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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 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 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.

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 surplus of some \$16 billion. Now, we face a deficit of 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 13. In 1960 we had 2.2 million Federal employees being paid \$12.7 billion a year, and now there are 2 3/4 million employees making \$56.8 billion per year.

In 1960, government consumed 18 1/2 percent of our national production. Last year, it 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 total cost of living rose only 11.6 percent. Today, that seems hard to believe.

Ten years ago, mortgage interest rates averaged about eight percent, and now they are at the absurd level of 13.5 percent.

Look at your income tax burden. Two decades ago, you paid less than 11¢ to the Federal Government on every dollar you earned. Today, you are paying 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 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 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¢ worth of goods or services today. While you spent a quarter of your income to buy a home in 1960, it now takes more than 40 percent.

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 per family two decades ago. Today, though the average family is truly no better off, the government is spending an incredible \$7,800 per family. 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 payments in your lives. If you are lucky enough to buy that automobile which requires 44 months to pay off, you should also know that government regulations have added \$666 to its 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. The utility bill which runs at \$110 per month today would jump to \$229 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 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 \$284 billion. By 1974, as I prepared to leave the Governorship of California, it had leaped to \$474 billion. When I took the oath of office 16 days ago, it stood at \$930 billion. And now we have been forced into asking the Congress to raise it to \$985 billion.

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 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, it's our job to convince this government of the answer to that 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. Our efforts will be as even-handed as possible. My cuts will affect everyone but the truly needy, and 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.

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 penalties against fraudulent ones.

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 plants 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; 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 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 think we can work with the Federal Reserve system, and in connection with our elimination of Federal deficits, we can drive down inflation and restore the purchasing power of the dollar.

My 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 \$5.2 trillion; our debt has grown by \$646 billion. 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 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.

(Dolan/Khachigian)

First
~~Rough Draft~~
February 2, 1981

GOOD EVENING:

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

Tonight, for the first time as your President, I am continuing this conversation. ~~I have asked for this time to share with you my views on~~ *we face* the profound economic crisis that ~~lies before us.~~

Shortly before I took the oath of office, I asked my advisers to ~~begin~~ ² ~~prepare~~ a comprehensive look at the American economy. Just as ~~many of you are now reviewing~~ your personal finances and ~~doing~~ ^{prepare} your income taxes, I ~~believed it was essential that we undertake what was in effect~~ *wanted to have* a national audit of ~~the American~~ ^{'s} ~~economy~~ *financial condition*.

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

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

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

Let us begin with the plain truth. We are not on the
 road to ~~economic~~ recovery. ~~Instead, I must report to you~~ ^{Instead, we stand on the brink of economic calamity.}
~~that the~~ ^{The} Federal budget is badly out of control, ~~in both~~ ^{and}
 (~~fiscal~~) 1981 and 1982 we are faced with runaway deficits.
 Estimates of this have grown by almost \$100 billion just in
 the ~~last year.~~ Ten months ago, the previous Administration
 projected a surplus of some \$16 billion. ~~Instead, we~~ ^{now, we}
 face a deficit of 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 \$50 billion we}

~~These exploding deficits have piled a national debt~~
~~of staggering proportions on the backs of the American people.~~
~~This year, we will pay \$80 billion in interest alone on~~

^{are paying this year, alone on our staggering national debt.}
^{in interest}

~~that debt again, by itself greater than the entire Federal budget at the start of President Eisenhower's second term.~~

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 13. In 1960 we had ~~2,216,200~~ ^{2.2 million} Federal employees being paid ~~\$12,692 million~~ ^{\$12,392 million} a year, and now there are ~~2,773,842~~ ^{2.7 3/4 million} employees making ~~\$5,848 million~~ ^{\$5,848 million} per year.

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

The inescapable result of government out of control is inflation out of control.
~~But the upward curve applies to other economic measuring tools as well.~~

insert
attached ->

Inflation in 1979 ran at 13.3 percent. Last year, it finished out at 12.4 percent. In eight years under President Eisenhower, total inflation ^{averaged} ~~was~~ only 1.4 percent. Even in the early 1960s, inflation averaged only a little more than 1 percent per year.

(11.6)

~~only~~ ^{eight} ten years ago, mortgage interest rates averaged about ~~8~~ percent, and now they are at the absurd level of 13.5 percent.

Look ~~also~~ at your income tax burden. ~~In 1960, you were~~ ^{paid} ~~paying~~ less than 11¢ to the Federal government on every

dollar you earned. Today, you are paying nearly 18¢. ~~In 1965~~ the burden of Federal taxes per family ^{has quadrupled} ~~was just under~~ ^{since} ~~\$1,500.~~ ^{1965.} Today, that burden is nearly \$6,000.

Finally, too many Americans are painfully aware of the sluggish condition of our economy. Last year's recession

Insert

(X)

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

pushed unemployment rates from about 6 percent to nearly 7½ percent. ~~The human suffering this implies cannot be adequately measured in numbers.~~ *Numbers do not adequately measure*

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

But this report ~~on my desk~~ cannot begin to translate the ^{deep} worry that each of you feel. ~~For each of you, the problem is a little different, but we know one thing that is the same for everyone: we are all affected; we are all faced -- one way or the other by potential economic disaster.~~ *No citizen can avoid*
the critical problem that faces all of us: how to cope with potential economic disaster.

That's why I ^{have} ~~think it's important to~~ set aside what ~~you may think of as~~ ^{amounts to} just one more government report ~~and to share with you in more distinctly personal terms the affliction that crosses this Nation.~~ *Instead, let's look at* ~~How have these alarming economic trends affected your lives?~~ *How have these alarming economic trends affected your lives? in personal terms?*

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

Have you purchased a car lately? Just ten years ago, it took about 35 months to pay for it; ~~Today, it takes~~ ^{Today, it takes} nearly 44 months.

Q How does the

relate to you)

~~And how about the growth of government?~~ ~~In terms of~~
well, ~~your family,~~ government was spending almost \$1,900 per family two decades ago. Today, though the average family is truly no better off, the government is spending an incredible \$7,800 per family. *Every man, woman and child carries nearly \$4500 of the national debt.*

~~The Federal debt that I referred to was about \$4,000 per household in 1960, and now each family carries \$9,000 of the national debt.~~ *every man, woman and child*

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.

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

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

~~I believe it is time to recognize the error of this view, and to acknowledge that the creativity of individuals and the free exchange of the marketplace is now, and always has been, the foundation of America's prosperity and economic strength.~~

Q 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* ~~The results of our economic audit~~

~~make vivid the extent of the distress in our economic life. And not only are we 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. The utility bill which runs at \$110 per month today would jump to \$229 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.

~~These trends will also lead us to a much larger national debt. Let's talk for a moment about our debt because it is so symptomatic of all of our problems.~~

All of these trends are leading us

~~Right now, we are headed directly toward a trillion dollar national debt structure.~~

When the Federal government increases its debt, ~~it means~~ that the government goes out into the same markets as you do ~~it~~ *it* ~~to compete for loans.~~ *with you for money. That, in turn,* And it is that competition ~~that~~ helps keep interest rates at today's extraordinarily high levels. ~~turn~~

~~turn~~ these high rates not only keep inflation high, they deter investments, and it isn't long before all America ~~suffers from~~ *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 ~~nothing was happening and, quite frankly, as if we were not in charge and able to do something about it.~~ *there were no negative consequences. The record is frightening.*

In 1960, our national debt stood at \$284 ~~billion~~ billion. ~~By 1966, when I first ran for public office, it had grown to \$316 billion.~~ By 1974, as I prepared to leave office ~~it had jumped~~ *leaped* to \$474 ~~billion~~ billion. When I took

the Governorship of California,

the oath of office 16 days ago, it stood at 930 billion dollars. And now we have been forced into asking the Congress to raise it to 985 billion dollars.

Of the unbelievable magnitude of these numbers
~~This illustrates one of the central problems we face.~~

illustrates how

~~Those who have presided over these increases have watched~~
~~as we have engaged in a form of national self-deception.~~

In 1971, the Congress of the United States ^{last} set what ^{it} they

called a "permanent" debt limit of \$400 billion. ^{Since then,} ~~Now~~ each

time the debt limit ^{has been} ~~is~~ raised, ~~it is called an increase in~~

~~the "temporary" debt limit.~~ ^{it has} ~~been~~ ^{soothingly} ~~called a~~
"temporary" increase. ^{as} ~~approaches~~

In other words, ~~while~~ ^{as} our national debt ~~stands at~~
~~nearly~~ one trillion dollars, we ^{are told} ~~officially label~~ it ~~as~~ ^{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 piper would~~
~~never be paid and 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 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, it's ^{our} ~~my~~ job to convince this government of the answer to that question.

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

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

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

I wish that we could ^{magically} undo ~~the~~ damage ~~of past years~~ with some miraculous activity. We can't, and we won't. ^{start by being honest with ourselves.} But we can all help each other this time by avoiding false ~~starts~~

I'm not asking ^{you} ~~the American people~~ to be patient; I'm asking ~~each~~ you to use your impatience to make sure this difficult process is seen through to the end. I ~~am not going~~ ^{won't} to ask you to do with less ^{because when the times are most difficult, our people have always} ~~I'm asking you merely to do what has to be done so that we can all see a day when there is more for everyone.~~ ^{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} ~~when they~~ return ^s from ~~their~~ ^{its} recess. ~~There are four basic elements to it:~~

To page 10

My second proposal will be to reduce

~~One~~ I will ask that personal income tax rates ~~be~~
~~reduced~~ ten percent each year for the next three years.

And I will call for an acceleration in the ability of all businesses, small as well as large, to write off capital investments against their taxes.

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

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

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

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

to bottom page 12

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

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

~~My observation has been that ^{9/2} no government in history has voluntarily cut ~~down~~ its own size. That is why we must take this action on our own. ~~After all, most of you know that you can lecture your children time and time again on the evils of waste and extravagance, but nothing is so effective~~ ^{as parents we} ~~helpful~~ as simply cutting back their allowance. The Federal government will cut its spending only when ^{we take action} ~~we all act~~ to stop it from spending.~~

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

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

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

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

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

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

To ^{help} ~~assist in cutting~~ the budget, ^{without hurting the needs} I am ^{plan an assault} ~~also going all out~~ against the fraud and waste that we have in ~~the~~ government. ~~This is one way that we can cut costs without~~

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

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

I don't think, at this point, 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, 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} ~~any woman~~ 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* ~~Many who would not ordinarily choose a career in the labor market have been forced to do so simply to help their families stay even. When the burden of inflation is added, we too often see two half-hearted participants in the labor market working hard merely to maintain a minimum standard of living.~~

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.

to p. 9 → The third step in my plan will be to lessen government interference through the regulatory process. We must reform government regulation, eliminating needless and excessively costly rules and requirements. But while we

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

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

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

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

Since the early 1960's, the Federal Government has followed policies based on the hope that we could "fine tune" our way out of inflation and unemployment. The result has been "stop-and-go" policies -- fighting inflation one year and unemployment the next. Whenever inflation became too high, Washington would increase unemployment by raising taxes and interest rates. When unemployment then became too high, Washington would open the budget

floodgates and print more money. ~~The quick economic cure only worsened. I think cutting spending and cutting taxes go together.~~ ~~And our problems only worsened. I think cutting spending and cutting taxes go together.~~ ~~only caused the economy to become mired more deeply in its own problems.~~

~~It took decades to get in the mess we're in today and it will take time to get out. But because it will take time to do the job that is no reason not to start. I will begin submitting the dramatic measures which I believe will restore economic vitality to our country.~~ ~~set out of this mess,)~~ ~~that is why I~~ ~~in two weeks~~

But as deep as ~~these~~ ^{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} ~~bringing giant~~ government ~~under control and starting~~ to live within ^{its} ~~our~~ means.

Over the years we have let negative economic forces run out of control. We have stalled the judgment day [^] ~~mortgaging our future and thinking more of our temporary needs and less of the legacy we will leave to our children.~~ 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 5.2 trillion dollars; our debt has grown by 646 billion dollars. 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} ~~been to~~ our lives, ~~how can we, for even a moment, dispute~~ ^{we know we must act ~~boldly~~ quickly.} ~~the course that must be taken.~~

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. ~~We must act accordingly.~~

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~~ the people.

To my fellow citizens, I propose that we ~~will all~~ join to do no less than shake the very foundations of our economic system. We will work together ^{and} ~~we~~ 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.

(Dolan/Khachigian)

Rough Draft
February 2, 1981

GOOD EVENING:

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

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

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

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

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

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

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

These exploding deficits have piled a national debt of staggering proportions on the backs of the American people. This year, we will pay \$80 billion in interest alone on

that debt -- again, by itself greater than the entire Federal budget at the start of President Eisenhower's second term.

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

In 1960, government consumed 18½ percent of our national production. Last year, it took 23 percent.

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

Inflation in 1979 ran at _____ percent. Last year, it finished out at _____ percent. In eight years under President Eisenhower, total inflation was only _____ percent. Even in the early 1960s, inflation averaged only a little more than 1 percent per year.

Only ten years ago, mortgage interest rates averaged about _____ percent, and now they are at the absurd level of _____ percent.

Look also at your income tax burden. In 1960, you were paying less than 11¢ to the Federal government on every dollar you earned. Today, you are paying nearly 18¢. In 1965, the burden of Federal taxes per family was just under \$1,500. Today, that burden is nearly \$6,000.

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

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

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

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

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

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

And how about the growth of government? In terms of your family, government was spending almost \$1,900 per family two decades ago. Today, though the average family is truly no better off, the government is spending an incredible \$7,800 per family.

The Federal debt that I referred to was about \$4,000 per household in 1960, and now each family carries \$9,000 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.

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

All of these problems are the legacy of a bankrupt idea: that the government is the source of our economic well-being. I believe it is time to recognize the error of this view, and to acknowledge that the creativity of individuals and the free exchange of the marketplace is now, and always has been, the foundation of America's prosperity and economic strength.

And now, those who have promoted the notion that the government offers the cure for our economic ills have run out of medicine. The results of our economic audit

make vivid the extent of the distress in our economic life. And not only are we 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. The utility bill which runs at \$110 per month today would jump to \$229 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.

These trends will also lead us to a much larger national debt. Let's talk for a moment about our debt because it is so symptomatic of all of our problems.

Right now, we are headed directly toward a trillion dollar national debt structure.

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

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

In 1960, our national debt stood at \$284.1 billion. By 1966, when I first ran for public office, it had grown to \$316.1 billion. By 1974, as I prepared to leave office, it had jumped to \$474.2 billion. When I took

the oath of office 16 days ago, it stood at 930 billion dollars. And now we have been forced into asking the Congress to raise it to 985 billion dollars.

This illustrates one of the central problems we face. Those who have presided over these increases have watched as we have engaged in a form of national self-deception. In 19__, the Congress of the United States set what they called a "permanent" debt limit of _____ billion. Now, each time the debt limit is raised, it is called an increase in the "temporary" debt limit.

In other words, while our national debt stands at nearly one trillion dollars, we officially label it as 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 piper would never be paid and 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 _____ times since 19__. If a bank told you you could borrow \$5,000, do you think it would let you go back _____ times to increase the loan without collateral? You know the answer to that question. Well, it's my job to convince this government of the answer to that question.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I don't think, at this point, that I need to dwell on the obvious. From your personal experience, each of you knows that inflation is destroying our economy.

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 any woman who wishes 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 choice. Many who would not ordinarily choose a career in the labor market have been forced to do so simply to help their families stay even. When the burden of inflation is added, we too often see two half-hearted participants in the labor market working hard merely to maintain a minimum standard of living.

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.

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

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

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

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

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

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

It took decades to get in the mess we're in today, and it will take time to get out. But because it will take time to do the job, that is no reason not to start. In two weeks, I will begin submitting the dramatic measures which I believe will restore economic vitality to our country.

But as deep as these 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 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 bringing giant government under control and starting to live within our means.

Over the years we have let negative economic forces run out of control. We have stalled the judgment day, mortgaging our future and thinking more of our temporary needs and less of the legacy we will leave to our children. 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 _____ trillion dollars; our debt has grown by _____ billion dollars. Inflation has exploded by _____ 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 been to our lives, how can we, for even a moment, dispute the course that must be taken.

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. We must act accordingly.

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 all the people.

To my fellow citizens, I propose that we will all join to do no less than shake the very foundations of our economic system. We will work together to 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.

Dolan/Khachigian

Rough draft
2-2-81

GOOD EVENING:

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

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

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

~~That xxx audit xxx has been conducted~~

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

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

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

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

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

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

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

In 1960, government consumed 18½ percent of our national production. Last year, it took 23%.

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

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Inflation/~~was~~ ran at ___%. Last year, it finished out at ___%. ~~Some of the highest inflation rates~~ In eight years under President Eisenhower, ^{Total} ~~the entire~~ inflation was only ___%. Even in the ~~the~~ early 1960s, inflation averaged only a little more than one percent per year.

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

Look also at ~~the burden of~~ your income taxes ^(burden). In 1960 you were paying less than 11¢ ~~to~~ to the Federal Government on every dollar you earned. Today, you are paying nearly 18¢. In 1965, the burden of federal taxes ~~was~~ per family was ~~just~~ just under \$1500. ~~Today~~ Today, that burden is nearly \$6000.

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. The human suffering ~~caused by~~ this impolies ~~cannot~~ cannot be adequately measured in numbers.

a brief summary of

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~~xx~~

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

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

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

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

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

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

page 5

household in 1960, and now each family carries \$9000 of ~~national~~ national debt.

On the tax front, it used to be that the average family of ~~four~~ 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~~ Federal Taxes.

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

All of these problems are the legacy of a bankrupt idea: that the government is the source of our economic well-being. I believe ~~it is~~ it is time to recognize the ~~error~~ error of this view, and to acknowledge ~~that~~ that the creativity of individuals and the free exchange of the ~~marketplace~~ marketplace is now, and always has been, the ~~foundation~~ foundation of America's prosperity and economic strength.

And now, those who have promoted the notion that the government offers the cure ~~for~~ for our economic ills have run out ~~of~~ of medicine. ~~The~~ The results of our economic audit make vivid the extent of the distress in our economic life. And not only are we running out medicine, we are, more importantly, running out of time.

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

(bullets)

insert

(going to Federal income taxes)

average

-- The/percentage of your family's ~~income~~ income will jump again from 18 percent today to more than 21 percent in 1985.

-- While ~~the~~ our GNP will grow by 1.2 trillion dollars in the next three years, the Federal Government's share ~~will increase~~ ~~of the~~ ~~GNP~~ of the increase will be more than 26 percent. Historically, the government's share has rarely risen above 20 percent.

-- If inflation continues at the same rates, an automobile ~~that~~ that costs \$6500 in 1981 will cost more than \$12,000 in 1985. The utility bill which runs at \$110 per month today would jump to \$229 in 1985.

These trends will also lead us to

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

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

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

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

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

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

In 1960, our national debt stood at _____ billion dollars. By 1966, wehn I first ran for public office, it had grown to _____ billion dolars. By 1974, as I prepared to leave office, it had jumped to _____ billion dollars. When I took the oath of office 16 days ago, it stood at 930 billion dollars. And now *we have been forced into asking the Congress to raise it it is going up to \$985 billion.*

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

In other words, while
~~Just in case you miss the point, our~~ national debt stands at nearly \$ one trillion dollars, ~~but~~ we ~~shouldn't worry because that is~~ *officially label it as* ~~is~~ actually only a "temporary" *figure.* Well, this is the kind of debasement of the English language that has gotten us into so much trouble. We've hidden ~~behind~~ behind fictions and ~~our~~ budget hocus-pocus. We've deceived ~~ourselves~~ ourselves into thinking that the piper would never be paid ~~and that~~ *the mere use of words* ~~the technical finery of labels~~ would *noted* ~~preserve~~ us from economic chaos.

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

well
It's my job to convince this government of the answer to that question.

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

We are going to stop hiding behind trick phrases and ~~buzz words~~ ^{smokescreens.} We may have been looking at a "temporary" rise in ~~the~~ our debt, but ~~xxxxxx~~ 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 ~~words~~ ^{definitions}. I wish that we could undo the damage of past years with some ~~miraculous~~ miraculous activity. We can't, and we won't.

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

Let one thing be clear. We're not going to be casual about the actions we take. Everyone can count on us

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

One, I will ask that personal infome tax rates be reduced ~~xxx~~ ten percent each year for the next threere years. And I will call for ~~xxxxxx~~ an accelerattion in the ability of all ~~xxx~~ businesses, ~~xxxxxx~~ small as well as large, to write off capital investment against their taxes.

Personal cuts will restore your opportunities to work and save

Insert A

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

(Continue bottom page 9)

of the Federal debt and to balance the budget at the earliest possible date.

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

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

~~XXXXXXXXXXXXXXXXXXXX~~

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

We ~~will~~ will cut federal programs -- categorical programs -- that have more overhead than the actual benefits of it?

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

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

To assist in cutting the budget, I am also going all out against the fraud and waste that we have in ~~government~~ this government. This is one way that we can cut costs without hurting the needy. I will be rigidly intolerant of wasteful activities, and I will seek tough criminal penalties against fraudulent ones.

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

I don't think, at this point, that I need to ~~say~~ ^(dwell on) the ~~obvious~~. From your personal experience, each of you knows that inflation is destroying our economy. ~~It is obvious~~

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 any woman who wishes 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 choice. Many who would not ordinarily choose ~~to~~ a career in the labor market have been forced to do so simply to help their families ~~stay~~ stay even. When the burden of inflation is added, we too often see two half-hearted participants in the labor market working hard ~~to~~ merely to maintain a minimum standard of living.

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~~ measure responsible for the serious rise in family instability and unhappiness. That price is unacceptable to me.

T

The third step in my plan will be to to lessen ~~the~~ ^{interference} ~~interference by~~ government through the regulatory process. We must reform government regulation, eliminating needless and excessively costly ~~xx~~ 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 ~~be~~ cure and not cause disease; our products will not threaten our lives.

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

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

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

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 ~~xxxx~~ "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/became too high, Washington would ~~xx~~ open the budget floodgates and print more money. The quick economic cure only caused the economy to become mired more deeply in its own problems.

~~XXXXXXXXXX~~

~~XX~~

~~XXXX~~

in the mess we're in

It took decades to get ~~XXXXXXXXXXXX~~ today, and it will take time to get out. But because it will take time to do the job, that is no reason not to start. In two weeks, ~~we~~ ~~will~~ I will begin ~~XXXXXXXXXXXX~~ submitting ~~XXXXXXXXXXXX~~ ~~from~~ the dramatic measures which I believe will restore economic vitality to our country.

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

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

Our ^{aim} ~~goal~~ is not to limit our wealth and allocate it differently. Nor is it to favor the few ~~and~~ while ingoring the majority. Instead, we seek to increase our national wealth by rewarding hard work and risk-taking. We seek ~~we~~ also to make ^{our} ~~the~~ national wealth worth something by bringing ~~the~~ giant government under control and start ^{ing to live} ~~living~~ within our means.

Over the years we have let ~~the~~ negative economic forces run out of control. We have stalled the judgment day, mortgaging our future and thinking more of our ^{temporary} needs and less of the legacy we will leave to our children. *We no longer have that luxury.*

Tonight I have frequently ~~xxxxxxxxxxxx~~ made comparisons to the year 1960. I would not trade anything for living in the era we do -- so much has changed for the better in 20 years. Yet we would do well to think again about the kind of ~~xxxxxxxx~~ ~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx~~ simple common sense

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

Since 1960 ~~we~~ our government has spent ___ trillion dollars; our debt has grown by ___ billion dollars. Inflation has exploded by ___ percent. Now, let us ask ourselves: ~~these~~ ~~of us who can recall the~~ how much better off are we for it all? And, how much worse off are we for it all?

When we measure ~~what~~ how ~~harshly~~ harshly these years of inflation, lower productivity, and uncontrolled government growth have been to our lives, how can we, for even a moment, dispute the course that must be taken.

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

~~We must do no less than shake the very foundations of our~~ ~~xxxxxxxxxxxx~~ economic ~~xxx~~ system. We will do so responsibly; we will do so with the most profound respect for ~~what~~ the good things that should be kept. ~~and~~ ~~xxxxxxxxxxxx~~ And we shall do so with sensitive understanding for those who must be protected.

We will ~~celebrate~~ ^{restore} the freedom of all men and women to excel
~~and~~ and to create. We will unleash the energy and genius
of the American people -- ~~something that~~ ^{traits which have} never failed us.

To the Congress of the United States, I ~~will~~ extend my
hand in cooperation. ~~The people have sent us a message last~~
~~year. It is our responsibility to work together. That~~
~~same sense of cooperation will guide all that I do.~~

To my colleagues in the Executive Branch of government and
to all ~~United~~ Federal ~~and~~ employees I ask that we work in
the spirit of service. ~~You must~~ We have no powers except
those that we derive from the people. ~~I expect us all to~~
^{We must act}
~~act responsibly and with dedication toward implementing the~~
^{accordingly.}
~~goals we have set down.~~

To those great institutions in America -- business and
labor -- I urge you ~~to have as your~~ ^{to be} guide ^{by} the national interest.
The only special interest we will serve is the interest of
all the people.

To ~~the institutions~~ my fellow citizens, I propose that
we will all join to do no less than shak^e the very foundations
of our economic system. ~~We will~~ We will work together
to act responsibly. We will do so with the most profound respect
for that which we must preserve and with ⁱsensitive understanding
for those who must be protected. Please give me your help.

Thank you and good night.