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THE WHITE HOUSE
WASHINGTON
September 21, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: DAVID GERGEN
SUBJECT: Budget Speech

Here's a draft for your consideration. Portions of it are drawn from earlier materials prepared by Ben Elliott and Tony Dolan. We are working now to fill in the numbers.

DRAFT SPEECH ON THE BUDGET

Good Evening.

I want to return tonight to a subject that continues to be at the top of our national agenda -- and that is the state of our economy.

Over the past eight months, we have finally begun to see some bright blue spots in an overcast sky:

- At long last, inflation has fallen below double digits. Pressures are easing on both food and fuel prices.
- There are over a million more Americans at work today than there were late last year.
- The flood of new government regulations has been cut in half.
- And in a week's time, you will begin to feel the first effects of our tax reductions that Congress enacted this past summer. Your tax burdens will actually begin heading down -- not up. And as small savers, you will be able to take advantage of some excellent opportunities to build a nest egg in a savings and loan institution or in a private retirement account.

All of this is welcome news for a country that has been battered over the past decade by the highest inflation in our peacetime history and by some of the worst recessions in this century.

But you and I know that we are a long, long way from full economic recovery. No one can rest easily when mortgage rates for new homes are so high they are pricing over 90% of young families out of the market, when half of the young black men and women in the job market can't find work, and when many small businesses are up against the wall. No, the bitter inheritance of the 1970s will remain with us in the 1980s a lot longer than any of us would like.

With your generous help -- with thousands upon thousands of phone calls, letters and the like -- the Congress this summer approved two major pieces of legislation, a spending bill and a tax bill, that will help pull us out of our economic mire. Those measures, however, will take time to work. We must be patient; more than that, we must remain firm and steady of purpose.

Tonight, I want to talk with you about the next step in our plan for economic recovery -- and that is a major effort to shrink the size of government deficits. As I have said many times, we will never get the cost of living under control until we get the cost of government under control -- and that means we must bring the federal budget into balance.

When I sought election last year, I pledged to you that I would work to put Washington's house in order. We all knew the task would be difficult; we knew that special interests were deeply entrenched in this city; we knew there would be cries of pain.

But we also knew something else that was far more important -- the job just had to be done. The road we've been on these past years is the road to bankruptcy. Unless we make a new beginning and stick to it, we will one day see a collapse of our economy -- an economy that was once the wonder of the world.

And so, I've asked myself and my cabinet:

-- If not us, who?

-- And if not now, when?

The time for action is upon us. The other day, Senator Pete Dominici of New Mexico, chairman of the Senate Budget Committee, visited me and recalled the comment of Joe Louis before he stepped into the ring against another strong heavyweight, Max Schmelling. "Well," said Louis, "he can run but he can't hide."

And Senator Dominici turned to me and said, "Mr. President, that's just what we're facing on runaway federal spending. We can try to run from it but we can't hide. We have to face up to it."

He's right. We no longer have the luxury of hiding from the truth.

The truth is that we have allowed things to get badly out of kilter in Washington. I can well remember the years just after World War II when we tried to live within our means. The federal budget was nearly always in balance.

We spent what we needed on essentials like national defense -- we were then the strongest power on earth -- but we carefully held down other commitments. And those turned out to be golden years -- years when America was held in awe, when we had low inflation and we enjoyed the greatest economic boom that man has ever seen.

But during the 1960s, we embraced a new philosophy. We decided that we would send a man to the moon, that we would rebuild our cities, rebuild our housing stock, cleanse our environment, lift everyone out of poverty -- and fight a faraway war.

Each one of these was a noble aspiration. Each one standing alone might have succeeded. Our mistake was that we tried to do them all -- and all at the same time.

The result was a massive explosion in federal spending. It took 170 years for the Federal budget to break the \$100 billion barrier -- that was in 1962. But then it took only eight more years to pass the \$200 billion mark, another five years to hit \$300 billion, ____ years to pass \$400 billion, and so on. Today, our budget is seven times as large as it was only two decades ago.

[When President Eisenhower left office, there were about a hundred federal programs on the books. Today there are over 800.] More than half the people in our country are now receiving assistance -- directly or indirectly -- from Washington, D.C.

The truth is that we have allowed demands to far outstrip our resources. No country can continue down that path very long without paying a frightful price, and we are no exception.

Now, how have we paid for all this spending so far? In many, many ways -- some of them hidden from view.

For one thing, we have disguised the cost of new social spending by steadily reducing our commitments to national defense. As this chart shows, national defense back in 19__ represented some ____% of the federal budget, and non-defense spending accounted for only ____%. Today, the figures are exactly the reverse: defense has sunk to ____% and non-defense has soared to ____% of the budget.

This neglect of national security has come in the teeth of the Soviet Union engaging in a massive buildup of arms. And with that has come a loss of our prestige and power across the globe. We now live in a much more dangerous era. That is why I believe that in order to preserve the peace, we must begin rebuilding our armed forces.

Now, another way we have paid for our spending binge is through higher and higher taxes. [In 1965, the average family of four paid \$1,500 a year for federal taxes; today, that same family pays out four times as much --] and that's after inflation.

This rising burden of taxation has smothered incentives to save, get ahead and invest in the future.

In fact, our savings rate is now the lowest in the industrialized, free world. And that is why I have thought it so essential to begin reducing the tax load evenly and fairly across the board. The tax bill that goes into effect next week represents the biggest single savings for the American taxpayer in our history, and it will be good not just for you but for the economy.

Now, there is still a third way that we have paid for the explosion in federal spending of recent years -- and that is through more and more deficit financing by the federal government.

This chart shows just what has happened with out deficits. Just 10 years ago, the U.S. national debt stood at \$ 400 billion. This month, the national debt will crash through the one trillion dollar mark -- more debt than all the rest of the world's governments combined (?). Just to pay the interest on our national debt now costs us \$ _____ a year in taxes for every man, woman and child in the United States.

And these deficits have been the driving force behind two of the worst plagues in our economy -- high inflation and high interest rates. To pay for deficits each year, Washington either has to print more money -- which means more inflation -- or it has to borrow, which means higher interest rates. Usually, it has done both.

For years, then, free-spending politicians in Washington have been giving you fancy new programs with one hand -- and then with the other, they have been quietly robbing you of the benefits.

"Spend and spend, elect and elect" may be a great way to win at the polls, but it's a lousy way to run an economy.

Thus, when I campaigned for the Presidency, I said that two of our highest priorities for economic recovery must be these:

- Lower tax burdens, so that we could unleash a new era of savings and investment in new jobs;
- And lower spending so that we could put an end to deficits and high inflation.

The spending bill that the Congress passed earlier this year, saving some \$37 billion, represented encouraging progress. It was a landmark in turning us in a new direction.

But I pointed out last spring -- and I have said repeatedly since -- that that was only the beginning on a long road to recovery. Still more savings were needed and needed soon.

Even now, there are many in the financial markets who are jittery because they see deficits piling up into the future. History tells them that the politicians in Washington just don't have enough courage to balance the budget.

You see, the federal budget has become like a huge truck careening down a mountain road out of control. In the past several months, we've started to put on the brakes -- but we've only slowed the truck down, we haven't stopped it.

What most of us have heard and seen so far has been the first squeal as the brakes have been applied. But what's bothering investors and borrowers on Wall Street is that they think the truck is still going to crash.

Tonight, I want to propose a program to put the brakes on more firmly over the next three years. This is a program that will help to bring the budget gradually under control and then into balance by 1984.

Before I took office, federal spending was projected to increase by a total of some \$300 billion between 1982 and 1984. To balance the budget and put our house in order, we must cut that overall growth roughly in half.

And please note that I said we must reduce the growth of spending. Some people try to confuse the issue by saying we are trying to cut current levels of spending. We're not; we're simply trying to hold down the growth -- or, if you will, applying the brakes to that runaway truck.

The total savings I am proposing tonight amount to \$70 billion over the next three years. In coming months, I will outline additional savings that will bring us up to the total amount necessary by 1984.

Now, here is how I propose that we achieve these savings of \$70 billion:

First, I propose that over the next three years, we trim increases in national defense by \$13 billion. I must confess to you my reluctance to cut even this much because our armed services have been so badly neglected, but the Secretary of Defense has assured me that he can still meet our most critical needs of our rebuilding effort.

And we also agree that like every department of government, Defense has room to improve its managerial efficiency.

Second, I propose that over the next three years we reduce the size of the federal work force by 75,000 people -- a trimming of some 6.5 percent. Most of it can come through retirement, but where appropriate, we may have to lay some people off. I see no justification, for example, for having over a thousand people in the public affairs offices of the Agriculture Department or over 400 specialists in international affairs in our domestic agencies. Let me stress that in reducing the federal work force, I want to focus on the bureaucratic overloads here in Washington -- not on essential federal personnel who are delivering services directly to you out across the country.

Third, I propose that we move swiftly ahead in dismantling the departments of energy and education, as I promised in the campaign. Several of the activities in those departments are important, and we will preserve them elsewhere in the government. We will also continue undiminished in our commitment to energy development and conservation and to quality education. But I see no reason why taxpayers must finance all of the extra bureaucratic overhead that creation of these departments has brought.

While we're at it, I also believe we must shrink the size of government in other areas by terminating some three dozen boards and commissions that have fallen into disuse or duplicate other work.

Fourth, I am proposing that we phase out general revenue sharing over the next three years. Revenue sharing in principle is a good idea; members of my party have been among its chief architects. But let's face it: Washington doesn't have much revenue to share with state and local governments. In the long run, those governments will be far better off if Washington balances its books and cures our inflation.

Fifth, I am asking all departments to join in a special belt-tightening in the coming fiscal year, 1982, to save some \$9.5 billion. This money will be saved in what Washington likes to call discretionary accounts -- programs that provide a variety of non-entitlement services. Exemptions will be made for special, vital services such as veterans hospital care and the FBI as well as defense, which is covered elsewhere. The overall objective here is do everything we can to hold the 1982 deficit to our original target of \$42.5 billion.

Sixth, I am publishing tonight planning guidance for every department and agency for additional reductions of some \$_____ billion that must be achieved in the next two years, 1983 and 1984. These guidances do not represent final decisions on any single program; rather, they will help to get us started on the 1983 and 1984 budget processes and signal the seriousness of our commitment to a balanced budget.

Seventh, I am announcing tonight a sizable reduction in Federal loan guarantees -- some \$21 billion over the next three years.

These are not funds that the government spends directly; instead, they are funds that are loaned in the private market that the government insures at subsidized rates. Our problem is that federal loan guarantees have become a form of back-door, uncontrolled subsidies that prevent many small businesses -- businesses that aren't subsidized -- from obtaining financing of their own. They are also a major factor in driving up interest rates. It is time we brought this practice under control.

Eighth, I am convening a special cabinet-level task force and asking them over the next six weeks to assemble a welfare reform package for my review. Secretary Richard Schweiker has already been busily at work on this project, and I am convinced that through intelligent reforms -- reforms that continue to protect the truly needy -- we can save as much as \$15-20 billion over the next three years.

I can well recall our experiences in California when I was governor and embarked upon welfare reform. There were many screams from those who claimed that our measures were harsh. But over ____ years time, we not only saved the state some \$____million but benefits for those who were still eligible for welfare -- and they were the truly needy -- well, their benefits went up some ____ percent. I believe we can make much the same progress on a national level.

Finally, in this talk on shrinking the size of government, let me address a subject that is very sensitive: Social Security and other federal pensions and entitlements.

I have told you on earlier occasions that Social Security is in financial trouble and we must act to preserve the integrity of the fund. I have also proposed a package of reforms -- a package that ran into heavy weather in the Congress, especially from those who would rather turn Social Security into a political football than join in a bipartisan effort to save the system.

Well, our problems in Social Security are like those in the rest of the budget -- we can run from them, but we can't hide.

So, tonight I want to grasp that nettle once again -- knowing full well the demagoguery that will follow from the other side -- but this issue is too important to play games. We simply must shore up the Social Security system so that older Americans can be safe and secure.

Toward that end, I want to make a personal appeal to all Social Security recipients and recipients of other federal pensions and entitlements to accept a one-time delay in your cost of living increases this coming year -- a delay until October 1, 1982. For those on Social Security, this will mean a delay of three months -- from July 1 to October 1. For the average recipient, it should make a difference of \$86 or less. But -- and let me emphasize this -- there will be no loss in current benefits, simply a one-time delay in the cost of living increase.

I recognize that this request involves a measure of sacrifice, but ask yourself: Is it worth it to help save the system? I think it is, and I hope you will agree.

I also pledge to you this: as we go on from here, trying to forge a bipartisan bill for long-term ways to protect the solvency of Social Security, I will continue to insist that those of you dependent on this system are adequately protected. You've worked hard to earn your benefits and you deserve to keep them.

Now, this is a rough outline of what I believe we must do in our next round of budget savings. As I've said, this total package will reduce the overall growth of spending by some \$70 billion over the next three years. And as I've said, too, we won't stop here. I am optimistic that through better management, we can find many additional ways to reduce waste, fraud and abuse in government. I have also asked Treasury Secretary Don Regan to find ways to save money through closure of tax loopholes. It is scandalous, for example, that our government loses over \$___ billion a year because our tax collection systems are so lax. You will be hearing more from me on all of these matters.

In the meantime, I know that some of the items I've discussed tonight might have sounded confusing and heavily laden with Washington jargon. Let me just say that as I made these decisions, I found it very helpful to stick to three basic rules. Let me tell you what they've been:

- First, Washington must continue to provide vital services as efficiently as possible. National defense, enforcement of our laws, protection of our human and natural resources -- these are all vital.
- Second, as a generous people, we must continue to provide a helping hand to the truly needy. There shall be no retreat from that commitment.
- But third, we owe it not just to ourselves but to future generations to preserve the financial stability of our nation.

We simply cannot afford all of our good intentions. Just because a program sounds wise and wonderful does not mean we have the funds to pay for it. If there is any lesson from the past 20 years, surely it is the fact that we have gone so far overboard that we have brought down upon us a decade of ruinous inflation and unemployment. Does anyone doubt that if we continue this way, there is only one way it will end?

In my current job, I don't get the chance to talk to as many of you as I once did. But I still hear from many of you who take the time to write. Those letters come from many different Americans: from a nursing home resident in Florida who writes about the bewildering ways of Government or a young black man in Los Angeles who says he wasn't sure at first, but is now convinced that with a little resolve and

sacrifice we can walk the road we have charted for the future.

And last week, from a mother in Iowa, came this letter. It says, I believe, all that needs to be said about whether the spirit of selflessness and idealism is still alive today in America.

"Tonight I am alone in my son's bedroom. He no longer lives here. These are supposed to be the years to which I've been looking forward, but I don't seem to handle empty bedrooms well. This is my third.

"A week ago, my son was still enrolled in the college of his choice. Tonight, he is in a strange motel somewhere. Tomorrow, he steps onto an airplane which will take him far away. He has selected and enlisted in a branch of the United States Armed forces.

"During these past weeks, I have sensed and seen him about the process of pulling away, cutting the cord -- getting ready to leave the next. I saw him bequeath some valuable possessions like his penny collection and his baseball cards. They went to a couple of small boys in his Pied Piper following on the block. Lately I have noted that comments and remarks directed to family members have taken on a gentle tone of voice. I saw him wax his car -- again, and he told me I'm a great cook! And so, I now take my place among the thousands of other mothers, who through the years, have watched a son leave home to serve his country. Surely their feelings were not so different from mine tonight. . ."

She went on to movingly describe other thoughts and memories and then said at the end:

"Thank you for taking the time while running a nation, to listen to the passions of a mother's heart. I feel better now, having shared my feelings tonight. And please, will you be especially careful with the country just now?"

I've answered that letter and promised I would be careful. And that is the reason I am speaking to you tonight. I made that promise for all of us.

Good night, and God bless you all.

If this were a "State of the Union" address I would point out that, at long last, [inflation has fallen below double digits and that pressures are easing on both food and fuel prices]. Further good news would be that [over a million more Americans are at work today than there were late last year.] [We have cut the flood of new government regulations in half] and [in a week the biggest cut in tax rates in our Nation's history will go into effect.]

That tax cut was, as you know, accompanied by the greatest reduction in Federal spending in our history and that too goes into effect in a week as the new fiscal year begins on October 1.

These last two items are what I'd like to talk to you about tonight - what we have called our "Economic Recovery Program." It wouldn't have been possible without your help. Your voices were heard in Washington and they were heeded by those you've chosen to represent you in government.

In recent weeks a different chorus of voices has been raised protesting that we haven't had economic recovery yet; that interest rates are driving small businesses to the wall, and people are unable to buy or build homes for themselves. And all of this is true. But these voices are the same ones that were raised against our program when it was first presented to the Congress. Now that it has been passed they declare it hasn't worked. Well it hasn't - for the simple reason that [it doesn't start until one week from today.]

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But let me be the first to say our problems won't suddenly disappear next week or next month or for that matter next year. Next week we will start on a road that I believe will lead us out of the economic swamp we've been in for so long. But the bitter inheritance of the '70's will be with us for a while in the '80's. [It will take time for the effect of the tax rate reductions to be felt in increased productivity, jobs and prosperity.]

It will take time for the budget cuts to reduce the [budget deficits which have brought us near runaway inflation and in turn the ruinous interest rates.]

These interest rates are hurting all of us including government. They will only come down when government no longer is competing in the money market with people who want to buy or build homes and businesses seeking capital for expansion. As this fiscal year ends, for example, [we will have to borrow to pay the huge deficit we inherited.] [Maybe you'll remember we were told in March of 1980 that the 1981 budget would be balanced.]

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[When we presented our economic recovery program to Congress we said we were aiming for a budget deficit of \$42.5 ^{45.0} billion in 1982.] [The proposed budget left to us in January was about double that amount.] [Well about \$35 billion of program was passed as you well know.] But in the ~~e~~uphoria of the moment we didn't point out immediately that while we did get most of what we'd asked for, most isn't all.] [Some of the cuts in our proposal were omitted and a number of additional spending measures were added during the legislative process.]

[The result is that without further reductions our \$42.5 billion deficit for 1982 will be increased by some \$18 billion.] [The estimated deficit for '83 will be increased proportionately.] [And without further ongoing cuts we can't achieve our goal of a balanced budget by 1984.] [Added to this is the unanticipated increase in the cost of borrowing to meet those deficits due to the high interest rates.]

It would be easy to sit back and say, "Well, it will take longer than we thought. We got most of what we proposed." But that's not good enough. Yes [the budget for the coming year has been reduced by \$35 billion and that will mean a \$43 billion reduction in 1983 and \$51 billion in 1984.] But those budget projections had been based on the runaway spending of 1981. [The rate of increase was 14½% a year.] [We aim to cut that by more than half.] If we don't, continued budget deficits will keep interest rates high and drastically slow our fight against inflation. X

In meeting to discuss this problem a few days ago, Sen. Pete Domenici of New Mexico, Chairman of the Senate Budget Committee [recalled the words of that great heavy-weight champion Joe Louis just before he stepped into the ring against the German Champion Max Schmelling. There had been some speculation that Max might be able to avoid Joe's lethal right hand. Joe said, "Well, he can run but he can't hide."]

[Senator Domenici said to me, "That's just what we're facing on runaway Federal spending. We can try to run from it but we can't hide. We have to face up to it."]

He's right, of course. In the last few decades we started down a road that led to a massive explosion in Federal spending.

[It took ^{some} 170 years for the Federal budget to reach \$100 billion. X

That was in 1962. But then it only took 8 years to reach the \$200 billion mark and only 5 more to make it 300 billion. In

[the next 5 we ^{almost} doubled that.] X

[When President Eisenhower left office there were only about 100 Federal programs on the books - now there are more than 800.] ?

Baroody

[More than half the people in our land are receiving assistance - directly or indirectly - from Washington.] (1103) Catalog of fed domst assist?

It would be one thing if we'd been able to pay for all the things government decided to do but [we've only balanced the budget once in the last 20 years.] X

[Ten years ago our national debt was \$400 billion.] [In the next few days it will pass the trillion dollar mark.] [Our interest payments alone were more than \$74 billion last year.] [That is ^{nearly} ~~more~~ X

^{as-much-as} ~~the~~ the total combined profits of the "Fortune 500 companies;" the biggest most profitable in our land.] X

In addition to borrowing we've levied higher and higher taxes on our people. [In 1965 the average family of 4 paid \$1500 a year to the Federal government. Today the bill is 4 times that much.] Baroody

[Government is the biggest single cost item in the American family budget.] Chris Rignato X(6698)

There were other methods used to fund some of our social experiments. [One was to take it away from National Defense.] [From being the strongest nation on earth in the post W.W. II years we steadily declined while the Soviet Union engaged in the most massive military buildup the world has ever seen.] ~~New with all~~ X

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Now with all our economic troubles we are forced to try and catch up so that we can preserve the peace. [Government's first responsibility is national security and we are determined to meet that responsibility.] Indeed we have no choice.

Well what all of this is leading up to is - what do we plan to do? [Last week I met with the Cabinet and we took up the matter of an answer to this question.] I'm proud to say there was no hand wringing, no pleading to avoid further budget cuts. We're all agreed that the "tax and tax, spend and spend" policies of the last few decades lead only to economic disaster. Our Government must return to the ways of fiscal responsibility and must do so now. [We asked ourselves and answered 2 questions - "If not us - who? If not now - when?"]

No one asked to be exempt from further cuts. [Over the next 3 years the increase in the Defense budget will be trimmed by \$13 billion.] I'll confess, I was reluctant about this because of the long way we have to go before the dangerous window of vulnerability confronting us will be appreciably narrowed. But [the Secretary of Defense assured me he can meet most of our critical needs in spite of this cut.]

[Next it was decided to shrink the size of government by about 6 1/2% - some 75,000 employees. Most of this will be attained by not replacing those who retire. There will, however, be some reductions in force simply because we are reducing our administrative functions.]

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accomplish most of this

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[An example of that will be the dismantling of 2 cabinet agencies - the Department of Energy and the Department of Education.]

[Both Secretaries are wholly in accord with this.] [Some of the activities in both these agencies will, of course, be continued either independently or in other areas of government.]

[We also plan the elimination of a number of boards and commissions some of which have fallen into disuse or which are now being duplicated.]

[All departments are being asked to reduce what are called discretionary accounts - programs providing a variety of services.] ?

[This does not include what are called entitlements, the payment of benefits to those in need of help.]

[Exemptions in these discretionary accounts will be such services as the Veterans hospitals, the F.B.I., etc.]

[We intend to make sizable reductions in Federal loan guarantees - some \$21 billion ^{in fiscal '82 alone (insert)} ~~over the next 3 years~~ These are not funds that the government spends directly; they are funds that are loaned in the private market that the government insures as subsidized rates. Our problem is that Federal loan guarantees have become a form of back-door, uncontrolled subsidies that prevent many small businesses -- businesses that aren't subsidized -- from obtaining financing of their own. They are also a major factor in driving up interest rates. It is time we brought this practice under control.] X

[I am convening a special cabinet-level task force and asking them over the next six weeks to assemble a welfare reform package.]

[Secretary Richard Schweiker has already been busily at work on this project,] and I am convinced that through intelligent reforms --

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exactly same in fact as direct borrowing

reforms that continue to protect the truly needy -- [we can save as much as \$15-20 billion over the next three years.]

[In California when I was Governor and embarked upon welfare reform, there were screams from those who claimed that we intended to victimize the needy. [But over 3 years time, we saved the tax payer some \$2 billion at the same time we were able to increase the grants for the deserving and truly needy by an average of 43%.] [It was the first cost of living increase they had received in 15 years.] I believe something of this kind can be done at the national level.

There are other items in addition to planning the reductions for 1983 and 84 which we announced would be necessary when we sent the economic package to Congress.

Let us have no illusions. We are going through a period of difficult and painful readjustment. I know that we are asking for sacrifices from virtually all of you. But there is no alternative. Some of those who oppose this plan have participated over the years in the extravagance that has brought us inflation, unemployment, high interest rates and an intolerable debt. I grant they were well intentioned, but their costly reforms didn't eliminate poverty or raise welfare recipients from dependence to self-sufficiency, independence and dignity. Yet in their objections to what we've proposed they offer only what we know now has failed.

I believe we've chosen a path that leads to an America at work, to fiscal sanity, to lower taxes and no inflation. I believe our plan for recovery is sound and it will work.

Tonight I'm asking all of you who joined in this crusade to save our economy to help again. To let your representatives know that you'll support them in making the hard decisions to further reduce the cost and size of government.

Now if you'll permit me I'd like to turn to another subject which I know has many of you very concerned and even frightened. This is an issue apart from the economic reform package we've first been discussing but I feel I must clear the air. There has been a great deal of misinformation and, for that matter, pure demagogery on the subject of Social Security.

(More to follow)

Good evening.

Shortly after taking office, I came before you to map out ^{4 PART} a plan for national economic recovery. There were ~~four main parts to our program:~~

- Tax cuts to stimulate more growth and more jobs;
- Spending cuts to put an end to continuing deficits and high inflation;
- Regulatory relief to lift the heavy burden of government rules and paperwork;
- And finally, I ~~recommended~~ a steady, consistent monetary policy.

~~Over these past several months,~~ ^We have made strong, encouraging progress on all four fronts. The flood of new governmental regulations, for example, has been cut by more than a third.

I was especially pleased ^{WHEN} ~~with actions taken by Congress this summer.~~ ^{As} a bipartisan coalition of Republicans and Democrats ~~joined together,~~ we enacted the biggest tax cuts and the greatest reduction in Federal spending in our nation's history. ~~And~~ ^{Both} will begin to take effect a week from today.

~~Let me say that~~ ^These two bills would never have passed without your help. Your voices were heard in Washington, and ~~they~~ were heeded by those you've chosen to represent you in government.

Yet, in recent weeks we've begun to hear a chorus of ^{OTHER} voices protesting that we haven't had full economic recovery. ~~This is true. But~~ These ~~voices~~ are the same ^{Voices} ~~ones~~ that were raised against our program when it was first presented to ~~the~~ Congress. Now that the first part of it has been passed, they declare it hasn't worked. Well it hasn't -- ~~for the simple reason that~~ it doesn't ~~really~~ start until one week from today.

There have been some bright spots in our economic performance these past few months. ~~At long last,~~ Inflation has fallen and pressures are easing on both food and fuel prices. More than a million more Americans are now at work than a year ago. And recently there has even been a small crack in interest rates.

But let me be the first to say that our problems ~~are~~ ~~deep seated.~~ ~~They~~ won't suddenly disappear next week, next month or ~~for that matter~~ next year. We are just starting down a road that I believe will lead us out of the economic swamp we've been in for so long. ~~But the bitter inheritance of the 70s will be with us for a while in the 80s.~~

It will take time for the effect of the tax rate reductions to be felt in increased savings, productivity and new jobs. It will also take time for the budget cuts to reduce the ~~budget~~ deficits which have brought us near runaway inflation and, ~~in turn,~~ the ruinous interest rates.

The important thing now is to hold to a firm, steady course. As I've had an opportunity to travel recently and to read the mail that so many of you take the time to write, I've heard one message over and over: "Don't lose your nerve at the first cries from the critics. Don't repeat the mistakes of the past. Stay on course because this is the only way out of our economic troubles." Let me assure you that we will do just that.

Tonight I want to talk with you for ~~a few moments~~ about the next steps that we must take ~~along~~ ^{ON} that ~~path~~ ^{COURSE} -- additional reductions in federal spending that will help ~~to~~ lower our interest rates, ~~lower~~ our inflation and bring us closer to full economic recovery.

I know that high interest rates are punishing many of you -- from the young family that wants to buy its first home to the farmer who needs a new truck or tractor. But all of us know that interest rates will only come down and stay down when government is no longer borrowing huge amounts of money to cover ~~all~~ of its deficits.

These deficits have been piling up every year, and some people here in Washington ~~almost~~ ^{just} throw up their hands in despair. Maybe you'll remember that we were told in the spring of 1980 that the ~~next~~ ¹⁹⁸¹ budget would be balanced. Well, that budget -- like ~~too~~ ⁵⁰ many in the past -- hemorrhaged badly and wound up in a sea of red ink.

I have pledged that we shall not stand idly by and see that same thing happen again. When I presented our economic recovery program to Congress, I said we were aiming to cut the deficit steadily ~~downward~~, ^{TO REACH A} reaching balance by 1984.

~~We made an historic start toward shrinking the growth of big government in~~ The budget bill that I signed this summer ~~That bill~~ cut \$35 billion from the 1982 budget and slowed the growth of spending by \$130 billion over the next three years. ~~In one clean sweep,~~ We cut the government's rate of growth nearly in half.

Now we must move on to a second round of budget savings -- ~~savings that will~~ ^{To} keep us on the road to a balanced budget.

Our immediate challenge is to hold down the deficit in the coming year, ~~1982~~ ^{to} a fiscal year that ~~actually~~ begins next week. ~~As in the past,~~ A number of threats are now appearing that will drive the deficit upward if we fail to act. For example, in the euphoria just after our budget bill was approved this summer, we didn't point out immediately that while we did get most of what we'd asked for in ~~savings~~, most isn't all. Some of the savings in our proposal were not approved; and since then, the Congress has ~~also~~ taken actions that could add even more to the cost of government.

The result is that without further reductions, our deficit for 1982 will be increased by some \$16 billion. The estimated deficit for '83 will be increased proportionately.

And without further cuts, we can't achieve our goal of a balanced budget by 1984. ~~Added to this is the unanticipated increase in the cost of borrowing to meet these deficits due to the high interest rates.~~

It would be easy to sit back and say, "Well, it will take longer than we thought, ~~to put our house in order.~~ We got most of what we proposed, so let's stop there." But that's not good enough. ~~If we don't hold to a steady course of shrinking the growth of government, we will have continued big deficits — deficits that will keep interest rates high, and drastically slow our fight against inflation.~~

In meeting to discuss this problem a few days ago, Senator Pete Domenici of New Mexico, Chairman of the Senate Budget Committee, recalled the words of that great heavy-weight champion Joe Louis just before he stepped into the ring against Billy Conn. There had been some speculation that Billy might be able to avoid Joe's lethal right hand. Joe said, "Well, he can run but he can't hide."

Senator Domenici said to me, "That's just what we're facing on runaway Federal spending. We can try to run from it but we can't hide. We have to face up to it."

He's right, of course. In the last few decades we started down a road that led to a massive explosion in Federal spending. It took about 170 years for the Federal budget to reach \$100 billion. That was in 1962. ~~But then~~ It only took 8 years to reach the \$200 billion mark and only 5 more to make it \$300 billion. In the next 5 we nearly doubled that.

It would be one thing if we'd been able to pay for all the things government decided to do, but we've only balanced the budget once in the last 20 years.

In just the past decade, our national debt has more than doubled. And in the next few days it will pass the trillion dollar mark. One trillion dollars of debt -- if we as a nation need a warning, let that be it.

Our interest payments on the debt alone are now running more than \$96 billion a year. That's more than the total combined profits of the 500 biggest companies in the country; or to put it another way, Washington spends more on interest than on all of its education, nutrition and medical programs combined.

In the past, there have been several methods used to fund some of our social experiments. One was to take it away from National Defense. From being the strongest nation on earth in the post WW II years we steadily declined, while the Soviet Union engaged in the most massive military buildup the world has ever seen.

Now with all our economic problems, we are forced to try to catch up so that we can preserve the peace. Government's first responsibility is national security, and we are determined to meet that responsibility. Indeed, we have no choice.

Well, what all of this is leading up to is -- what do we plan to do? Last week I met with the Cabinet ^{TO TAKE} ~~and we took~~ up the matter.

I'm proud to say there was no hand wringing, no pleading to avoid further budget cuts. We all agreed that the "tax and tax, spend and spend" policies of the last few decades lead only to economic disaster. Our government must return to the tradition of living within our means and must do it now. We asked ourselves two questions -- and ^{ANSWERS FROM} ~~the~~ ~~answers weren't long in coming~~: "If no^t us -- who? If not now -- when?"

Let me talk with you now about the specific ways that I believe we ought to achieve additional savings -- savings of some \$16 billion in 1982 and a total of \$80 billion when spread over the next three years. I recognize that many in Congress may have other alternatives, and I welcome a dialogue with them. But let there be no mistake: we have no choice but to continue down the road toward a balanced budget -- a budget that will keep us strong at home and secure overseas. And let me be clear that this cannot be the last round of cuts. Holding down spending must be a continuing battle for several years to come.

~~Now, Here is what I propose as our next steps:~~

First, I am asking Congress to reduce the 1982 appropriation for most government agencies and ^{programs} ~~programs~~ by 12 percent. This will save \$17.5 billion over the next several years. ~~In some cases~~, Absorbing these reductions will not be easy, but duplication, excess, waste and overhead is still far too great and can be trimmed further.

~~There is simply no other choice: if we spend what we don't have, we'll have more of what we don't want -- rising deficits, renewed inflation and a delay in economic recovery.~~

No one asked to be exempt from belt-tightening. Over the next three years, the increase we had originally planned in the Defense budget will be cut by \$13 billion. I'll confess, I was reluctant about this because of the long way we have to go before the dangerous window of vulnerability confronting us will be appreciably narrowed. But the Secretary of Defense assured me he can meet ~~most of~~ our critical needs in spite of this cut.

Second, to achieve further economies, we will shrink the size of the non-defense payroll over the next three years by some 6 1/2% -- some 75,000 employees. Much of this will be attained by not replacing those who retire or leave. There will, however, be some reductions in force simply because we are reducing our administrative overhead.

I intend to set the example here by reducing the size of the White House staff and the staff of the Executive Office of the President.

As a third step, I ~~am proposing~~ ^{we propose} to dismantle two Cabinet departments -- Energy and Education. Both Secretaries are wholly in accord with this. Some of the activities in both of these departments will, of course, be continued either independently or in other areas of government.

There is only one way to shrink the size and cost of big government -- that is by eliminating agencies that are not needed and are getting in the way of a solution.

We do not need an Energy Department to solve our energy problem: as long as we let the forces of the marketplace work without undue interference, the ingenuity of consumers, businesses, producers and inventors will do that for us.

Similarly, education is the principal responsibility of local school systems, teachers, parents, citizen boards and state governments. By eliminating the Department of Education less than two years after it was created, we can not only reduce the budget but ensure that local needs and preferences -- rather than the wishes of Washington -- determine the education of our children.

We also plan the elimination of a few smaller agencies and a number of boards and commissions, some of which have fallen into disuse or which are now being duplicated.

Fourth, we intend to make ~~sizable~~ reductions of some \$20 billion in Federal loan guarantees. These guarantees are not funds that the government spends directly; they are funds that are loaned in the private market ~~that the government~~ ^(BY GOVT.) insured ~~at~~ subsidized rates. ~~Our problem is that~~ Federal loan guarantees have become a form of back-door, uncontrolled borrowing that prevent many small businesses -- ~~businesses~~ that aren't subsidized -- from obtaining financing of their own.

They are also a major factor in driving up interest rates.

It is time we brought this practice under control.

Fifth, I intend to forward to Congress this fall a new package of entitlement and welfare reform measures -- outside Social Security -- to save nearly \$27 billion over the next three years. In the past two decades, we have created hundreds of new programs to provide personal assistance. Many of these programs may have come from a good heart, but not all have come from a clear head. And the costs have been staggering. In 1955, these programs cost \$8 billion. By 1965 the cost was \$79 billion. Next year it will be \$188 billion.

Let there be no confusion on this score. Benefits for the needy will be protected. But the black market in food stamps must be stopped. The abuse and fraud in medicaid by beneficiaries and providers alike cannot be tolerated. Provision of school loans and meal subsidies to the affluent can no longer be afforded.

In California when I was Governor and embarked upon welfare reform, there were screams from those who claimed that we intended to victimize the needy. But ^{IN A LITTLE OVER 3} ~~OVER 13~~ years time, we saved the taxpayer some \$2 billion at the same time we were able to increase the grants for the deserving and truly needy by an average of more than 40%. It was the first cost of living increase they had received in 13 years. I believe progress can also be made at the national level.

We can be compassionate about human needs without being complacent about budget ~~excess~~ *extravagance*.

Sixth, I will soon urge Congress to enact new proposals to eliminate abuses and obsolete incentives in the tax code. The Treasury Department believes that the deficit can be reduced by \$3.0 billion next year and \$22 billion over the next three years with prompt enactment of these measures.

Now that we have provided the greatest incentives for saving, investment, work and productivity ever proposed, we must also ensure that taxes due the government are collected and that a fair share of the burden is borne by all.

Finally, I am renewing my plea to Congress to approve my proposals for user fees -- proposals first suggested last spring, but which have been neglected since.

When the Federal government provides a service directly to a particular industry or to a group of citizens, I believe that those who receive benefits should bear the cost. For example, this next year the Federal government will spend \$525 million to maintain river harbors, channels, locks, and dams for the barge and maritime industries. Yacht owners, commercial vessels and the airlines will receive services worth \$2.8 billion from Uncle Sam.

My spring budget proposals included legislation that would authorize the Federal government to recover a total of \$980 million from the users of these services through fees.

That is only a third of the \$3.3 billion it will cost the government to provide those same services. ~~I believe it is fair to ask these groups to bear more of the cost of services from which they benefit directly.~~

None of these steps will be easy. We are going through a period of difficult and painful readjustment. I know that we are asking for sacrifices from virtually all of you. But there is no alternative. Some of those who oppose this plan have participated over the years in the extravagance that has brought us inflation, unemployment, high interest rates and an intolerable debt. I grant they were well intentioned but their costly reforms didn't eliminate poverty or raise welfare recipients from dependence to self-sufficiency, independence and dignity. Yet in their objections to what we've proposed they offer only what we know ~~now has failed.~~ *has been tried before & failed.*

I believe we've chosen a path that leads to an America at work, to fiscal sanity, to lower taxes and less inflation. I believe our plan for recovery is sound and it will work.

Tonight I'm asking all of you who joined in this crusade to save our economy to help again. To let your representatives know that you'll support them in making the hard decisions to further reduce the cost and size of government.

Now if you'll permit me, I'd like to turn to another subject which I know has many of you very concerned and even frightened. This is an issue apart from the economic reform package we've first been discussing, but I feel I must clear the air. There has been a great deal of misinformation and for that matter pure demagoguery on the subject of Social Security.

During the campaign I called attention to the fact that Social Security had both a short and a long range fiscal problem. I pledged to do my best to restore it to fiscal responsibility without in any way reducing or eliminating existing benefits for those now dependent on it.

To all of you listening and particularly those of you now receiving Social Security, I ask you to listen very carefully: first to what threatens the integrity of Social Security and then to a possible solution.

When Social Security began there were 16 people working and paying the Social Security payroll tax for every one retiree. Today that ratio has changed to only 2.8 workers paying in for each beneficiary.

For many years we've known that an actuarial imbalance existed and that the program faced an unfunded liability of several trillion dollars.

The short range problem is much closer than that. The Social Security ^{retirement} trust fund has been paying out billions of dollars more each year than it takes in and it ^{could} will run out of money before the end of 1982 unless something is done.

critics

Some of our ^{critics} opponents claim new figures reveal a cushion of several billions of dollars which will carry the program beyond 1982. I'm sure it's only coincidence that 1982 is an election year.

The cushion they speak of is borrowing ^{from} the Medicare fund and the disability fund. Of course doing this would only postpone the day of reckoning. Alice Rivlin of the Congressional Budget Office told a Congressional committee day before yesterday that such borrowing might carry us to 1990, but then we'd face the same problem. And as she put it we'd have to cut benefits or raise the payroll tax. ~~But the~~ *WELL WE'RE NOT GOING TO*

UT BENEFITS & THE payroll tax is already being raised.

In 1977 Congress passed the largest tax increase in our history. It called for a payroll tax increase in January of 1982, another in 1985, and again in 198⁶ and 1990ⁱⁿ.

When that law was passed we were told it made Social Security safe until the year ²⁰³⁰ ~~2015~~. But we're running out of money ⁴⁸ ~~33~~ years short of 2030.

For more than half the nation's work force, the Social Security tax is already the biggest tax they pay. In ~~1937~~ 1935 we were told the tax would never be greater than ~~12%~~ of the first \$3,000 of earnings. It is presently 13.3% of the first \$29,700 and the scheduled increases will take it to 15.3% of the first \$66,900. And that's when ^{Miss} Rivlin says we would need an additional increase.

27%
62

Some have suggested reducing benefits, others propose an income tax on benefits or that the retirement age should be moved back to age 68. And there are some who would simply fund Social Security out of general tax funds as welfare is funded. I believe there are better solutions.

I am asking the Congress to restore the minimum benefit for current beneficiaries with incomes, ^{low} ~~if less than \$6,000~~

~~per individual and \$7,500 per couple.~~ It was never our intention to take this support away from those who truly need it. There is, however, a sizable percentage of recipients who are adequately provided for by pensions or other income and should not be adding to the financial burden of Social Security.

The same situation prevails with regard to disability payments. No one will deny our obligation to those with legitimate claims. But there is widespread abuse of the system which should not be allowed to continue.

Since 1962 early retirement has been allowed at age 62 with 80% of full benefits.

In our proposal we asked that early retirees in the future receive 55% of the total benefit. But, and this is most important, those early retirees would only have to work an additional 20 months to be eligible for the 80% payment. I don't believe very many of you were aware of that part of our proposal.

The only change we proposed for those already receiving Social Security had to do with the annual cost of living adjustment.

Those adjustments are made on July 1st each year, a hang over from the days when the fiscal year began in July. We proposed a one time delay in making that adjustment, postponing it for three months until October 1st. From then on it would continue to be made every 12 months. That one time delay would not lower your existing benefits but would on the average reduce your increase by about \$86, ^{next year.} By making these few changes we would ^{HAVE} solved the short and long range problems of Social Security once and for all.

In addition we could ^{HAVE} cancel the increases in the payroll tax by 1985. To a young person just starting in the work force the savings from cancelling those increases would, on the average, amount to \$33,000 by the time ^{HAVE OR SAVE} they reached retirement. Add compound interest to this and it makes a tidy nest egg to add to ^{THE} ~~their~~ Social Security benefits.

However, let me point out our feet were never embedded in concrete on this proposal. We hoped it could be a starting point for a bi-partisan solution to the problem. We were ready to listen to alternatives and other ideas which might improve on or replace our proposals. But the majority leadership in the House of Representatives ^{HAS} refused to join in any such cooperative effort.

I therefore am asking, as I said, for restoration of the minimum payment and for interfund borrowing as a temporary measure to give us time to seek a permanent solution.

To remove Social Security once and for all from politics, I am also asking Speaker Tip O'Neile^e of the House of Representatives and Majority Leader in the Senate Howard Baker to each appoint five members and I will appoint five to a task force which will review all the options and come up with a plan that assures the fiscal integrity of Social Security and that Social Security recipients will continue to receive their full benefits.

I cannot and will not stand by and see financial hardship imposed on the more than ³⁶~~30~~ million senior citizens who have worked and served this nation throughout their lives. They deserve better from us.

Now in conclusion, let me return to the principal purpose of this message -- the budget and the imperative need for all of us to ask less of government; to help us return to spending no more than we take in; to end the deficits and bring down interest rates that otherwise can destroy what we've been building here for two centuries.

I know that we are ~~economizing in~~ ^{ASKING FOR ECONOMIES IN} many areas and programs that were started with the best of intentions and a dedication to a worthwhile cause or purpose. But I know also that some of these programs have not succeeded in their purpose. Others have proven too costly, benefiting those who administer them, rather than those who were the intended beneficiaries.

This does not mean we should discontinue trying to help where help is needed. Government must continue to do its share, but I ask all of you as private citizens to join this effort, too.

75 18

insert:

He was typical of those Americans who helped build a neighbor's barn when it burned down. They built the West without an area redevelopment plan and cities across the land without ~~urban renewal~~.

Federal planners.

As a people we have a proud tradition of generosity. More than a century ago a Frenchman came to America and later wrote a book for his countrymen telling them what he had seen here. He told them that in America ^{WHEN} a citizen ~~would~~ ^{SAW} a problem that needed solving, He would cross the street and talk to a neighbor about it and the first thing you know a committee would be formed and before long the problem would be solved. "And then," he added, "you may not believe this but not a single bureaucrat would ever ~~be~~ HAVE BEEN involved."

Some years ago when we were a young nation ^{detoquerville} ^{ope priv sec unit} LAND OUR PEOPLE began visiting the lands of ^{THEIR} ~~our~~ forefathers. The American tourist ~~of that day~~ was rather brash, unsophisticated by European standards but blessed with a spirit of independence and pride.

One such tourist, an elderly, small town gentleman and his wife, were listening to a tour guide go on about the wonders of the volcano Mt. Etna. He spoke of the great heat it generated, the boiling lava etc. ~~and went on~~ ^{FINALLY} the old boy turned to his wife and said "We got a volunteer fire department at home -- put that thing out in 15 minutes."

He was typical of those And who helped build

I believe the spirit of volunteerism still lives in America. We see examples of it on every hand -- the community charity drive, support of hospitals and all manner of nonprofit institutions, the rallying around when disaster or tragedy strikes.

The truth is we've let government take away many things we once considered were really ours to do voluntarily out of the goodness of our hearts and a sense of community pride and neighborliness.

a neighbor's barn when it burned down. They built

and cities across the area rebuilding new plans

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The truth is we've let government take away many things we once considered were really ours to do voluntarily out of the goodness of our hearts and a sense of community pride and neighborliness.

I believe many of you want to do those things again, want to be involved if only someone will ask you or offer the opportunity. Well we intend to make that offer.

We are ~~going to launch~~^{LAUNCHING} a nationwide effort to encourage our citizens to join with us in finding where need exists and then to organize volunteer programs to meet that need. We have already set the wheels of such a volunteer effort in motion.

As Tom Paine said 200 years ago: "We have it within our power to begin the world over again."

What are we waiting for?

Quote's hardly a knockout

Washington (News Bureau)—In his speech on the economy Thursday night, President Reagan quoted New Mexico's Sen. Pete Domenici as recalling a comment of heavyweight boxer Joe Louis before he took on Billy Conn: "He can run but he can't hide."

Wrong.

Louis made the famous remark Sept. 20, 1939, on the eve of his second fight with Bobby Pastor, who had fled around the ring to escape Louis' fists in the first bout two years earlier. Pastor couldn't hide the second time out with Louis. He was knocked out in the 11th round.

Ron: Shop for wealth in market

By BRUCE DRAKE

Washington (News Bureau)—President Reagan yesterday told developing nations that their best hope for progress lies in "the magic of the marketplace" and reform of their own economies rather than in more aid from wealthy countries like the U.S.

"The domestic policies of developing countries are . . . the most critical contribution they can make to development," Reagan said at the annual meeting of the International Monetary Fund and the World Bank.

"UNLESS A NATION puts its own financial and economic house in order, no amount of aid will produce progress."

Reagan's remarks to finance ministers and central bank governors representing 141 nations further underlined an administration message that

was delivered at the United Nations last week by Secretary of State Haig.

Reagan said that the key ingredient common to those "societies which have achieved the most spectacular, broad-based economic progress in the shortest period of time . . . is their willingness to believe in the magic of the marketplace."

Looking forward to the disappointment that have-not nations may voice when they sit down next month in Cancun, Mexico, for a summit with the U.S. and other developed countries, Reagan said:

"Let us put an end to the divisive rhetoric of us versus them, north versus south.

"Instead, let us decide what all of us, both developed and developing countries, can accomplish together."

Take a punch and flight back

Washington (News Bureau)—The White House yesterday stood behind its mastery of boxing lore,

saying that President Reagan was correct in last week's economic speech when he quoted the late heavyweight champ Joe Louis making this pre-fight prediction on a bout with Billy Conn: "He can run, but he can't hide."

The Daily News wrote last week that Reagan was wrong in pegging the remark to the Conn fight and that Louis had uttered the famous words on Sept. 20, 1939, about his forthcoming fight with Bob Pastor.

But White House Director of Public Affairs Michael Baroody cited two sources to back up the President yesterday. He said the Louis quote about the Conn fight was authenticated in the book "Nobody Said it Better" compiled by Miriam Ringo and published by Rand McNally. And he said also that Steve Bell, an aide to Sen. Pete Domenici (R-N.M.), who had reminded Reagan of the quote, confirmed its link to the Conn bout with a boxing expert at Ring Magazine.

Laurel, Iowa
August 6, 1981

President Ronald Reagan
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President,

Tonight I am alone in my son's bedroom. He no longer lives here. These are supposed to be the years to which I've been looking forward, but I don't seem to handle empty bedrooms well. This is my third.

A week ago, my son was still enrolled in the college of his choice. Tonight, he is in a strange motel somewhere. Tomorrow, he steps onto an airplane which will take him far away. He has selected and enlisted in a branch of the United States Armed forces.

During these past weeks, I have sensed and seen him about the process of pulling away, cutting the cord - getting ready to leave the nest. I saw him bequeath some valuable possessions like his penny collection and his baseball cards. They went to a couple of small boys in his Pied Piper following on the block. Lately I have noted that comments and remarks directed to family members have taken on a gentle tone of voice. I saw him wax his car - again, and he told me I'm a great cook! And so, I now take my place among the thousands of other mothers, who through the years, have watched a son leave home to serve his country. Surely their feelings were not so different from mine tonight.

Actually, it's all quite appropriate. This is a guy who grew up in a room wallpapered with flags and muskets and drums. He regularly ran Old Glory up the flag pole in the back yard before breakfast in those days. He and his big brother had G.I. Joe uniforms, sizes four and six and I remember seeing them sneaking up the little hill in the neighbor lady's back yard on their stomachs! I wonder how many times I picked little plastic army men up from under the furniture. All those toys and memories have been packed away for years. But, I feel like the need to bring them out and handle them tonight. He has examined the options as I suggested and the choices he has made are taking him far away from me. He believes there are opportunities for him in education, travel and experience. No doubt there are.

President Ronald Reagan
August 6, 1981
page two

Net → There is a stack of thirsty terry towels I had bought for a college basketball player. He left them here. He left the shampoo and soap and cords and sweaters too. He won't need those things, his country will now provide for all his needs. He thinks he's getting a good deal. No doubt he is. Personally, I am inclined to believe the country is getting the good deal. In exchange for all their provisions, they are getting one tall, tan fellow with summer bleached hair, a sharp young mind and more potential and possibility than I have the space here to describe.

And so tonight, here in the shadows, here in the quiet, a dumb orange stuffed tiger and I sit together absorbing the intensity of this special day. I stepped over a tread-worn pair of size thirteen Nikes and there are trophies, photos of pretty girls, a dusty Bible and a tape deck with the volume finally turned down.

I have already marked the nine weeks point on the calendar and have a picture in my mind of him coming home with presents, in a uniform at Christmas! I am feeling especially thankful for the Hardy Boys mysteries I did get read, the chocolate marble cakes I did get baked and the long, quiet talks that did happen. There are other memories I will try and forget.

Thank you for taking the time while running a nation, to listen to the passions of a mother's heart. I feel better now, having shared my feelings tonight. And please, will you be especially careful with the country just now? Thanks.

Sincerely, →

Dorothy Nuese

Mrs. Dorothy Nuese
Box 22
Laurel, Iowa 50141

Churchill - Hist WWII

Conference settles financial markets
Roosevelt - diff bet Dem/Dictatorship
not spending cuts, defense cuts
takes longer, but once they get there

good "look to future, don't quit now" quotes

Econ address where RR says its only beginning

fuel tightening

reconciliation fell short 48, got 32-34

FBI 12% across board

Legacy of skepticism
accept burden, challenge

govt taking 46% of ~~new~~ credit market

\$21 b off budget ^{cuts} will increase by tomorrow

446/84
306/83

fed spending under control

allow business to take advantage of their new incentives

Ag / Hse 4 b on
Ag / Senate 3 b on

promised 84, delin 84

budget busters, interest threats
identifying - This rest of plan

Fed personnel 75-100K

50-20 program

get rid of 2 agencies

Justice task force

Consolidating agencies

1.8 food stamp fraud

Entitlements focused on truly needy

reconstruction - carrying them, no turning back, follow them

Universal COLA slip - over compensated people -78 thru today

Egergen - (3 days) Securities Dealers

The 2nd 500

The FORTUNE Directory of the Largest U.S. Industrial Corporations

by BRIAN O'REILLY

Hit by a sharp recession in the spring and slow economic growth thereafter, FORTUNE's Second 500—the industrial companies ranking in size from 501 through 1,000—had a difficult year. For the first time since 1975, total profits of the group dropped—by 2.4%, to \$6 billion. The total number of employees slumped to 1,702,416, the lowest level since FORTUNE began the list in 1970. Even though total sales were up by 9.2%, to

\$120 billion, they lagged well behind the year's 13.5% increase in the consumer price index—the deflator used by companies that include inflation-adjusted data in their annual reports. Forty-two of the companies lost money this year, as against the 29 losers on last year's list. Only 282 companies increased profits, far fewer than the 372 in 1979.

As detailed in the May 4 issue, it wasn't a great year for the First 500 either, but

the largest industrials did manage to eke out a 3.6% gain in net income. Why the difference? The First 500 got a big boost from the big oil refiners, which increased profits by 28%. Refining accounted for 31% of total sales by the First 500 and only 2.3% of the Second 500's. The two largest industries in the Second 500 pretty much canceled each other out. Industrial- and farm-equipment manufacturers (11.6% of sales and 11.3% of income) saw median earnings rise 7%, while metal-products companies (9.2% of sales and 8% of income) suffered a 7.6% drop. In all, eight out of the 25 industry groups showed decreased median profits last year.

The growth star was a newcomer, Sealaska, No. 951, a seafood-products concern headquartered in Juneau, Alaska. Its sales soared 684%—from \$17.6 million in 1979 to \$137.9 million last year. Sealaska, created by Congress in 1971 as part of a settlement of native territorial claims, is owned and managed by native Alaskan Indians. For several years it dabbled cautiously in the transportation and building-products businesses. Last year, though, it broke out of the doldrums by buying up a seafood processor and harvesting some of its vast timber reserves.

From top to bottom

The top ranking in sales among the Second 500 went to E-Systems, a manufacturer of sophisticated surveillance and reconnaissance equipment for the defense industry. Its \$442.2 million in revenues (up \$48.5 million over last year) brought it along seven slots, from No. 508 to No. 501—and was just \$5.4 million short of those of the bottom-ranked company on the First 500, Fiat-Allis.

In the bottom sales slot on the Second 500 list is Reading Industries, which turns out copper tubing used in plumbing and air conditioning. With revenues of \$124.7 million, it stands a long, long way from the nation's largest industrial, Exxon, 827 times larger in revenues. The pipe maker hardly threatened Exxon in earnings either. It lost \$1.9 million last year.

As always with these smaller compa-

Performance of the 2nd 500	1980	1979
Sales (\$ billion)	120.0	109.9
Change in sales (%)	9.2	6.5
Profits (\$ billion)	6.0	6.1
Change in profits (%)	-2.4	+16.9
Assets (\$ billion)	86.9	78.8
Number of sales increases	414	462
Number of profit increases	282	372
Number of money losers	42	29
Median return on sales (%)	4.5	4.7
Median return on equity (%)	14.2	15.5
Median total return for the year (%)	21.57	26.88
Number of employees (million)	1.7	1.8

nies, there was a lot of flux. Sixty-two companies departed from the list this year—neither a record high nor low. Fifteen advanced to the First 500, ten others were acquired by companies now on the first list, and eight went private or were acquired by companies that do not publish figures. Playboy Enterprises (1979 rank: 602) dropped off the list this year for a different reason. It is no longer classified as an industrial company, since publishing now accounts for less than half of its revenues. The rest came from its casinos and hotels, which have been growing faster than the magazines.

The best news of 1980 was provided by the stock market, which looked beyond the slump in earnings and bid up the shares of Second 500 companies. The median total return—dividends plus stock appreciation—came in at 21.57%, slightly better than the 21.05% median total return for the First 500, though down some from last year (see table). Stocks of mining and oil-producing companies fared the best, enjoying a total return last year of 64%. Close behind came the soap and cosmetics industry, with a total return for 1980 of 52%. But the market can be fickle; a better measure is total return over ten years. The ten-year median was 10.88%—not a big payoff in inflationary times but better than the First 500's ten-year median of 9.44%.

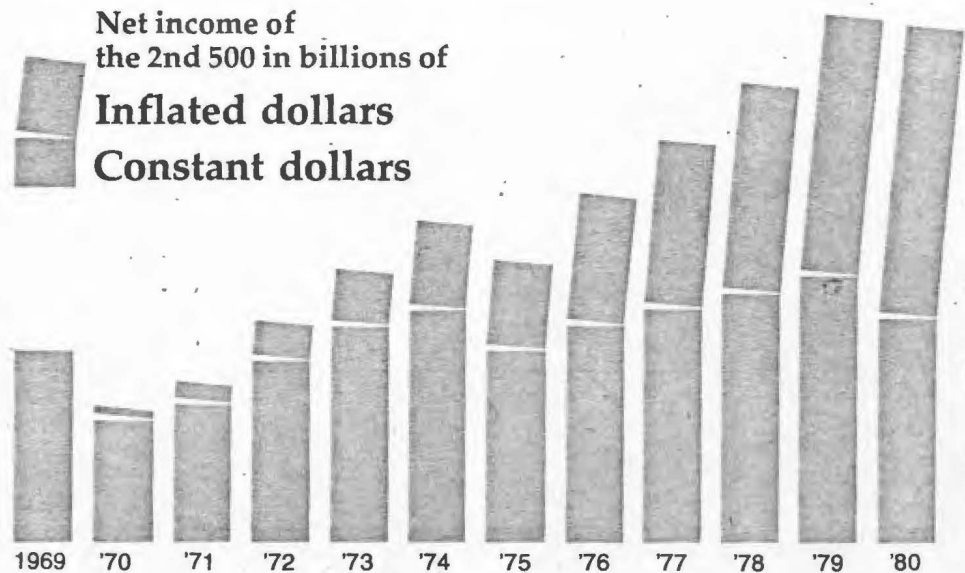
The prime investment

Of individual companies, the highest flier was Prime Computer, a ten-year-old Massachusetts-based maker of small and medium-size computers. Though it paid no cash dividends, the company's stock rose from near \$11 on January 1 to more than \$41 at year-end—a hefty 273% total return to investors. Only a little off that pace, with a return of 259%, was Sullair, a maker of compressors that are in big demand to pump steam into oil wells to improve oil recovery.

A maker of pollution-control gear, Combustion Equipment Associates, gave shareholders the roughest ride. The company lost \$23 million, and an investment

After four years of growth, a slump in earnings

Net income of
the 2nd 500 in billions of
Inflated dollars
Constant dollars



in the stock would have sunk by 70%. But the company suffering the sharpest reversal of fortune was UNC Resources, a uranium producer. Its annual report notes ruefully that its fiscal year began three days after the nuclear accident at Three Mile Island. UNC Resources, which had earned \$43.8 million in 1979, lost \$34.2 million one year later. One problem was a costly spill of 95 million gallons of radioactive mill tailings in New Mexico. In addition, demand for uranium was flat because of a moratorium on nuclear-plant licenses after Three Mile Island. In all, the company lost \$7 million from operations and \$29.3 million from the write-off of a uranium-recovery venture.

Companies justifying their investors' confidence or patience were numerous enough, however. Ten of the Second 500 posted increases of 275% or more in earnings. The biggest gain was by Imperial Sugar, whose earnings rose 14 times over last year, from \$511,000 to \$7.7 million. Not far behind came DHJ Industries, a textile manufacturer, whose net income rose tenfold, from \$910,000 in 1979 to \$9.1 million last year. DHJ is a major sup-

plier of denim to companies that turn out jeans for major retailers like Sears and K mart. Denim sales and prices dropped sharply in fiscal 1979, when the retailers cut back orders, but demand picked up again last year.

Of companies turning a profit, none posted an odder figure than Illini Beer Packers: it earned just \$250 on sales of \$306 million. That works out to a return on sales of .00008%. Unfortunately for the company's accountants, who undoubtedly labored hard to determine the figure, rounding to the nearest \$1,000 reduced the profit to zero, which is the way it appears on this year's list.

Finally, some baseball fans will presumably be cheered to know that American Ship Building had a very good year—its chairman, George Steinbrenner, is the principal owner of the New York Yankees. Earnings at ASB nearly quadrupled—\$9.4 million on sales of \$184.8 million—the eighth-best performance on the list. Leading the company's rise in profits was a Tennessee division that turned out a record 153 river and ocean barges. That's big league barge building.