970s with the start of fourth-generation systems. As the Soviet deployment of their fourth-generation ICBMs began, the estimated dollar cost of intercontinental forces again before rising sharply in the mid-1970s. Soviets are expected to deploy the new ICBMs now in development.

Our cost estimates for intercontinental forces reflect a substantial difference in the missions of the Soviet and US forces. During the 1970-79 period, intercontinental forces accounted for more than half of the dollar cost of Soviet intercontinental forces compared with only about one-fifth for the United States. On the other hand, bomber forces accounted for about one-third for the United States but only 10 percent of the Soviet total.¹ In every year, the dollar costs of Soviet programs for intercontinental ballistic missile submarines exceeded that of the United States, but the dollar costs of Soviet programs were lower than comparable US outlays

¹ Backfire aircraft assigned to Long Range Aviation for peripheral attack forces, and those assigned to other units in general purpose forces.

US and Soviet Major Missions

Figure 4

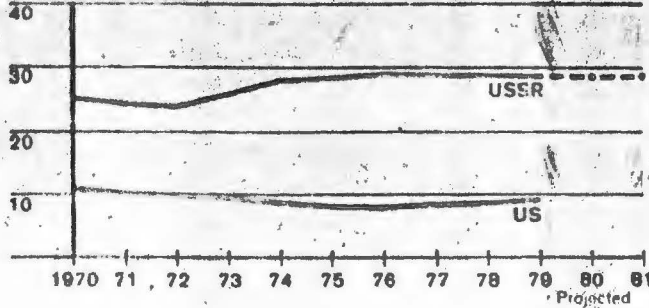
Dollar cost of Soviet activities and US defense outlays

Dollar cost of Soviet activities as a percent of US defense outlays

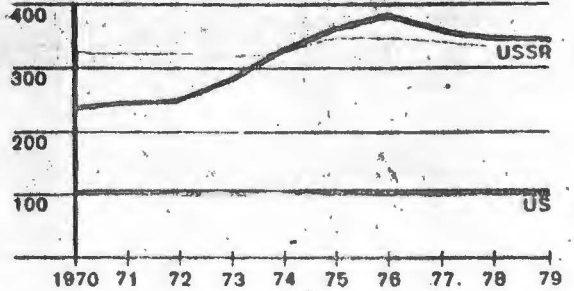
Strategic Forces

Billion 1979 dollars

Note: Scales vary

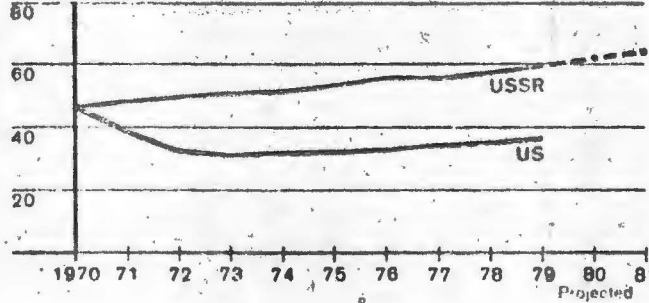


Percent

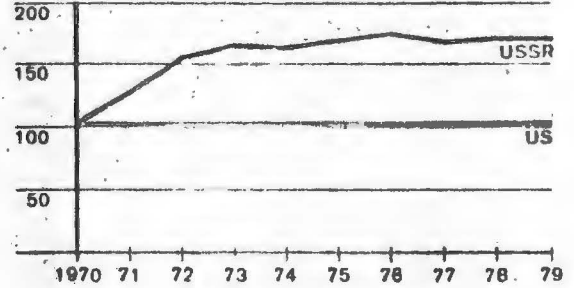


General Purpose Forces

Billion 1979 dollars

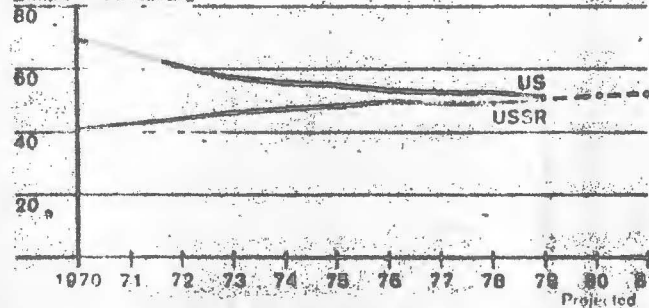


Percent

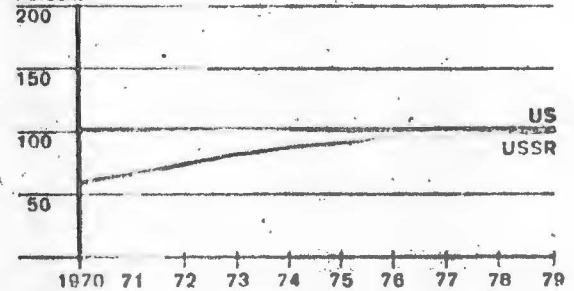


Support Forces

Billion 1979 dollars



Percent



Comparison Costs, 1970-79



These comparisons use US Defense Financial and Programming Categories and adjustments made to attain comparability for pensions and RDT&E of 1970 with minor

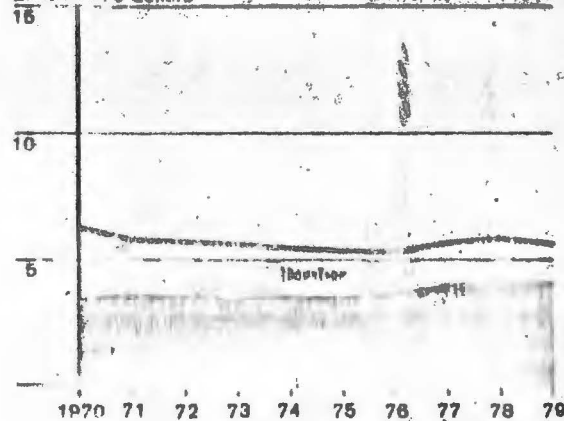
US and Soviet Forces for Intercontinental Attack

Fig

A comparison of US outlays with estimated dollar costs of Soviet activities if duplicated in the United States

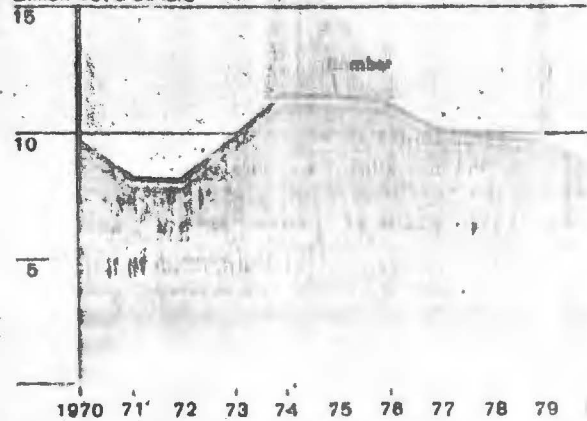
US

Billion 1970 dollars



USSR

Billion 1970 dollars



The intercontinental attack mission is defined according to the US Defense Planning and Programming Categories of November 1970, with minor adjustments made to attain comparability. Costs for pensions, nuclear materials for warheads, and RDT&E of both sides are excluded. The peripheral attack forces of the USSR are also excluded.

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Peripheral attack forces accounted for about 15 percent of the total dollar cost of the Soviet strategic mission. (Peripheral attack forces include medium- and intermediate-range ballistic missiles, medium bombers, and some older ballistic missile submarines. These forces are assigned strategic targets on the periphery of the Soviet Union.)

Estimated costs of Soviet forces for strategic defense accounted for roughly half of the dollar costs of the Soviet strategic mission during the decade. US outlays for strategic defense, on the other hand, accounted for only about 15 percent of US strategic mission outlays during the period. Soviet strategic defense activities during 1970-79 remained at a high level, while US strategic defense activities declined during the period. As a result, the dollar cost of Soviet strategic defense activities increased from five times US outlays in 1970 to 25 times US outlays in 1979. Soviet strategic defense activities will probably continue to grow in the early 1980s as the Soviets introduce a new generation of interceptor aircraft and surface-to-air missiles, in an attempt to further improve their air defenses.

General Purpose Forces. This mission includes all tactical air, naval, and mobility (airlift and sealift) forces. Estimated dollar costs of Soviet activities general purpose forces (exclusive of RDT&E) had exceeded comparable US outlays since 1970, although the absolute difference between them has remained relatively constant since 1973. For the decade, the Soviet total for this mission was about 55 percent higher than the US total.

Within both the Soviet and the US general purpose forces, land forces accounted for the largest share of the dollar cost. The estimated dollar cost of Soviet forces increased steadily throughout the period. Outlays for US land forces continued to drop from Vietnam-era high until 1973. Since 1973 they have grown at a moderate rate.

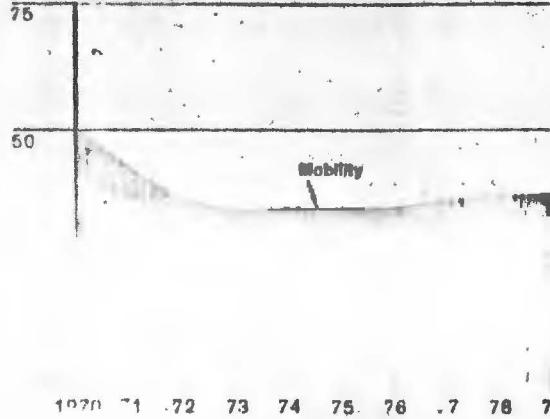
US and Soviet General Purpose Forces

Figure 6

A comparison of US outlays with estimated dollar costs of Soviet activities if duplicated in the United States.

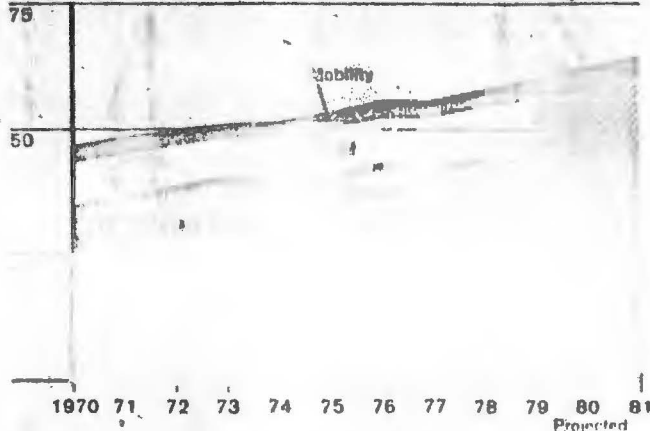
US

Billion 1979 dollars



USSR

Billion 1979 dollars



The general purpose mission is defined according to the US Defense Planning and Programming Categories of November 1979, with minor adjustments made to attain comparability. Costs for personnel and support are excluded.

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The dollar costs of the two countries' general purpose forces (including attack and multi-mission carriers and their associated aircraft, which by DoD DFPD definitions are included in tactical air forces) showed divergent trends. US outlays for this mission fell until 1973 and then were relatively constant for the rest of the decade. The estimated dollar costs of Soviet general purpose naval forces also declined until 1973 but then grew at a rapid rate for the rest of the decade. As a result of these trends, the estimated dollar costs of Soviet activities in 1979 were more than 15 percent higher than US outlays. Over the whole decade they were approximately equal to US outlays (if the costs of the US carriers and their associated aircraft were included in general purpose naval forces, US outlay would be 20 percent more than the estimated dollar costs of Soviet forces in 1979 and 50 percent higher than the Soviet total for the entire period.)

US outlays for tactical air forces (including aircraft carriers and their associated aircraft) fell from 1970 to 1974 but have risen since then. The estimated dollar cost of the Soviet forces with a tactical air mission

showed a cyclical, upward, growth pattern related to the procurement of new aircraft. By the end of the decade, US outlays exceeded estimated Soviet dollar costs for tactical air forces by 20 percent—a considerable decrease since 1970. Over the decade, US outlays were about one-third more. (If the US carriers and their associated aircraft were excluded, estimated Soviet dollar costs would be 35 percent higher than US outlays in 1979 and 15 percent higher for the period as a whole.)

Support Forces. In addition to the training, maintenance, major headquarters and logistic activities normally considered support forces, the definition also includes military space programs. Over the decade, US outlays on support activities were about 40 percent higher than the estimated Soviet total. However, the US level was two-thirds higher than the estimated Soviet level in 1970, the end of the decade. The estimated cost of Soviet support forces grew steadily over the period to match the growth of the other support missions.

Forces Opposite China

Both countries structure their forces not only for a major East-West war but also for other possible conflicts. For example, between 10 and 15 percent of the estimated dollar cost of Soviet defense activities (excluding RDT&E) is for units that we believe have primary missions against China. Some of these forces also could be used to meet other contingencies.

Comparisons With Previous Estimates

Estimates of the dollar costs of Soviet defense activities are revised each year to take into account new information and new assessments of the size, composition, and technical characteristics of the Soviet forces and activities, as well as improvements in costing methodologies. The US data used for comparative purposes are similarly revised each year to take into account changes in *The Five Year Defense Program* and the *Defense Planning and Programming Categories*. Both the Soviet and the US data are updated annually to reflect the most recent price base.

This year's estimate of the dollar cost of Soviet defense activities for 1978 is about 9 percent higher than the estimate for that year in last year's publication. Almost all of the 9 percent difference is the result of changing from a 1978 to a 1979 price base. The refinements made since our last report in our assessments of Soviet defense activities and their costs for the year 1978 have resulted in no appreciable change in our estimate.

Readers making cumulative comparisons with previous versions of this report should be aware that this year we are covering a 10 year period—the decade of the 1970s—rather than an 11 year period as was the case in our earlier reports.