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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

February 5, 1981

ADDRESS OF THE PRESIDENT
TO THE NATION ON THE ECONOMY

9:02 P.M. EST

THE PRESIDENT: Good evening. I am speaking to you tonight to give you a report on the state of our nation's economy. I regret to say that we are in the worst economic mess since the Great Depression. A few days ago I was presented with a report I had asked for, a comprehensive audit, if you will, of our economic condition. You won't like it. I didn't like it. But we have to face the truth and then go to work to turn things around. And make no mistake about it, we can turn them around.

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

First, however, let me just give a few "attention getters" from the audit. The federal budget is out of control and we face runaway deficits of almost \$80 billion for this budget year that ends September 30th. That deficit is larger than the entire federal budget in 1957 and so is the almost \$80 billion we will pay in interest this year on the national debt.

Twenty years ago, in 1960, our federal government payroll was less than \$13 billion. Today it is \$75 billion. During these 20 years our population has only increased by 23.3 percent. The federal budget has gone up 528 percent.

Now, we've just had two years of back-to-back double-digit inflation, 13.3 percent in 1979, 12.4 percent last year. The last time this happened was in World War I.

In 1960 mortgage interest rates averaged about six percent. They are 2-1/2 times as high now, 15.4 percent. The percentage of your earnings the federal government took in taxes in 1960 has almost doubled. And finally there are 7 million Americans caught up in the personal indignity and human tragedy of unemployment. If they stood in a line allowing three feet for each person, the line would reach from the coast of Maine to California.

MORE

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

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

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

One way out would be to raise taxes so that government need not borrow or print money. But in all these years of government growth we've reached, indeed surpassed, the limit of our people's tolerance or ability to bear an increase in the tax burden.

Prior to World War II, taxes were such that on the average we only had to work just a little over one month each year to pay our total federal, state, and local tax bill. Today we have to work four months to pay that bill.

Some say shift the tax burden to business and industry, but business doesn't pay taxes. Oh, don't get the wrong idea. Business is being taxed, so much so that we are being priced out of the world market. But business must pass its costs of operations, and that includes taxes, on to the customer in the price of the product. Only people pay taxes, all the taxes. Government just uses business in a kind of sneaky way to help collect the taxes. They are hidden in the price and we aren't aware of how much tax we actually pay.

Today this once great industrial giant of ours has the lowest rate of gain in productivity of virtually all the industrial nations with whom we must compete in the world market. We can't even hold our own market here in America against foreign automobiles, steel, and a number of other products.

Japanese production of automobiles is almost twice as great per worker as it is in America. Japanese steel workers out-produce their American counterparts by about 25 percent.

MORE

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

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

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

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

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

Now here again, in saying this, I know that language, as I said earlier, can get in the way of a clear understanding of what our program is intended to do. Budget cuts can sound as if we are going to reduce total government spending to a lower level than was spent the year before. Well, this is not the case. The budgets will increase as our population increases and each year we'll see spending increases to match that growth. Government revenues will increase as the economy grows, but the burden will be lighter for each individual because the economic base will have been expanded by reason of the reduced rates.

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

MORE

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

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

Over the years we've let negative economic forces run out of control. We stalled the judgment day, but we no longer have that luxury. We're out of time.

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

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

Thank you and good night.

END

9:20 P.M. EST

Final

GOOD EVENING:

I AM SPEAKING TO YOU TONIGHT TO GIVE YOU A REPORT ON THE STATE OF OUR NATION'S ECONOMY, AND REGRET TO SAY THAT WE ARE IN THE WORST ECONOMIC MESS SINCE THE GREAT DEPRESSION. A FEW DAYS AGO I WAS PRESENTED WITH A REPORT I HAD ASKED FOR -- A COMPREHENSIVE AUDIT IF YOU WILL OF OUR ECONOMIC CONDITION. YOU WON'T LIKE IT, I DIDN'T LIKE IT, BUT WE HAVE TO FACE THE TRUTH AND THEN GO TO WORK TO TURN THINGS AROUND. AND MAKE NO MISTAKE ABOUT IT, WE CAN TURN THEM AROUND.

I'M NOT GOING TO SUBJECT YOU TO THE JUMBLE OF CHARTS, FIGURES, AND ECONOMIC JARGON OF THAT AUDIT BUT RATHER WILL TRY

TO EXPLAIN WHERE WE ARE,
HOW WE GOT THERE, AND HOW
WE CAN GET BACK.

FIRST, HOWEVER, LET
ME JUST GIVE A FEW
"ATTENTION GETTERS"
FROM THE AUDIT. THE
FEDERAL BUDGET IS OUT OF
CONTROL AND WE FACE
RUNAWAY DEFICITS, OF
ALMOST \$80 BILLION FOR
THIS BUDGET YEAR THAT
ENDS SEPTEMBER 30.
THAT DEFICIT IS LARGER
THAN THE ENTIRE FEDERAL
BUDGET IN 1957 AND SO IS
THE ALMOST \$80 BILLION
WE WILL PAY IN INTEREST
THIS YEAR ON THE NATIONAL
DEBT.

TWENTY YEARS AGO
IN 1960 OUR FEDERAL
GOVERNMENT PAYROLL WAS
LESS THAN \$13 BILLION.
TODAY IT IS \$75 BILLION.

DURING THESE TWENTY YEARS,
OUR POPULATION HAS ONLY
INCREASED BY 23.3 PERCENT.
THE FEDERAL BUDGET HAS
GONE UP 528 PERCENT.

WE HAVE JUST HAD TWO
YEARS OF BACK-TO-BACK
DOUBLE DIGIT INFLATION,
13.3 PERCENT IN 1979 --
12.4 PERCENT LAST YEAR.
THE LAST TIME THIS
HAPPENED WAS IN WORLD
WAR I.

IN 1960 MORTGAGE
INTEREST RATES AVERAGED
ABOUT 6 PERCENT. THEY
ARE 2½ TIMES AS HIGH NOW,
15.4 PERCENT. THE
PERCENTAGE OF YOUR
EARNINGS THE FEDERAL
GOVERNMENT TOOK IN TAXES
IN 1960 HAS ALMOST DOUBLED.
AND FINALLY THERE ARE 7
MILLION AMERICANS CAUGHT UP
IN THE PERSONAL INDIGNITY
AND HUMAN TRAGEDY OF

UNEMPLOYMENT. IF THEY
STOOD IN A LINE --
ALLOWING 3 FEET FOR EACH
PERSON -- THE LINE WOULD
REACH FROM THE COAST OF
MAINE TO CALIFORNIA.

WELL, SO MUCH FOR
THE AUDIT ITSELF. LET ME
TRY TO PUT THIS IN
PERSONAL TERMS. HERE IS
A DOLLAR SUCH AS YOU
EARNED, SPENT, OR SAVED
IN 1960. HERE IS A
QUARTER, A DIME, AND A
PENNY -- 36¢. THIRTY-SIX
CENTS IS WHAT THIS 1960
DOLLAR IS WORTH TODAY.
AND IF THE PRESENT
INFLATION RATE SHOULD
CONTINUE THREE MORE YEARS,
THAT DOLLAR OF 1960 WILL
BE WORTH A QUARTER. WHAT
INCENTIVE IS THERE TO
SAVE? AND IF WE DON'T
SAVE, WE ARE SHORT OF THE

INVESTMENT CAPITAL NEEDED
FOR BUSINESS AND INDUSTRY
EXPANSION. WORKERS IN
JAPAN AND WEST GERMANY
SAVE SEVERAL TIMES THE
PERCENTAGE OF THEIR INCOME
THAN AMERICANS DO.

WHAT HAS HAPPENED TO
THAT AMERICAN DREAM OF
OWNING A HOME? ONLY TEN
YEARS AGO A FAMILY COULD
BUY A HOME AND THE MONTHLY
PAYMENT AVERAGED LITTLE
MORE THAN A QUARTER --
27¢ OUT OF EACH DOLLAR
EARNED. TODAY IT TAKES
42¢ OUT OF EVERY DOLLAR
OF INCOME. SO, FEWER THAN
1 OUT OF 11 FAMILIES CAN
AFFORD TO BUY THEIR FIRST
NEW HOME.

REGULATIONS ADOPTED
BY GOVERNMENT WITH THE
BEST OF INTENTIONS HAVE
ADDED \$666 TO THE COST OF
AN AUTOMOBILE. IT IS

ESTIMATED THAT ALTOGETHER REGULATIONS OF EVERY KIND, ON SHOPKEEPERS, FARMERS, AND MAJOR INDUSTRIES ADD \$100 BILLION TO THE COST OF THE GOODS AND SERVICES WE BUY. AND THEN ANOTHER \$20 BILLION IS SPENT BY GOVERNMENT HANDLING THE PAPERWORK CREATED BY THOSE REGULATIONS.

I'M SURE YOU ARE GETTING THE IDEA THAT THE AUDIT PRESENTED TO ME FOUND GOVERNMENT POLICIES OF THE LAST FEW DECADES RESPONSIBLE FOR OUR ECONOMIC TROUBLES. WE FORGOT OR JUST OVERLOOKED THE FACT THAT GOVERNMENT -- ANY GOVERNMENT HAS A BUILT-IN TENDENCY TO GROW. WE ALL HAD A HAND IN LOOKING TO GOVERNMENT FOR BENEFITS AS IF GOVERNMENT HAD SOME SOURCE OF REVENUE OTHER

THAN OUR EARNINGS. MANY
IF NOT MOST OF THE THINGS
WE THOUGHT OF OR THAT
GOVERNMENT OFFERED TO US
SEEMED ATTRACTIVE.

IN THE YEARS
FOLLOWING THE 2ND WORLD
WAR IT WAS EASY (FOR
AWHILE AT LEAST) TO
OVERLOOK THE PRICE TAG.
OUR INCOME MORE THAN
DOUBLED IN THE 25 YEARS
AFTER THE WAR. WE
INCREASED OUR TAKE HOME
PAY IN THOSE 25 YEARS
BY MORE THAN WE HAD
AMASSED IN ALL THE
PRECEDING 150 YEARS PUT
TOGETHER. YES, THERE WAS
SOME INFLATION, 1 OR 1½
PERCENT A YEAR, THAT DIDN'T
BOTHER US. BUT IF WE LOOK
BACK AT THOSE GOLDEN YEARS
WE RECALL THAT EVEN THEN
VOICES HAD BEEN RAISED
WARNING THAT INFLATION,

LIKE RADIOACTIVITY, WAS CUMULATIVE AND THAT ONCE STARTED IT COULD GET OUT OF CONTROL. SOME GOVERNMENT PROGRAMS SEEMED SO WORTHWHILE THAT BORROWING TO FUND THEM DIDN'T BOTHER US.

BY 1960 OUR NATIONAL DEBT STOOD AT \$284 BILLION. CONGRESS IN 1971 DECIDED TO PUT A CEILING OF \$400 BILLION ON OUR ABILITY TO BORROW. TODAY THE DEBT IS \$934 BILLION. SO-CALLED TEMPORARY INCREASES OR EXTENSIONS IN THE DEBT CEILING HAVE BEEN ALLOWED 21 TIMES IN THESE 10 YEARS AND NOW I HAVE BEEN FORCED TO ASK FOR ANOTHER INCREASE IN THE DEBT CEILING OR THE GOVERNMENT WILL BE UNABLE TO FUNCTION PAST THE MIDDLE OF FEBRUARY AND I'VE

ONLY BEEN HERE 16 DAYS. ✕
BEFORE WE REACH THE DAY
WHEN WE CAN REDUCE THE
DEBT CEILING WE MAY, IN
SPITE OF OUR BEST EFFORTS,
SEE A NATIONAL DEBT IN
EXCESS OF A TRILLION
DOLLARS. THIS IS A FIGURE
LITERALLY BEYOND OUR
COMPREHENSION.

WE KNOW NOW THAT
INFLATION RESULTS FROM ALL
THAT DEFICIT SPENDING.
GOVERNMENT HAS ONLY TWO
WAYS OF GETTING MONEY
OTHER THAN RAISING TAXES.
IT CAN GO INTO THE MONEY
MARKET AND BORROW,
COMPETING WITH ITS OWN
CITIZENS AND DRIVING UP
INTEREST RATES, WHICH IT
HAS DONE, OR IT CAN PRINT
MONEY, AND IT'S DONE THAT.
BOTH METHODS ARE
INFLATIONARY.

WE'RE VICTIMS OF
LANGUAGE, THE VERY WORD
"INFLATION" LEADS US TO
THINK OF IT AS HIGH
PRICES. THEN, OF COURSE,
WE RESENT THE PERSON WHO
PUTS ON THE PRICE TAGS
FORGETTING THAT HE OR SHE
IS ALSO A VICTIM OF
INFLATION. INFLATION IS
NOT JUST HIGH PRICES,
IT IS A REDUCTION IN THE
VALUE OF OUR MONEY. WHEN
THE MONEY SUPPLY IS
INCREASED BUT THE GOODS
AND SERVICES AVAILABLE FOR
BUYING ARE NOT, WE HAVE
TOO MUCH MONEY CHASING
TOO FEW GOODS.

WARS ARE USUALLY
ACCOMPANIED BY INFLATION.
EVERYONE IS WORKING OR
FIGHTING BUT PRODUCTION IS
OF WEAPONS AND MUNITIONS,
NOT THINGS WE CAN BUY AND
USE.

ONE MAY OUT WOULD BE
TO RAISE TAXES SO THAT
GOVERNMENT WOULD NOT
BORROW OR PRINT MONEY,
BUT IN ALL THESE YEARS
OF GOVERNMENT GROWTH
WE'VE REACHED -- INDEED
SURPASSED -- THE LIMIT OF
OUR PEOPLES' TOLERANCE OR
ABILITY TO BEAR AN
INCREASE IN THE TAX
BURDEN.

PRIOR TO WORLD WAR II,
TAXES WERE SUCH THAT ON
THE AVERAGE WE ONLY HAD TO
WORK JUST A LITTLE OVER
ONE MONTH EACH YEAR TO PAY
OUR TOTAL FEDERAL, STATE,
AND LOCAL TAX BILL.
TODAY WE HAVE TO WORK
FOUR MONTHS TO PAY THAT
BILL.

SOME SAY SHIFT THE
TAX BURDEN TO BUSINESS
AND INDUSTRY BUT BUSINESS
DOESN'T PAY TAXES. OH,

DON'T GET THE WRONG IDEA,
BUSINESS IS BEING TAXED --
SO MUCH SO THAT WE ARE
BEING PRICED OUT OF THE
WORLD MARKET. BUT
BUSINESS MUST PASS ITS
COSTS OF OPERATION AND
THAT INCLUDES TAXES, ON
TO THE CUSTOMER IN THE
PRICE OF THE PRODUCT.
ONLY PEOPLE PAY TAXES --
ALL THE TAXES. GOVERNMENT
FIRST USES BUSINESS IN A
KIND OF SNEAKY WAY TO
HELP COLLECT THE TAXES.
THEY ARE HIDDEN IN THE
PRICE AND WE AREN'T AWARE
OF HOW MUCH TAX WE
ACTUALLY PAY. TODAY,
THIS ONCE GREAT
INDUSTRIAL GIANT OF OURS
HAS THE LOWEST RATE OF
GAIN IN PRODUCTIVITY OF
VIRTUALLY ALL THE
INDUSTRIAL NATIONS WITH
WHOM WE MUST COMPETE IN
THE WORLD MARKET. WE

CAN'T EVEN HOLD OUR OWN
MARKET HERE IN AMERICA
AGAINST FOREIGN
AUTOMOBILES, STEEL, AND A
NUMBER OF OTHER PRODUCTS.

JAPANESE PRODUCTION
OF AUTOMOBILES IS ALMOST
TWICE AS GREAT PER WORKER
AS IT IS IN AMERICA.
JAPANESE STEEL WORKERS
OUT-PRODUCE THEIR
AMERICAN COUNTERPARTS
BY ABOUT 25 PERCENT.

THIS ISN'T BECAUSE
THEY ARE BETTER WORKERS.
I'LL MATCH THE AMERICAN
WORKING MAN OR WOMAN
AGAINST ANYONE IN THE
WORLD. BUT WE HAVE TO
GIVE THEM THE MODERN
TOOLS AND EQUIPMENT THAT
WORKERS IN THE OTHER
INDUSTRIAL NATIONS HAVE.

WE INVENTED THE
ASSEMBLY LINE AND MASS
PRODUCTION, BUT PUNITIVE

TAX POLICIES AND EXCESSIVE AND UNNECESSARY REGULATIONS PLUS GOVERNMENT BORROWING HAVE STIFLED OUR ABILITY TO UPDATE PLANT AND EQUIPMENT. WHEN CAPITAL INVESTMENT IS MADE IT IS TOO OFTEN FOR SOME UNPRODUCTIVE ALTERATIONS DEMANDED BY GOVERNMENT TO MEET VARIOUS OF ITS REGULATIONS.

EXCESSIVE TAXATION OF INDIVIDUALS HAS ROBBED US OF INCENTIVE AND MADE OVERTIME UNPROFITABLE.

WE ONCE PRODUCED ABOUT 40 PERCENT OF THE WORLD'S STEEL. WE NOW PRODUCE 19 PERCENT.

WE WERE ONCE THE GREATEST PRODUCER OF AUTOMOBILES, PRODUCING MORE THAN ALL THE REST OF THE WORLD COMBINED. THAT IS NO LONGER TRUE, AND IN

ADDITION, THE BIG 3, THE MAJOR AUTO COMPANIES, IN OUR LAND HAVE SUSTAINED TREMENDOUS LOSSES IN THE PAST YEAR AND HAVE BEEN FORCED TO LAY OFF THOUSANDS OF WORKERS.

ALL OF YOU WHO ARE WORKING KNOW THAT EVEN WITH COST OF LIVING PAY RAISES YOU CAN'T KEEP UP WITH INFLATION. IN OUR PROGRESSIVE TAX SYSTEM AS YOU INCREASE THE NUMBER OF DOLLARS YOU EARN YOU FIND YOURSELF MOVED UP INTO HIGHER TAX BRACKETS, PAYING A HIGHER TAX RATE JUST FOR TRYING TO HOLD YOUR OWN. THE RESULT? YOUR STANDARD OF LIVING IS GOING DOWN.

OVER THE PAST DECADES WE'VE TALKED OF CURTAILING GOVERNMENT SPENDING SO THAT WE CAN THEN LOWER THE TAX BURDEN. SOMETIMES

WE'VE EVEN TAKEN A RUN AT
DOING THAT. BUT THERE
WERE ALWAYS THOSE WHO TOLD
US TAXES COULDN'T BE CUT
UNTIL SPENDING WAS
REDUCED. WELL, WE CAN
LECTURE OUR CHILDREN ABOUT
EXTRAVAGANCE UNTIL WE RUN
OUT OF VOICE AND BREATH.
OR WE CAN CURE THEIR
EXTRAVAGANCE SIMPLY BY
REDUCING THEIR ALLOWANCE.

IT IS TIME TO
RECOGNIZE THAT WE HAVE
COME TO A TURNING POINT.
WE ARE THREATENED WITH
AN ECONOMIC CALAMITY OF
TREMENDOUS PROPORTIONS
AND THE OLD BUSINESS AS
USUAL TREATMENT CAN'T
SAVE US.

TOGETHER, WE MUST
CHART A DIFFERENT COURSE.
WE MUST INCREASE
PRODUCTIVITY. THAT MEANS
MAKING IT POSSIBLE FOR

INDUSTRY TO MODERNIZE AND
MAKE USE OF THE TECHNOLOGY
WHICH WE OURSELVES
INVENTED; THAT MEANS
PUTTING AMERICANS BACK
TO WORK. AND THAT MEANS,
ABOVE ALL, BRINGING
GOVERNMENT SPENDING BACK
WITHIN GOVERNMENT
REVENUES WHICH IS THE ONLY
WAY, TOGETHER WITH
INCREASED PRODUCTIVITY,
THAT WE CAN REDUCE AND
YES ELIMINATE INFLATION.

IN THE PAST WE'VE
TRIED TO FIGHT INFLATION
ONE YEAR AND THEN WHEN
UNEMPLOYMENT INCREASED
TURN THE NEXT YEAR TO
FIGHTING UNEMPLOYMENT WITH
MORE DEFICIT SPENDING AS A
PUMP PRIMER. SO AGAIN, UP
GOES INFLATION. IT HASN'T
WORKED. WE DON'T HAVE TO
CHOOSE BETWEEN INFLATION
AND UNEMPLOYMENT -- THEY
GO HAND IN HAND. IT'S TIME

TO TRY SOMETHING DIFFERENT
AND THAT'S WHAT WE'RE
GOING TO DO.

I'VE ALREADY PLACED
A FREEZE ON HIRING
REPLACEMENTS FOR THOSE
WHO RETIRE OR LEAVE
GOVERNMENT SERVICE. I
HAVE ORDERED A CUT IN
GOVERNMENT TRAVEL, THE
NUMBER OF CONSULTANTS
TO THE GOVERNMENT, AND
THE BUYING OF OFFICE
EQUIPMENT AND OTHER
ITEMS. I HAVE PUT A
FREEZE ON PENDING
REGULATIONS AND SET UP A
TASK FORCE UNDER VICE
PRESIDENT BUSH TO REVIEW
REGULATIONS WITH AN EYE
TOWARD GETTING RID OF AS
MANY AS POSSIBLE. I HAVE
DECONTROLLED OIL WHICH
SHOULD RESULT IN MORE
DOMESTIC PRODUCTION AND
LESS DEPENDENCE ON FOREIGN
OIL. AND I AM ELIMINATING

THE INEFFECTIVE ~~WAGE AND~~
~~PRICE PROGRAM~~
COUNCIL ON WAGE AND PRICE
STABILITY.

BUT IT WILL TAKE
MORE, MUCH MORE, AND WE
MUST REALIZE THERE IS NO
QUICK FIX. AT THE SAME
TIME, HOWEVER, WE CANNOT
DELAY IN IMPLEMENTING
AN ECONOMIC PROGRAM AIMED
AT BOTH REDUCING TAX RATES
TO STIMULATE PRODUCTIVITY
AND REDUCING THE GROWTH IN
GOVERNMENT SPENDING TO
REDUCE UNEMPLOYMENT AND
INFLATION.

ON FEBRUARY 18TH, I
WILL PRESENT IN DETAIL AN
ECONOMIC PROGRAM TO
CONGRESS EMBODYING THE
FEATURES I HAVE JUST
STATED. IT WILL PROPOSE
BUDGET CUTS IN VIRTUALLY
EVERY DEPARTMENT OF
GOVERNMENT. IT IS MY
BELIEF THAT THESE ACTUAL

BUDGET CUTS WILL ONLY BE PART OF THE SAVINGS. AS OUR CABINET SECRETARIES TAKE CHARGE OF THEIR DEPARTMENTS, THEY WILL SEARCH OUT AREAS OF WASTE, EXTRAVAGANCE, AND COSTLY ADMINISTRATIVE OVERHEAD WHICH COULD YIELD ADDITIONAL AND SUBSTANTIAL REDUCTIONS.

AT THE SAME TIME WE ARE DOING THIS, WE MUST GO FORWARD WITH A TAX RELIEF PACKAGE. I SHALL ASK FOR A 10 PERCENT REDUCTION ACROSS THE BOARD IN PERSONAL INCOME TAX RATES FOR EACH OF THE NEXT THREE YEARS. PROPOSALS WILL ALSO BE SUBMITTED FOR ACCELERATED DEPRECIATION ALLOWANCES FOR BUSINESS TO PROVIDE NECESSARY CAPITAL SO AS TO CREATE JOBS.

NOW HERE AGAIN, IN SAYING THIS, I KNOW THAT LANGUAGE AS I SAID EARLIER CAN GET IN THE WAY OF A CLEAR UNDERSTANDING OF WHAT OUR PROGRAM IS INTENDED TO DO. BUDGET CUTS CAN SOUND AS IF WE ARE GOING TO REDUCE TOTAL GOVERNMENT SPENDING TO A LOWER LEVEL THAN WAS SPENT THE YEAR BEFORE. THIS IS NOT THE CASE. THE BUDGETS WILL INCREASE AS OUR POPULATION INCREASES AND EACH YEAR WE'LL SEE SPENDING INCREASES TO MATCH THAT GROWTH. GOVERNMENT REVENUES WILL INCREASE AS THE ECONOMY GROWS BUT THE BURDEN WILL BE LIGHTER FOR EACH INDIVIDUAL BECAUSE THE ECONOMIC BASE WILL HAVE BEEN EXPANDED BY REASON OF THE REDUCED RATES.

LET ME SHOW YOU A CHART I'VE HAD DRAWN TO ILLUSTRATE HOW THIS CAN BE. HERE YOU SEE 2 TREND LINES. THE BOTTOM LINE SHOWS THE INCREASE IN TAX REVENUES. THE RED LINE ON TOP IS THE INCREASE IN GOVERNMENT SPENDING. BOTH LINES TURN UPWARD REFLECTING THE GIANT TAX INCREASE ALREADY BUILT INTO THE SYSTEM FOR THIS YEAR 1981 AND THE INCREASES IN SPENDING BUILT INTO THE 81 AND 82 BUDGETS AND ON INTO THE FUTURE.

AS YOU CAN SEE, THE SPENDING LINE RISES AT A STEEPER SLANT THAN THE REVENUE LINE. THAT GAP BETWEEN THOSE LINES ILLUSTRATES THE INCREASING DEFICITS WE'VE BEEN RUNNING INCLUDING THIS YEAR'S \$80 BILLION DEFICIT.

NOW, IN THE SECOND CHART, THE LINES REPRESENT THE POSITIVE EFFECTS WHEN CONGRESS ACCEPTS OUR ECONOMIC PROGRAM. BOTH LINES CONTINUE TO RISE ALLOWING FOR NECESSARY GROWTH BUT THE GAP NARROWS AS SPENDING CUTS CONTINUE OVER THE NEXT FEW YEARS, UNTIL FINALLY THE TWO LINES COME TOGETHER MEANING A BALANCED BUDGET.

I AM CONFIDENT THAT MY ADMINISTRATION CAN ACHIEVE THAT. AT THAT POINT TAX REVENUES IN SPITE OF RATE REDUCTIONS WILL BE INCREASING FASTER THAN SPENDING WHICH MEANS WE CAN LOOK FORWARD TO FURTHER REDUCTIONS IN THE TAX RATES.

IN ALL OF THIS WE WILL OF COURSE WORK CLOSELY WITH THE FEDERAL

RESERVE SYSTEM TOWARD
THE OBJECTIVE OF A
STABLE MONETARY POLICY.

OUR SPENDING CUTS
WILL NOT BE AT THE
EXPENSE OF THE TRULY
NEEDY. WE WILL, HOWEVER,
SEEK TO ELIMINATE
BENEFITS TO THOSE WHO
ARE NOT REALLY QUALIFIED
BY REASON OF NEED.

AS I'VE SAID BEFORE,
ON FEBRUARY 18TH, I WILL
PRESENT THIS ECONOMIC
PACKAGE OF BUDGET
REDUCTIONS AND TAX REFORM
TO A JOINT SESSION OF
CONGRESS AND TO YOU IN
FULL DETAIL.

OUR BASIC SYSTEM IS
SOUND. WE CAN, WITH
COMPASSION, CONTINUE TO
MEET OUR RESPONSIBILITY
TO THOSE WHO THROUGH NO
FAULT OF THEIR OWN NEED
OUR HELP. WE CAN MEET

FULLY THE OTHER
LEGITIMATE RESPONSIBILITIES
OF GOVERNMENT. WE CANNOT
CONTINUE ANY LONGER OUR
WASTEFUL WAYS AT THE
EXPENSE OF THE WORKERS
OF THIS LAND OR OUR
CHILDREN.

SINCE 1960 OUR
GOVERNMENT HAS SPENT
\$5.1 TRILLION; OUR DEBT
HAS GROWN BY \$648
BILLION. PRICES HAVE
EXPLODED BY 178 PERCENT.
HOW MUCH BETTER OFF ARE
WE FOR IT ALL? WE ALL
KNOW, WE ARE VERY MUCH
WORSE OFF.

WHEN WE MEASURE HOW
HARSHLY THESE YEARS OF
INFLATION, LOWER
PRODUCTIVITY, AND
UNCONTROLLED GOVERNMENT
GROWTH HAVE AFFECTED OUR
LIVES, WE KNOW WE MUST
ACT AND ACT NOW.

WE MUST NOT BE TIMID.

WE WILL RESTORE THE
FREEDOM OF ALL MEN AND
WOMEN TO EXCEL AND TO
CREATE. WE WILL UNLEASH
THE ENERGY AND GENIUS OF
THE AMERICAN PEOPLE --
TRAITS WHICH HAVE NEVER
FAILED US.

TO THE CONGRESS OF
THE UNITED STATES, I
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COOPERATION AND I BELIEVE
WE CAN GO FORWARD IN A
BI-PARTISAN MANNER.

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WILLINGNESS TO COOPERATE
ON THE PART OF DEMOCRATS
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TO MY COLLEAGUES IN
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FEDERAL EMPLOYEES I ASK
THAT WE WORK IN THE SPIRIT
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I URGE THOSE GREAT
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BUSINESS AND LABOR -- TO
BE GUIDED BY THE NATIONAL
INTEREST AND I'M CONFIDENT
THEY WILL. THE ONLY
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WE CAN CREATE THE
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ADVANTAGE OF THE GENIUS
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IS A LITTLE COMMON SENSE
AND RECOGNITION OF OUR
OWN ABILITY. TOGETHER
WE CAN FORGE A NEW
BEGINNING FOR AMERICA.

THANK YOU AND GOOD
NIGHT.

GOOD EVENING:

I AM SPEAKING TO YOU TONIGHT TO GIVE YOU A REPORT ON THE STATE OF OUR NATION'S ECONOMY, AND REGRET TO SAY THAT WE ARE IN THE WORST ECONOMIC MESS SINCE THE GREAT DEPRESSION. A FEW DAYS AGO I WAS PRESENTED WITH A REPORT I HAD ASKED FOR -- A COMPREHENSIVE AUDIT IF YOU WILL OF OUR ECONOMIC CONDITION. YOU WON'T LIKE IT, I DIDN'T LIKE IT, BUT WE HAVE TO FACE THE TRUTH AND THEN GO TO WORK TO TURN THINGS AROUND. AND MAKE NO MISTAKE ABOUT IT, WE CAN TURN THEM AROUND.

I'M NOT GOING TO SUBJECT YOU TO THE JUMBLE OF CHARTS, FIGURES, AND ECONOMIC JARGON OF THAT AUDIT BUT RATHER WILL TRY

TO EXPLAIN WHERE WE ARE,
HOW WE GOT THERE, AND HOW
WE CAN GET BACK.

FIRST, HOWEVER, LET
ME JUST GIVE A FEW
"ATTENTION GETTERS"
FROM THE AUDIT. THE
FEDERAL BUDGET IS OUT OF
CONTROL AND WE FACE
RUNAWAY DEFICITS, OF
ALMOST \$80 BILLION FOR
THIS BUDGET YEAR THAT
ENDS SEPTEMBER 30.
THAT DEFICIT IS LARGER
THAN THE ENTIRE FEDERAL
BUDGET IN 1957 AND SO IS
THE ALMOST \$80 BILLION
WE WILL PAY IN INTEREST
THIS YEAR ON THE NATIONAL
DEBT.

TWENTY YEARS AGO
IN 1960 OUR FEDERAL
GOVERNMENT PAYROLL WAS
LESS THAN \$13 BILLION.
TODAY IT IS \$75 BILLION.

DURING THESE TWENTY YEARS,
OUR POPULATION HAS ONLY
INCREASED BY 23.3 PERCENT.
THE FEDERAL BUDGET HAS
GONE UP 528 PERCENT.

WE HAVE JUST HAD TWO
YEARS OF BACK-TO-BACK
DOUBLE DIGIT INFLATION,
13.3 PERCENT IN 1979 --
12.4 PERCENT LAST YEAR.
THE LAST TIME THIS
HAPPENED WAS IN WORLD
WAR I.

IN 1960 MORTGAGE
INTEREST RATES AVERAGED
ABOUT 6 PERCENT. THEY
ARE 2½ TIMES AS HIGH NOW,
15.4 PERCENT. THE
PERCENTAGE OF YOUR
EARNINGS THE FEDERAL
GOVERNMENT TOOK IN TAXES
IN 1960 HAS ALMOST DOUBLED.
AND FINALLY THERE ARE 7
MILLION AMERICANS CAUGHT UP
IN THE PERSONAL INDIGNITY
AND HUMAN TRAGEDY OF

UNEMPLOYMENT. IF THEY
STOOD IN A LINE --
ALLOWING 3 FEET FOR EACH
PERSON -- THE LINE WOULD
REACH FROM THE COAST OF
MAINE TO CALIFORNIA.

WELL, SO MUCH FOR
THE AUDIT ITSELF. LET ME
TRY TO PUT THIS IN
PERSONAL TERMS. HERE IS
A DOLLAR SUCH AS YOU
EARNED, SPENT, OR SAVED
IN 1960. HERE IS A
QUARTER, A DIME, AND A
PENNY -- 36¢. THIRTY-SIX
CENTS IS WHAT THIS 1960
DOLLAR IS WORTH TODAY.
AND IF THE PRESENT
INFLATION RATE SHOULD
CONTINUE THREE MORE YEARS,
THAT DOLLAR OF 1960 WILL
BE WORTH A QUARTER. WHAT
INCENTIVE IS THERE TO
SAVE? AND IF WE DON'T
SAVE, WE ARE SHORT OF THE

INVESTMENT CAPITAL NEEDED FOR BUSINESS AND INDUSTRY EXPANSION. WORKERS IN JAPAN AND WEST GERMANY SAVE SEVERAL TIMES THE PERCENTAGE OF THEIR INCOME THAN AMERICANS DO.

WHAT HAS HAPPENED TO THAT AMERICAN DREAM OF OWNING A HOME? ONLY TEN YEARS AGO A FAMILY COULD BUY A HOME AND THE MONTHLY PAYMENT AVERAGED LITTLE MORE THAN A QUARTER -- 27¢ OUT OF EACH DOLLAR EARNED. TODAY IT TAKES 42¢ OUT OF EVERY DOLLAR OF INCOME. SO, FEWER THAN 1 OUT OF 11 FAMILIES CAN AFFORD TO BUY THEIR FIRST NEW HOME.

REGULATIONS ADOPTED BY GOVERNMENT WITH THE BEST OF INTENTIONS HAVE ADDED \$666 TO THE COST OF AN AUTOMOBILE. IT IS

ESTIMATED THAT ALTOGETHER REGULATIONS OF EVERY KIND, ON SHOPKEEPERS, FARMERS, AND MAJOR INDUSTRIES ADD \$100 BILLION TO THE COST OF THE GOODS AND SERVICES WE BUY. AND THEN ANOTHER \$20 BILLION IS SPENT BY GOVERNMENT HANDLING THE PAPERWORK CREATED BY THOSE REGULATIONS.

I'M SURE YOU ARE GETTING THE IDEA THAT THE AUDIT PRESENTED TO ME FOUND GOVERNMENT POLICIES OF THE LAST FEW DECADES RESPONSIBLE FOR OUR ECONOMIC TROUBLES. WE FORGOT OR JUST OVERLOOKED THE FACT THAT GOVERNMENT -- ANY GOVERNMENT HAS A BUILT-IN TENDENCY TO GROW. WE ALL HAD A HAND IN LOOKING TO GOVERNMENT FOR BENEFITS AS IF GOVERNMENT HAD SOME SOURCE OF REVENUE OTHER

THAN OUR EARNINGS. MANY
IF NOT MOST OF THE THINGS
WE THOUGHT OF OR THAT
GOVERNMENT OFFERED TO US
SEEMED ATTRACTIVE.

IN THE YEARS
FOLLOWING THE 2ND WORLD
WAR IT WAS EASY (FOR
AWHILE AT LEAST) TO
OVERLOOK THE PRICE TAG.
OUR INCOME MORE THAN
DOUBLED IN THE 25 YEARS
AFTER THE WAR. WE
INCREASED OUR TAKE HOME
PAY IN THOSE 25 YEARS
BY MORE THAN WE HAD
AMASSED IN ALL THE
PRECEDING 150 YEARS PUT
TOGETHER. YES, THERE WAS
SOME INFLATION, 1 OR 1½
PERCENT A YEAR, THAT DIDN'T
BOTHER US. BUT IF WE LOOK
BACK AT THOSE GOLDEN YEARS
WE RECALL THAT EVEN THEN
VOICES HAD BEEN RAISED
WARNING THAT INFLATION,

LIKE RADIOACTIVITY, WAS
CUMULATIVE AND THAT ONCE
STARTED IT COULD GET OUT
OF CONTROL. SOME
GOVERNMENT PROGRAMS SEEMED
SO WORTHWHILE THAT
BORROWING TO FUND THEM
DIDN'T BOTHER US.

BY 1960 OUR NATIONAL
DEBT STOOD AT \$284
BILLION. CONGRESS IN
1971 DECIDED TO PUT A
CEILING OF \$400 BILLION
ON OUR ABILITY TO BORROW.
TODAY THE DEBT IS \$934
BILLION. SO-CALLED
TEMPORARY INCREASES OR
EXTENSIONS IN THE DEBT
CEILING HAVE BEEN ALLOWED
21 TIMES IN THESE 10 YEARS
AND NOW I HAVE BEEN FORCED
TO ASK FOR ANOTHER INCREASE
IN THE DEBT CEILING OR THE
GOVERNMENT WILL BE UNABLE
TO FUNCTION PAST THE
MIDDLE OF FEBRUARY AND I'VE

ONLY BEEN HERE 16 DAYS.
BEFORE WE REACH THE DAY
WHEN WE CAN REDUCE THE
DEBT CEILING WE MAY, IN
SPITE OF OUR BEST EFFORTS,
SEE A NATIONAL DEBT IN
EXCESS OF A TRILLION
DOLLARS. THIS IS A FIGURE
LITERALLY BEYOND OUR
COMPREHENSION.

WE KNOW NOW THAT
INFLATION RESULTS FROM ALL
THAT DEFICIT SPENDING.
GOVERNMENT HAS ONLY TWO
WAYS OF GETTING MONEY
OTHER THAN RAISING TAXES.
IT CAN GO INTO THE MONEY
MARKET AND BORROW,
COMPETING WITH ITS OWN
CITIZENS AND DRIVING UP
INTEREST RATES, WHICH IT
HAS DONE, OR IT CAN PRINT
MONEY, AND IT'S DONE THAT.
BOTH METHODS ARE
INFLATIONARY.

WE'RE VICTIMS OF LANGUAGE, THE VERY WORD "INFLATION" LEADS US TO THINK OF IT AS HIGH PRICES. THEN, OF COURSE, WE RESENT THE PERSON WHO PUTS ON THE PRICE TAGS FORGETTING THAT HE OR SHE IS ALSO A VICTIM OF INFLATION. INFLATION IS NOT JUST HIGH PRICES, IT IS A REDUCTION IN THE VALUE OF OUR MONEY. WHEN THE MONEY SUPPLY IS INCREASED BUT THE GOODS AND SERVICES AVAILABLE FOR BUYING ARE NOT, WE HAVE TOO MUCH MONEY CHASING TOO FEW GOODS.

WARS ARE USUALLY ACCOMPANIED BY INFLATION. EVERYONE IS WORKING OR FIGHTING BUT PRODUCTION IS OF WEAPONS AND MUNITIONS, NOT THINGS WE CAN BUY AND USE.

ONE WAY OUT WOULD BE
TO RAISE TAXES SO THAT
GOVERNMENT NEED NOT
BORROW OR PRINT MONEY.
BUT IN ALL THESE YEARS
OF GOVERNMENT GROWTH
WE'VE REACHED -- INDEED
SURPASSED -- THE LIMIT OF
OUR PEOPLES' TOLERANCE OR
ABILITY TO BEAR AN
INCREASE IN THE TAX
BURDEN.

PRIOR TO WORLD WAR II,
TAXES WERE SUCH THAT ON
THE AVERAGE WE ONLY HAD TO
WORK JUST A LITTLE OVER
ONE MONTH EACH YEAR TO PAY
OUR TOTAL FEDERAL, STATE,
AND LOCAL TAX BILL.
TODAY WE HAVE TO WORK
FOUR MONTHS TO PAY THAT
BILL.

SOME SAY SHIFT THE
TAX BURDEN TO BUSINESS
AND INDUSTRY BUT BUSINESS
DOESN'T PAY TAXES. OH,

DON'T GET THE WRONG IDEA,
BUSINESS IS BEING TAXED --
SO MUCH SO THAT WE ARE
BEING PRICED OUT OF THE
WORLD MARKET. BUT
BUSINESS MUST PASS ITS
COSTS OF OPERATION AND
THAT INCLUDES TAXES, ON
TO THE CUSTOMER IN THE
PRICE OF THE PRODUCT.
ONLY PEOPLE PAY TAXES --
ALL THE TAXES. GOVERNMENT
FIRST USES BUSINESS IN A
KIND OF SNEAKY WAY TO
HELP COLLECT THE TAXES.
THEY ARE HIDDEN IN THE
PRICE AND WE AREN'T AWARE
OF HOW MUCH TAX WE
ACTUALLY PAY. TODAY,
THIS ONCE GREAT
INDUSTRIAL GIANT OF OURS
HAS THE LOWEST RATE OF
GAIN IN PRODUCTIVITY OF
VIRTUALLY ALL THE
INDUSTRIAL NATIONS WITH
WHOM WE MUST COMPETE IN
THE WORLD MARKET. WE

CAN'T EVEN HOLD OUR OWN
MARKET HERE IN AMERICA
AGAINST FOREIGN
AUTOMOBILES, STEEL, AND A
NUMBER OF OTHER PRODUCTS.

JAPANESE PRODUCTION
OF AUTOMOBILES IS ALMOST
TWICE AS GREAT PER WORKER
AS IT IS IN AMERICA.
JAPANESE STEEL WORKERS
OUT-PRODUCE THEIR
AMERICAN COUNTERPARTS
BY ABOUT 25 PERCENT.

THIS ISN'T BECAUSE
THEY ARE BETTER WORKERS.
I'LL MATCH THE AMERICAN
WORKING MAN OR WOMAN
AGAINST ANYONE IN THE
WORLD. BUT WE HAVE TO
GIVE THEM THE MODERN
TOOLS AND EQUIPMENT THAT
WORKERS IN THE OTHER
INDUSTRIAL NATIONS HAVE.

WE INVENTED THE
ASSEMBLY LINE AND MASS
PRODUCTION, BUT PUNITIVE

TAX POLICIES AND EXCESSIVE AND UNNECESSARY REGULATIONS PLUS GOVERNMENT BORROWING HAVE STIFLED OUR ABILITY TO UPDATE PLANT AND EQUIPMENT. WHEN CAPITAL INVESTMENT IS MADE IT IS TOO OFTEN FOR SOME UNPRODUCTIVE ALTERATIONS DEMANDED BY GOVERNMENT TO MEET VARIOUS OF ITS REGULATIONS.

EXCESSIVE TAXATION OF INDIVIDUALS HAS ROBBED US OF INCENTIVE AND MADE OVERTIME UNPROFITABLE.

WE ONCE PRODUCED ABOUT 40 PERCENT OF THE WORLD'S STEEL. WE NOW PRODUCE 19 PERCENT.

WE WERE ONCE THE GREATEST PRODUCER OF AUTOMOBILES, PRODUCING MORE THAN ALL THE REST OF THE WORLD COMBINED. THAT IS NO LONGER TRUE, AND IN

ADDITION, THE BIG 3, THE MAJOR AUTO COMPANIES, IN OUR LAND HAVE SUSTAINED TREMENDOUS LOSSES IN THE PAST YEAR AND HAVE BEEN FORCED TO LAY OFF THOUSANDS OF WORKERS.

ALL OF YOU WHO ARE WORKING KNOW THAT EVEN WITH COST OF LIVING PAY RAISES YOU CAN'T KEEP UP WITH INFLATION. IN OUR PROGRESSIVE TAX SYSTEM AS YOU INCREASE THE NUMBER OF DOLLARS YOU EARN YOU FIND YOURSELF MOVED UP INTO HIGHER TAX BRACKETS, PAYING A HIGHER TAX RATE JUST FOR TRYING TO HOLD YOUR OWN. THE RESULT? YOUR STANDARD OF LIVING IS GOING DOWN.

OVER THE PAST DECADES WE'VE TALKED OF CURTAILING GOVERNMENT SPENDING SO THAT WE CAN THEN LOWER THE TAX BURDEN. SOMETIMES

WE'VE EVEN TAKEN A RUN AT
DOING THAT. BUT THERE
WERE ALWAYS THOSE WHO TOLD
US TAXES COULDN'T BE CUT
UNTIL SPENDING WAS
REDUCED. WELL, WE CAN
LECTURE OUR CHILDREN ABOUT
EXTRAVAGANCE UNTIL WE RUN
OUT OF VOICE AND BREATH.
OR WE CAN CURE THEIR
EXTRAVAGANCE SIMPLY BY
REDUCING THEIR ALLOWANCE.

IT IS TIME TO
RECOGNIZE THAT WE HAVE
COME TO A TURNING POINT.
WE ARE THREATENED WITH
AN ECONOMIC CALAMITY OF
TREMENDOUS PROPORTIONS
AND THE OLD BUSINESS AS
USUAL TREATMENT CAN'T
SAVE US.

TOGETHER, WE MUST
CHART A DIFFERENT COURSE.
WE MUST INCREASE
PRODUCTIVITY. THAT MEANS
MAKING IT POSSIBLE FOR

INDUSTRY TO MODERNIZE AND
MAKE USE OF THE TECHNOLOGY
WHICH WE OURSELVES
INVENTED; THAT MEANS
PUTTING AMERICANS BACK
TO WORK. AND THAT MEANS,
ABOVE ALL, BRINGING
GOVERNMENT SPENDING BACK
WITHIN GOVERNMENT
REVENUES WHICH IS THE ONLY
WAY, TOGETHER WITH
INCREASED PRODUCTIVITY,
THAT WE CAN REDUCE AND
YES ELIMINATE INFLATION.

IN THE PAST WE'VE
TRIED TO FIGHT INFLATION
ONE YEAR AND THEN WHEN
UNEMPLOYMENT INCREASED
TURN THE NEXT YEAR TO
FIGHTING UNEMPLOYMENT WITH
MORE DEFICIT SPENDING AS A
PUMP PRIMER. SO AGAIN, UP
GOES INFLATION. IT HASN'T
WORKED. WE DON'T HAVE TO
CHOOSE BETWEEN INFLATION
AND UNEMPLOYMENT -- THEY
GO HAND IN HAND. IT'S TIME

TO TRY SOMETHING DIFFERENT
AND THAT'S WHAT WE'RE
GOING TO DO.

I'VE ALREADY PLACED
A FREEZE ON HIRING
REPLACEMENTS FOR THOSE
WHO RETIRE OR LEAVE
GOVERNMENT SERVICE. I
HAVE ORDERED A CUT IN
GOVERNMENT TRAVEL, THE
NUMBER OF CONSULTANTS
TO THE GOVERNMENT, AND
THE BUYING OF OFFICE
EQUIPMENT AND OTHER
ITEMS. I HAVE PUT A
FREEZE ON PENDING
REGULATIONS AND SET UP A
TASK FORCE UNDER VICE
PRESIDENT BUSH TO REVIEW
REGULATIONS WITH AN EYE
TOWARD GETTING RID OF AS
MANY AS POSSIBLE. I HAVE
DECONTROLLED OIL WHICH
SHOULD RESULT IN MORE
DOMESTIC PRODUCTION AND
LESS DEPENDENCE ON FOREIGN
OIL. AND I AM ELIMINATING

THE INEFFECTIVE

COUNCIL ON WAGE AND PRICE
STABILITY.

BUT IT WILL TAKE
MORE, MUCH MORE, AND WE
MUST REALIZE THERE IS NO
QUICK FIX. AT THE SAME
TIME, HOWEVER, WE CANNOT
DELAY IN IMPLEMENTING
AN ECONOMIC PROGRAM AIMED
AT BOTH REDUCING TAX RATES
TO STIMULATE PRODUCTIVITY
AND REDUCING THE GROWTH IN
GOVERNMENT SPENDING TO
REDUCE UNEMPLOYMENT AND
INFLATION.

ON FEBRUARY 18TH, I
WILL PRESENT IN DETAIL AN
ECONOMIC PROGRAM TO
CONGRESS EMBODYING THE
FEATURES I HAVE JUST
STATED. IT WILL PROPOSE
BUDGET CUTS IN VIRTUALLY
EVERY DEPARTMENT OF
GOVERNMENT. IT IS MY
BELIEF THAT THESE ACTUAL

BUDGET CUTS WILL ONLY BE PART OF THE SAVINGS. AS OUR CABINET SECRETARIES TAKE CHARGE OF THEIR DEPARTMENTS, THEY WILL SEARCH OUT AREAS OF WASTE, EXTRAVAGANCE, AND COSTLY ADMINISTRATIVE OVERHEAD WHICH COULD YIELD ADDITIONAL AND SUBSTANTIAL REDUCTIONS.

AT THE SAME TIME WE ARE DOING THIS, WE MUST GO FORWARD WITH A TAX RELIEF PACKAGE. I SHALL ASK FOR A 10 PERCENT REDUCTION ACROSS THE BOARD IN PERSONAL INCOME TAX RATES FOR EACH OF THE NEXT THREE YEARS. PROPOSALS WILL ALSO BE SUBMITTED FOR ACCELERATED DEPRECIATION ALLOWANCES FOR BUSINESS TO PROVIDE NECESSARY CAPITAL SO AS TO CREATE JOBS.

NOW HERE AGAIN, IN SAYING THIS, I KNOW THAT LANGUAGE AS I SAID EARLIER CAN GET IN THE WAY OF A CLEAR UNDERSTANDING OF WHAT OUR PROGRAM IS INTENDED TO DO. BUDGET CUTS CAN SOUND AS IF WE ARE GOING TO REDUCE TOTAL GOVERNMENT SPENDING TO A LOWER LEVEL THAN WAS SPENT THE YEAR BEFORE. THIS IS NOT THE CASE. THE BUDGETS WILL INCREASE AS OUR POPULATION INCREASES AND EACH YEAR WE'LL SEE SPENDING INCREASES TO MATCH THAT GROWTH. GOVERNMENT REVENUES WILL INCREASE AS THE ECONOMY GROWS BUT THE BURDEN WILL BE LIGHTER FOR EACH INDIVIDUAL BECAUSE THE ECONOMIC BASE WILL HAVE BEEN EXPANDED BY REASON OF THE REDUCED RATES.

LET ME SHOW YOU A CHART I'VE HAD DRAWN TO ILLUSTRATE HOW THIS CAN BE. HERE YOU SEE 2 TREND LINES. THE BOTTOM LINE SHOWS THE INCREASE IN TAX REVENUES. THE RED LINE ON TOP IS THE INCREASE IN GOVERNMENT SPENDING. BOTH LINES TURN UPWARD REFLECTING THE GIANT TAX INCREASE ALREADY BUILT INTO THE SYSTEM FOR THIS YEAR 1981 AND THE INCREASES IN SPENDING BUILT INTO THE 81 AND 82 BUDGETS AND ON INTO THE FUTURE.

AS YOU CAN SEE, THE SPENDING LINE RISES AT A STEEPER SLANT THAN THE REVENUE LINE. THAT GAP BETWEEN THOSE LINES ILLUSTRATES THE INCREASING DEFICITS WE'VE BEEN RUNNING INCLUDING THIS YEAR'S \$80 BILLION DEFICIT.

TILT

NOW, IN THE SECOND CHART, THE LINES REPRESENT THE POSITIVE EFFECTS WHEN CONGRESS ACCEPTS OUR ECONOMIC PROGRAM. BOTH LINES CONTINUE TO RISE ALLOWING FOR NECESSARY GROWTH BUT THE GAP NARROWS AS SPENDING CUTS CONTINUE OVER THE NEXT FEW YEARS, UNTIL FINALLY THE TWO LINES COME TOGETHER MEANING A BALANCED BUDGET. //

I AM CONFIDENT THAT MY ADMINISTRATION CAN ACHIEVE THAT. AT THAT POINT TAX REVENUES IN SPITE OF RATE REDUCTIONS WILL BE INCREASING FASTER THAN SPENDING WHICH MEANS WE CAN LOOK FORWARD TO FURTHER REDUCTIONS IN THE TAX RATES.

IN ALL OF THIS WE WILL OF COURSE WORK CLOSELY WITH THE FEDERAL

RESERVE SYSTEM TOWARD
THE OBJECTIVE OF A
STABLE MONETARY POLICY.

OUR SPENDING CUTS
WILL NOT BE AT THE
EXPENSE OF THE TRULY
NEEDY. WE WILL, HOWEVER,
SEEK TO ELIMINATE
BENEFITS TO THOSE WHO
ARE NOT REALLY QUALIFIED
BY REASON OF NEED.

AS I'VE SAID BEFORE,
ON FEBRUARY 18TH, I WILL
PRESENT THIS ECONOMIC
PACKAGE OF BUDGET
REDUCTIONS AND TAX REFORM
TO A JOINT SESSION OF
CONGRESS AND TO YOU IN
FULL DETAIL.

OUR BASIC SYSTEM IS
SOUND. WE CAN, WITH
COMPASSION, CONTINUE TO
MEET OUR RESPONSIBILITY
TO THOSE WHO THROUGH NO
FAULT OF THEIR OWN NEED
OUR HELP. WE CAN MEET

FULLY THE OTHER
LEGITIMATE RESPONSIBILITIES
OF GOVERNMENT. WE CANNOT
CONTINUE ANY LONGER OUR
WASTEFUL WAYS AT THE
EXPENSE OF THE WORKERS
OF THIS LAND OR OUR
CHILDREN.

SINCE 1960 OUR
GOVERNMENT HAS SPENT
\$5.1 TRILLION; OUR DEBT
HAS GROWN BY \$648
BILLION. PRICES HAVE
EXPLODED BY 178 PERCENT.
HOW MUCH BETTER OFF ARE
WE FOR IT ALL? WE ALL
KNOW, WE ARE VERY MUCH
WORSE OFF.

WHEN WE MEASURE HOW
HARSHLY THESE YEARS OF
INFLATION, LOWER
PRODUCTIVITY, AND
UNCONTROLLED GOVERNMENT
GROWTH HAVE AFFECTED OUR
LIVES, WE KNOW WE MUST
ACT AND ACT NOW.

WE MUST NOT BE TIMID.

WE WILL RESTORE THE
FREEDOM OF ALL MEN AND
WOMEN TO EXCEL AND TO
CREATE. WE WILL UNLEASH
THE ENERGY AND GENIUS OF
THE AMERICAN PEOPLE --
TRAITS WHICH HAVE NEVER
FAILED US.

TO THE CONGRESS OF
THE UNITED STATES, I
EXTEND MY HAND IN
COOPERATION AND I BELIEVE
WE CAN GO FORWARD IN A
BI-PARTISAN MANNER.

I HAVE FOUND A REAL
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AND RECOGNITION OF OUR
OWN ABILITY. TOGETHER
WE CAN FORGE A NEW
BEGINNING FOR AMERICA.

THANK YOU AND GOOD
NIGHT.

THE WHITE HOUSE

WASHINGTON

February 3, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: Ken Khachigian



Herewith our cut at the economic speech for Thursday night. There may be a scattered number here and there we still have to run down, but otherwise it has all been cleared as well as reviewed by all senior advisers.

(Dolan/Khachigian)

To The President
pm Feb. 3, 1981

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

GOOD EVENING:

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

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

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

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

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

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

The Federal budget is badly out of control, and we are faced with runaway deficits. Ten months ago, the previous Administration projected a budget almost at balance. But today, we face a total deficit of nearly \$80 billion -- the largest ever in our history. The entire U.S. budget in 1957 was less than this year's deficit and less than the \$80 billion we are paying this year in interest alone on our staggering national debt.

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

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

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

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

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

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

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

That is a brief summary of the national economic audit that has been presented to me -- a confusing jumble of numbers and charts.

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

That's why I have set aside this disturbing government report. Instead, let's look at these alarming economic trends in personal terms.

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

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

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

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

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

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

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

- If inflation continues at the same rates, an automobile that costs \$6,500 in 1981 will cost more than \$9,000 in 1985. A utility bill which runs at \$110 per month today would jump to \$185 in 1985.
- The average percentage of your family's income going to Federal income taxes will jump again from 18 percent today to more than 21 percent in 1985.
- While our GNP will grow by \$1.2 trillion in the next three years, the Federal Government's share of the increase will be more than 26 percent.

Historically, the government's share has rarely risen above 20 percent.

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

When the Federal Government increases its debt it competes with you for money. That, in turn, helps keep interest rates at today's extremely high levels. These high rates not only keep inflation high, they deter investments, and it isn't long before all America falls into economic decline. It isn't government that suffers from this vicious cycle; it is you.

And yet, we have continued to allow deficits to push up our debt as if there were no negative consequences. The record is frightening.

In 1960, our national debt stood at \$291 billion. By 1974, as I prepared to leave the Governorship of California, it had leaped to \$486 billion. When I took the oath of office 16 days ago, it stood at \$931 billion. Because of what we have inherited, our national debt will unavoidably break the trillion dollar barrier within the next 12 months despite all our best efforts. If you break that down, it means the Federal Government will have borrowed the equivalent of \$4,400 for every man, woman and child in the United States.

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

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

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

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

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

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

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

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

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

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

No government in history has voluntarily cut its own size. That is why we must take this action on our own. As parents we know that we can repeatedly lecture our children on the evils of waste and extravagance, but nothing is so effective as simply cutting back their allowance. The Federal Government will cut its spending only when we take action to stop it from spending.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The sum of business expansion and growth is personal well-being and jobs. I know there are those who oppose business tax cuts, but the fact is that business doesn't pay taxes; people pay taxes. Every tax has to be passed on as a cost of doing business.

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

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

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

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

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

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

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

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

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

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

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

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

Since 1960 our government has spent \$5.1 trillion; our debt has grown by \$640 billion. Prices have exploded by 178 percent. Now, let us ask ourselves: how much better off are we for it all? And, how much worse off are we for it all?

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

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

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

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

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

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

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

Please give me your help.

Thank you and good night.

7:30 a.m.

THE WHITE HOUSE

WASHINGTON

February 3, 1981

MEMORANDUM FOR:

The Vice President
Secretary of the Treasury Regan
Ed Meese
David Stockman
Jim Baker
Michael Deaver
Murray Weidenbaum
Martin Anderson
Jim Brady
Elizabeth Dole
Max Friedersdorf
Dave Gergen
Ed Harper
Lyn Nofziger

FROM: Kenneth L. Khachigian

Attached for your comments is the draft for the President's address to the Nation on Thursday night, February 5, 1981. I will need to have your written comments delivered to me in Room 196, Old Executive Office Building, by no later than Noon today. While I realize the time is short for your review, I must deliver the President's copy to him at 5:30 this evening. If there are any questions, please call my office at x2601.

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

GOOD EVENING:

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

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

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

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

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

Population in 1960 was 179,323,175, and grew to 226,504,825 by 1980 (figures from 1970 Summary and Census of Population and 1980 Final Apportionment Count), yielding a growth rate of 26.3%.

#15 insert

Since 1960, the population of America has grown by only 26.3% while the federal budget has grown by 529 percent.

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

The Federal budget is badly out of control, and we are faced with runaway deficits. Ten months ago, the previous Administration projected a ^{budget almost at balance} ~~surplus of some \$16 billion~~. ^{But today,} ~~Now~~ we face a ^{total} deficit of ^{nearly} around \$80 billion -- the largest ever in our history. The entire U.S. budget in 1957 was less than this year's deficit and less than the \$80 billion we are paying this year in interest alone on our staggering national debt.

This irresponsible spending goes hand in hand with the steady trend in the growth of government. ~~In 1960, there were 10 Cabinet departments and now there are 19.~~ In 1960 we had ⁴ 2.2 million Federal employees being paid \$12.7 billion a year, and now there are ^{2.8} ~~2 3/4~~ million employees making ⁷⁵ \$56.8 billion per year.

In 1960, ^{govt} government consumed 18 1/2 percent of our national production. Last year, it ^{spent} took 23 percent.

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

Inflation in 1979 ran at 13.3 percent. Last year it finished at 12.4 percent. In the entire eight years of the Eisenhower Administration the ^{inflation rate ran at an average} ~~total cost of living rose only~~ ^{of only 1.4 percent a year.} ~~11.6 percent~~. Today, that seems hard to believe.

Since 1960, the population of America has grown by only _____ percent while the Federal Budget has jumped by _____ percent. The government is spending an incredible \$7,500 per household.

In 1960,
Ten years ago, mortgage interest rates averaged about ~~six~~ ^{six} ~~eight~~ percent, and now they are at the absurd level of ~~13.5~~ ^{15.4} percent.

Look at your income tax burden. Two decades ago, ^{a family of} you ~~paid less than 11¢~~ ^{about a dime} to the Federal Government on every dollar ~~you earned.~~ Today, ^{it} you ~~are paying~~ ^{pay} nearly 18¢. ~~The burden of Federal taxes per family has quadrupled since 1965.~~

Finally, too many Americans are painfully aware of the sluggish condition of our economy. Last year's recession pushed unemployment rates from about 6 percent to nearly 7 1/2 percent. Numbers ~~do not~~ ^{cannot} adequately measure the human suffering this implies.

That is a brief summary of the national economic audit that has been presented to me -- a confusing jumble of numbers and charts.

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

That's why I have set aside ~~what amounts to just one~~ ^{this disturbing} ~~more~~ government report. Instead, let's look at these alarming economic trends in personal terms.

The dollar you spent in 1960 will only buy ~~38¢~~ ^{36¢} worth of goods or services today. While you spent a quarter of your income ~~to buy~~ ^{on payments for} a home in 1960, it now takes more than 40 percent.

Only one in 10 first-time homebuyers can even afford to buy a new home. What has happened to that traditional American dream?

Have you purchased a car lately? Just ten years ago, it took about 35 months to pay for it - today, nearly 44 months.

How does the growth of government relate to you? Well, government was spending almost ~~\$1,900~~^{\$1,750} per ~~family~~^{household} two decades ago. Today, though ^{in many respects} the average family is truly no better off, the government is spending an incredible \$7,~~900~~⁵⁰⁰ per ~~family~~^{household}. ~~Every man, woman and child carries nearly \$4,500 of the national debt.~~

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

There are also some hidden ^{costs} payments in your lives. If you are lucky enough to ^{be able to afford a new} ~~buy that~~ automobile ^{and able to meet the payments,} which requires ~~44 months to pay off,~~ you should also know that government regulations have added \$666 to its ^{price} ~~cost~~.

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

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

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

- If inflation continues at the same rates, an automobile that costs \$6500 in 1981 will cost more than \$12,000 in 1985. ^AThe utility bill which runs at \$110 per month today would jump to ~~\$229~~⁵ in 1985.
- The average percentage of your family's income going to Federal income taxes will jump again from 18 percent today to more than 21 percent in 1985.
- While our GNP will grow by \$1.2 trillion in the next three years, the Federal Government's share of the increase will be more than 26 percent. Historically, the government's share has rarely risen above 20 percent.

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

When the Federal Government increases its debt it competes with you for money. That, in turn, helps keep interest rates at today's ~~extraordinarily~~^{extremely} high levels. These high rates not only keep inflation high, they deter investments, and it isn't long before all America falls into economic decline. It isn't government that suffers from this vicious cycle; it is you.

And yet, we have continued to allow deficits to push up our debt as if there were no negative consequences. The record is frightening.

In 1960, our national debt stood at ³²⁹¹ ~~\$284~~ billion.

By 1974, as I prepared to leave the Governorship of California, it had leaped to ⁸⁴⁸⁶ ~~\$474~~ billion. When I took

⁵⁹³¹ the oath of office 16 days ago, it stood at ~~\$440~~ billion.

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Because of what we have inherited, our national debt will ~~unavoidably~~ ^{despite all our best efforts.} unavoidably break the trillion dollar barrier within the next 12 months.

If you break that down, it means the Federal Government will have borrowed the equivalent of ^{4,400} ~~\$4,400~~ for every man, woman and child in the United States.

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

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

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

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

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

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

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

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

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

No government in history has voluntarily cut its own size. That is why we must take this action on our own. As parents we know that we can repeatedly lecture our children on the evils of waste and extravagance, but nothing

is so effective as simply cutting back their allowance. The Federal government will cut its spending only when we take action to stop it from spending.

In this process, all essential needs of our society will be met, ^{and} our efforts will be as even-handed as possible. My cuts will affect everyone but the truly needy, and ^{ultimately} everyone will benefit from this program including the truly needy.

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

-- We will cut grants that benefit mostly the grantsmen.

These professional middlemen and clever long-term budget manipulators will be a special target.

-- We will not subsidize businesses at the expense of the American people. Our policy will be to encourage business to earn its profits in the marketplace and not in the Federal budget.

-- We will not continue programs simply because "that is the way it's always been done." It's time to get away from business as usual.

Since taking office, I have already taken several actions to begin the trimming process. I've placed ~~abolishing of~~ civilian ~~Federal~~ a freeze on the hiring of Federal employees. I've ordered cuts in government travel, reduced the number of consultants to the government, and stopped the procurement of certain items. Other decisions to cut the size ~~and expense~~ of the government include a freeze on pending regulations, elimination of remaining ~~Federal~~ Federal controls on U.S. oil production and marketing, ~~and~~ and elimination of the totally ⁱⁿ effective wage and price ~~program~~ program of the Council on Wage and Price Stability.

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

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

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

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

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

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

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

The sum of business expansion and growth is personal well-being and jobs. I know there are those who oppose business tax cuts, but the fact is that business doesn't pay taxes; ^{people} ~~you~~ pay taxes. Every tax has to be passed on as a cost of doing business.

The third step in my plan will be to lessen government interference through the regulatory process. We must reform government regulation, eliminating needless and excessively costly rules and requirements. But while we act to reduce the burdens of government, we will never lose sight of the legitimate ends that they serve. Our food will remain safe to eat; our medicine will cure and not ^{cripple or} cause disease; our products will not threaten our lives.

However, we will review all old regulations and keep only those which are absolutely essential. We will look at

alternative ways of achieving regulatory objectives and screen all new regulations. We will make assessments of regulations based upon the costs they impose compared to the benefits they provide.

Fourth, we must act with a close understanding of how important the monetary element is. In plain language, I am *CONFIDENT* ~~think~~ we can work with the Federal Reserve system *and in* connection with our *control* ~~elimination~~ of Federal *spending,* ~~deficits,~~ we can drive down inflation and restore the purchasing power of the dollar.

When we combine this
towards the objective of a stable monetary policy

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

Since the early 1960s, the Federal Government has followed policies based on the hope that we could "fine tune" our way out of inflation and unemployment. The result has been "stop-and-go" policies -- fighting inflation one year and unemployment the next. Whenever inflation became too high, Washington would increase unemployment by raising taxes and interest rates. When unemployment then became too high, Washington would open the budget floodgates and print more money. And our problems only worsened. I think cutting spending and cutting taxes go together.

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

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

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

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

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

Since 1960 our government has spent \$5.¹ trillion; our debt has grown by \$64⁰ billion. ^{Prices have} ~~Inflation has~~ exploded by

178 percent. Now, let us ask ourselves: how much better off are we for it all? And, how much worse off are we for it all?

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

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

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

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

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

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

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

Thank you and good night.

THE WHITE HOUSE

WASHINGTON

February 5, 1981

MEMORANDUM FOR THE PRESIDENT

FROM:

Kenneth L. Khachigian



Herewith a clean version of tonight's economic speech. As you requested, we will review it with you at 1:30. We are still checking some of the numbers and the new references for complete accuracy, but those changes will be easy to make and will not alter the substance of the speech. We should have those by mid-afternoon.

THE WHITE HOUSE

WASHINGTON

February 6, 1981

MEMORANDUM FOR HELENE VON DAMM

FROM: KEN KHACHIGIAN

SUBJECT: Address to the Nation

This is the clean typewritten copy of the draft that President Reagan wrote out in long hand for his February 5, 1981, economic speech.

The handwritten editing in ink is the President's -- made during meetings in the residence with Jim Baker, Jim Brady, Martin Anderson, Ken Khachigian, Dave Gergen, and Murray Weidenbaum.

The changes made in pencil are by Ken Khachigian.

PM - Feb 5, 1981
Reagan Corrections

FILE COPY
only copy

Good evening:

I have ~~asked for this time~~ ^{am speaking to you} tonight to give you a report on ~~the state of our Nation's economy.~~ ^{I regret to say that we are in the worst ec. mess since the great depression.} A few days ago I was presented

with a report I had asked for -- a comprehensive audit if you will of our economic condition. You won't like it, I didn't like it, but we have to face the truth and then go to work to turn things around. And make no mistake about it, we can turn them around.

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

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

Twenty years ago in 1960 our Federal Government payroll was less than \$13 billion. Today it is \$75 billion. During these twenty years, our population has only increased by ^{27.3} ~~26.3~~ percent. The Federal budget has gone up ⁵²⁸ ~~529~~ percent.

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

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

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

Well, so much for the audit itself. Let me try to put this in personal terms. Here is a dollar such as you earned, spent, or saved in 1960. Here is a quarter, a dime, and a penny -- 36¢. Thirty-six cents is what this 1960 dollar is worth today.

And if the present inflation rate should continue ^{three} a couple more years, that dollar of 1960 will be worth a ^{quarter} ~~dime~~. *[What incentive is there to save? don't have any one short of the investment capital needed for business & industry expansion. Workers in Japan & West Germany save several times the percentage of their income than Americans do.]*

What has happened to that American dream of owning a home?

Only ten years ago a family could buy a home and the monthly payment averaged little more than a quarter -- 27¢ out of each dollar earned. Today it takes 42¢ out of every dollar of income. So, fewer than 1 out of 11 families can afford to buy ^{their 1st new} a home.

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

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

(handwriting) [What incentive is there to save? And if we don't save we are short of the investment capital needed for business and industry expansion. Workers in Japan and West Germany save several times the percentage of their income than Americans do.]

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

In the years following the 2nd World War it was easy (for awhile at least) to overlook the price tag. Our income more than doubled in the 25 years after the War. We increased our take home pay in those 25 years by more than we had amassed in all the preceding 150 years put together. Yes, there was some inflation, 1 or 1½ percent ^{a year} that didn't bother us. But if we look back at those golden years we recall that even then voices had been raised warning that inflation, like radioactivity, was cumulative and that once started it could get out of control. Some government programs seemed so worthwhile that borrowing to fund them didn't bother us.

By 1960 our national debt stood at ⁵²⁸⁴ \$291 billion. Congress in 1971 decided to put a ceiling of \$400 billion on our ability to borrow. Today the debt is ⁴⁹³⁴ ~~\$331~~ billion. So-called temporary increases ^{or extensions} in the debt ceiling have been allowed 21 times in

these 10 years and now I ^{have been forced to} ~~must~~ ask for another increase in the debt ceiling or the government will be unable to function past

the middle of February and I've only been here ^{16 days} ~~2 months~~. ^{we} Before we reach the day when we can reduce the debt ceiling we may in spite of our best ^{efforts} face in the near future a public debt that ~~could~~ exceed a ^{See a nat. debt in excess of a trillion dollars} trillion dollars. This is a figure literally beyond our comprehension.

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

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

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

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

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

Some say shift the tax burden to business and industry but business doesn't pay taxes. Oh, don't get the wrong idea, business is being taxed ^{so} much so that we are being priced out of the world market. But business must pass its costs of operation and that includes taxes, onto the customer in the price of the product. Only people pay taxes -- all the taxes. Government first uses business in a kind of sneaky way to ^{They are hidden in the price & we aren't aware of how much tax we actually pay} help collect the taxes. Today, this once great industrial giant of ours has the lowest rate of gain in productivity of virtually all the industrial nations with whom we must compete in the world market. We can't even hold our own market here in America against foreign automobiles, steel, and a number of other products.

Japanese production of automobiles is ^{almost twice} ~~20~~ times as great per worker as it is in America. ~~The~~ Japanese steel workers ~~as~~ ^{then} out-produce ~~the~~ American counterparts by about ²⁵ ~~25~~ percent.

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

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

Excessive taxation of individuals has robbed us of incentive and made ~~our~~^{OVER} time unprofitable.

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

We were once the greatest producer of automobiles, producing more than all the rest of the world combined. ~~The fact is~~^{Today}

~~That is no longer true, and in addition~~
The big 3, the major auto companies, in our land have sustained tremendous losses in the past year and have been forced to lay off thousands of workers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I am confident that my administration can achieve that.

We think that ~~will~~^{can} happen ~~by~~ⁱⁿ 1983 and ~~at that point~~^{at that point} tax revenues in spite of ^{RATE} reductions will be increasing faster than spending which means we can ~~have~~^{look forward to} further reductions in the tax rates.

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

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

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

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

Since 1960 our government has spent \$5.1 trillion; our debt has grown by ^{\$648}~~\$640~~ billion. Prices have exploded by 178 percent. How much better off are we for it all? We all know, we are very much worse off.

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

We must not be timid.

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

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

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

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

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

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

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

Over the years we have let negative economic forces run out of control. We have stalled the judgment day. We no longer have that luxury. **WE ARE OUT OF TIME.**

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

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

Thank you and good night.

~~I said in my remarks I~~
~~Tonight I have frequently~~ made statistical comparisons
to the year 1960. Of course, much has changed for the better
since then. But in terms of our economy, how can we ~~dispute~~ ^{DENY}
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of service. ~~We have no powers except those that we derive~~
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~~to~~ those great institutions in America -- business and
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too high, Washington would increase unemployment by raising taxes and interest rates. When unemployment then became too high, Washington would open the budget flood gates and print more money. And our problems only worsened. I think cutting spending and cutting taxes go together.

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

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

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

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~~11~~

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Twenty years ago in 1960 our Fed. govt. payrol was less than 13 bil. Today it is 75 bil. During the 20 yrs. our population has only increased by 26.3%.

The Fed. Budget has gone up 529%. We have just had 2 years of back to back double digit inflation, 13.3% in 1979 - 12.4% last year. ~~The~~ ~~inflation~~ ~~is~~ ~~the~~ ~~last~~ ~~time~~ ~~this~~ ~~happened~~ ~~was~~ ~~in~~

W.M.T. In 1960 mortgage ~~and~~ interest rates averaged about 6%. They are 2 1/2 times as high now 15.4%. The percentage of your earnings that govt. the Fed. took in taxes in 1960 was almost doubled. And finally there are 7 mil. Americans caught up in the personal indignity and human tragedy of unemployment. If they stood in a line - allowing 3 ft. for each person, the line would reach from the coast of Maine to Calif.

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What has happened to that American dream of owning a home? Only 10 yrs. ago a family could buy a home ~~for~~ ^{and the monthly payments averaged little} more than a quarter - 27¢ out of each dollar earned. Today it takes 42¢ out of every dollar of income. So, fewer than 1 out of 11 families can afford to buy a home.

Regulations adopted by govt. with the best of intentions have added 66¢ to the cost of an automobile. It is estimated that all together regulations of every kind, on shopkeepers, farmers and major industries add 100 bill. to the cost of the goods & services we buy. And then another 20 or 30 bill. is spent by govt. handling the paper work created by those regulations.

I'm sure that you are getting the idea that the audit presented to me found govt. policies of the last few decades responsible for our economic troubles. We forgot or just overlooked the fact that govt. - any govt. has a built in tendency to grow. We all had a hand in looking to govt. for benefits as if govt. had some ~~other~~ source of revenue ^(other) than our earnings. Many if not most of the things we thought of or that govt. offered to us seemed attractive.

In the years following the 2nd World War it was easy (for awhile at least) to overlook the price tag. Our income more than doubled in the 25 years after the war. We increased our take home pay ~~some~~ in those 25 yrs. by more than we had amassed in all the preceding 150 yrs. put

Together. Yes there was some inflation 1 or 1 1/2 % ^{THAT} ~~but~~ didn't bother us. But if we look back at those golden years we recall ^{that} ~~that~~ voices ^{had been} raised warning that inflation

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was cumulative (like radioactivity) and that once started it could get out of control. Some govt. programs seemed so worthwhile that borrowing to fund them didn't bother us.

By 1960 our nat. debt stood at 291 bil.

Congress in 1971 decided to put a ceiling of 400 bil. on our ability to borrow. Today the debt is 931 bil.

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we only been here 2 weeks.

We face in the near future a public debt ^{THAT COULD EXCEED} of a trillion dollars. This is a figure literally beyond our ^{Comprehension}

~~We~~ We know now that inflation is the result ^{all this} of ~~total~~ deficit spending. Govt. has only 2 ways of getting money other than raising taxes. It can go into the money market & borrow, competing with its own citizens & driving up interest rates ^{AND IT'S DONE THAT} or it can print money. ~~Both~~ Both methods are inflationary.

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Then of course we resent the person who puts on the price tags forgetting that he or she is also a victim of inflation. Inflation is not high prices it is ^{a reduction in the} ~~reduced~~ value of ^{our} money.

Cap this if you think ok

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average we only had to work between 5 or 6 weeks each year to pay our total Fed, State, & local tax bill. Today we have to work between 5 or 6 months to pay that bill.

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Steel this
last winter
- Murray
- Anderson

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 reducing the rate of increase in govt. spending to
~~do so~~ ~~which~~ reduce unemployment & inflation.

On Feb. 18th I will present ^{IN DETAIL} an economic
 program to Congress embodying the features I
 have just stated. It will propose budget cuts
 in virtually every dept. of govt. It is my belief
 that these actual budget cuts will only be
 part of the savings. As our ~~Dept. heads~~ ^{Chief Executives} take
 charge of their depts. they will search out
 areas of waste, extravagance & costly administrative
 overhead which could yield substantial reductions.

At the same time we are doing this we
 must go forward with a tax ^(RELIEF) package. I
 shall ask for a 10% ~~reduction~~ ^{reduction} across
 the board in the personal inc. tax ^(EACH OF) for the next
 3 years. Proposals will also be submitted for
 accelerated depreciation allowances for business to
 provide ~~for~~ necessary capital ^(SO AS) to ~~for~~ create jobs.

Now here again in saying this I know
 that language as I said earlier can get in the
 way of clear understanding of what of our program
 is intended to do. Budget cuts can sound as
 if we are going to reduce govt. ~~program~~ spending
 to ^(A LOWER LEVEL) ~~less~~ than was spent ^(THE YEAR BEFORE) ~~last year~~, that some

~~unstable & ^{at} ~~the~~ programs will be~~
~~eliminated or cut drastically below their present~~
~~level.~~ This is not the case. The budgets
 will increase as our population increases and
 each year will see spending increase to match
 our growth. Govt. revenues will increase as
 the economy grows but the burden will be
 lighter for each individual because the ec. base
 will have been expanded by reason of the reduced rates.

Let me show you ~~some~~ ^a charts I've had
 drawn to illustrate how this can be. Here ~~is~~
~~first one~~ you see 2 slanting lines. The bottom
 line shows the increase in tax revenues. The red
~~top~~ ^{out} line is the increase in govt. spending. Both
 lines turn sharply upward reflecting the
 giant tax increase ^{ALREADY} built into the system for this
 year 1981 & the increases in spending built into
 the '81 & '82 budgets and on into the future.

As you can see the spending line rises at a
 steeper slant than the revenue line and does so
 increasingly toward the end. That ever widening
 gap between these lines measures the constant
 deficits we've been running ^{including this year} ~~at the end is the~~
 '80 bil. deficit. ~~It's about \$100 billion~~

Now on ~~the~~ ~~chart~~ ~~you~~ ~~see~~ ~~what~~ ~~we~~
~~of~~ ~~income~~ ~~that~~ ~~will~~ ~~follow~~ ~~if~~ ~~Congress~~ ~~accepts~~ ~~our~~
~~confident~~ ~~will~~ ~~be~~ ~~the~~ ~~result~~ ~~of~~ ~~an~~ ~~ec.~~ ~~program.~~ Both
 lines continue to rise allowing for ^{necessary} growth but they
 don't rise ~~so~~ steeply and ~~at~~ ~~the~~ ~~end~~ the gap narrows
 as spending cuts continue over the next few years until
~~spending~~ ~~cuts~~ ~~finally~~ the 2 lines come together
 meaning a balanced budget and the end of inflation.
 We think that will happen by 1983 and at that point
 tax revenues in spite of ~~the~~ ~~reductions~~ ~~in~~ ~~tax~~ ~~rates~~ ^{will be increasing}
 faster than spending which means we can have
~~for~~ ~~even~~ ~~further~~ ~~reductions~~ ~~in~~ ~~the~~ ~~tax~~ ~~rates.~~

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

Our spending cuts will not be at the expense of the truly needy. We will however seek to eliminate benefits to those who are not really qualified ^{by reason} ~~of~~ ~~not an actual need of help.~~
OF NEED.

~~Our basic system is sound, we can meet our responsibility to those who through no fault of their own need our help. We -~~

As I've said before, on Feb. 18th I'll present this ec. package of budget reductions & tax reform to a joint session of Cong. & to you in full detail.

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