

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Speechwriting, White House Office of:
Speech Drafts

Folder Title: Address to the Nation (Economy)
(Khachigan) February 5, 1981 [1]

Box: 2

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

to: Ken Khachigian

Department
of the Treasury

room: _____ date: 2/6/81

Office of
the Secretary

Attached is the analysis of the numbers
used in the President's speech.

Please consider it in the spirit in
which it was prepared--to be helpful
and to help all of us avoid any
troubles.

Thanks.

DLC

David L. Chew

Attachment

File
Feb 5 *Exec*
speech

David L. Chew
Executive Assistant
to the Secretary

room 3408
phone 566-5901

Notes on President's Speech

1. The population growth is real. The spending figure is mostly inflation. Treasury suggested the real growth figure for the budget - up 96 percent in real terms, four times the growth in population - as a still startling but more valid comparison.
2. The percentage, according to Treasury calculations, was from 11¢ to 13¢ on the dollar in 1960 to about 18¢ in 1980, depending on definitions, but not a doubling.
3. Treasury cannot verify this figure.
4. The source for this datum is outdated. A firmer and more recent figure is needed, and would show a larger number.
5. The regulatory burden is a soft but reasonable number; but this paperwork figure seems high.
6. This 1-1½ percent figure understates inflation over this period, 1946-1971, which averaged just under 3 percent per year. It is reasonably accurate for 1948-1965, when inflation averaged 1.6% (CPI).
7.
 - a. Inflation does not get out of control by itself. Only a deliberate and sustained acceleration in money creation can do that. This inevitability argument distracts attention from the fact that inflation can be brought down, and fairly quickly, by proper monetary policy. This is a key point in the President's program, and one he will emphasize within a week in presenting his package to the Hill and the nation.
 - b. This use of radioactivity as a scare word interferes with efforts to reinvigorate the nuclear power industry to reduce dependence on foreign oil. The reprocessing, waste disposal, safety and licensing questions are already politically sensitive areas in which legislation supported by the Administration will fare tough sledding.
8. The groundwork was laid in the previous paragraph that inflation is too much money chasing too few goods.

This was the spot to say, very simply, that even as we have been printing too much money, we have let high tax rates, red tape and regulations strangle the production of goods; that we are messing up both parts of the inflation equation. The war paragraph is a very obscure way of saying that.
9.
 - a. Is this an effort to measure federal, state and local taxes as a percent of wages and salaries of working age people as opposed to as a percent of all income of all taxpayers? Treasury would like to refine this number.

b. More fundamentally, whatever has happened to the average tax burden, the burden at the margin on any additional earnings has risen much higher, and is at the heart of our troubles with inadequate incentives to work, save and invest. It is also at the heart of the President's economic package which focuses on marginal tax rate reduction.

This "by-what-date-do-you-finish-paying-your-taxes-each-year" approach is a poor example which should be changed in later speeches. It is backwards from the marginal tax rate problem.

In fact, the first few months someone works he pays no income tax, until his income exceeds the family's personal exemptions and standard deduction. Then his next few weeks' income is in the 14 percent bracket; the next month's income in the 16 percent bracket; and so on up to 25 percent, 30 percent, 50 percent or 70 percent (unearned income) by November or December. At some point, the added income is not worth the added effort.

Paraphrasing a speech by President Coolidge on this very point: "Suppose the government taxed you 20 percent of the money you earned on Monday, 30 percent of the money you earned on Tuesday, and so on up to 70 percent of the money you earned on Saturday, how many days a week would you work?"

In fact, all these rates have been rising, and people are, metaphorically, quitting around noon on Wednesday, instead of 5 p.m. Friday. Increasingly, people work less and, in particular, save less, invest less, and take fewer risks.

10. Business taxes are partly passed forward to consumers in higher prices, and partly passed back to labor and shareholders as lower wages and dividends. People suffer in all their roles, not just as consumers. But the last sentence is absolutely correct - only people pay taxes.

11 and 12. This is not correct. Real standards of living are rising. Average after tax wages have fallen per worker as low paying low productivity jobs have been added in recent years. But only in and near recessions has the takehome pay of a particular worker tended to fall over time. Family income has risen in real terms, particularly as more have become two worker families, and per capita income has been rising. Fixed income families, those squeezed out of credit markets by government borrowing, those unemployed, and certain depressed industries are hurting. But the sweeping generalization is inaccurate.

Text of the President's Address Reporting on the State of the Nation's Economy

Special to The New York Times

WASHINGTON, Feb. 5 — Following is the prepared text of President Reagan's address to the nation tonight on the economy, as released by the White House:

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 of 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 Sept. 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.

Payroll and Population Rise

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.

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 two and a half 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 seven 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.

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 — 37 cents. 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 10 years ago a family could buy a home and the monthly payment averaged little more than a quarter — 37 cents out of each

dollar earned. Today it takes 42 cents out of every dollar of income. So, fewer than one out of 11 families can afford to buy their first new home.

Regulations adopted by Government with the best of intentions have added \$886 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 \$30 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 sources 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 second world war it was easy (for a while 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.

National Debt Ceiling

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.

1 →

2 →

← 3

← 4

← 5

← 6

← 7

← 8

Tolerance for Tax Increases

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 about two and a half months each year to pay our total Federal, state and local tax bill. Today we have to work about 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 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 steelworkers 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.

Stifling of Ability

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 three, 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 allowances.

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

9 →

10 →

11 →

placements for those who retire or 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 decentralized all, which should result in more domestic production and less dependence on foreign oil. And I am eliminating the ineffective wage and price program of the Council on Wage and Price Stability.

"Thank Is the Guest First"

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 Feb. 14, 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 social 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 heavily 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 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 Government spending to a lower level than was spent the year before.

Increases With Population Rise

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 means of the reduced rates.

Let me show you a chart I've had drawn to illustrate how this can be done. 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 grant tax increase already built into the system for this year 1981, and the increase 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 revenues 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 accepted our economic program. Both lines continue to rise although by decreasing growth but the gap narrows as spending cuts continue over the next few years, until finally the two lines come together meeting a balanced second budget.

I am confident that my Administration can achieve that. At that point, tax revenues, in spite of rate reductions, will be decreasing faster than spending, which means we can look forward to further reductions in the tax rates. In spite of rate reductions, we will be spending less.

steadily 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 Feb. 14, 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.

"Were Off" Than In 1969

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 hardly 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 bipartisan 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.

Creating New Incentives

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 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 us to be. All it takes is a little common sense and recognition of our own ability. Together we can begin a new beginning for America. Thank you and good night.

12

ONLY BEEN HERE 16 DAYS.

[I AM GRATEFUL THAT THE HOUSE OF REPRESENTATIVES, IN A SHOW OF RESPONSIBLE BIPARTISANSHIP, VOTED TODAY TO INCREASE THE DEBT CEILING. I HOPE THE SENATE WILL TAKE THE SAME ACTION TOMORROW SO THAT THE GOVERNMENT CAN HONOR ITS OBLIGATIONS.] 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.

*proposed
addition
not used.*

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.

ONLY BEEN HERE 16 DAYS. (9)
I AM GRATEFUL THAT THE
HOUSE OF REPRESENTATIVES,
IN A SHOW OF RESPONSIBLE
BIPARTISANSHIP, VOTED TODAY
TO INCREASE THE DEBT CEIL-
ING. I HOPE THE SENATE WILL
TAKE THE SAME ACTION
TOMORROW SO THAT THE
GOVERNMENT CAN HONOR ITS
OBLIGATIONS. 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 ⁽¹⁰⁾
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.

THE WHITE HOUSE

WASHINGTON

February 4, 1981

MEMORANDUM FOR DICK DARMAN

FROM: KEN KHACHIGIAN

An important part of the President's speech was omitted by accident. Attached are two paragraphs that belong on page three of the speech. The latter paragraph is totally new, while the first paragraph has been rewritten in order to jibe with the second.

Too many Americans are also 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.

Finally, it is also clear to me that the terrible state of our economy has been very harmful to our foreign policy. Clearly, we cannot enjoy a position of international strength unless we put our domestic house in order. We cannot expect to have confident allies unless they have confidence in our economy.

February 4, 1981

MEMORANDUM FOR DICK DARMAN

FROM: Ken Khachigian

An important part of the President's speech was omitted by accident. ~~YES~~ Attached are two paragraphs that belong on page three of the speech. The latter paragraph is totally new, while the first paragraph has been rewritten in order to jibe with the second.

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

Finally, it is also clear to me that the terrible state of our ~~our~~ economy has been very harmful to our ~~posture abroad~~ *foreign policy.*

Clearly, we cannot ~~have~~ enjoy a position of international strength ~~unless~~ unless we put our domestic house in order. ~~we~~ *we* cannot expect to have ~~any~~ confident allies ~~unless~~ *unless* they have confidence in our economy.

Checker's
copy

Good evening:

I have asked for this time tonight to give you a report on the state of our Nation's economy. A few days ago I was presented with a report I had asked for -- a comprehensive audit 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 ^{total} deficits, ^{of almost} \$80 billion for this budget year that ends ~~October 1~~ ^{September 30}. That deficit is larger than the entire Federal budget in 1957, and so is the ~~the~~ ^{will} \$80 billion we ~~now~~ pay in interest on the national debt ^{this} ~~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 ~~26.3~~ ^{23.3} percent. The Federal budget has gone up ~~52.8~~ 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

FY 80
FY 60
720
RMB

...coupled. 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 us 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~~ ^{for these} continue ~~a couple~~ more years, that dollar of 1960 ~~will~~ ^{will} be worth a ~~quarter~~ ^{quarter.}

What has happened to that American dream of owning a home? Only ten years ago a family could buy a home and the monthly payment averaged little more than a quarter -- 27¢ out of each dollar earned. Today it takes 42¢ out of every dollar of income. So, fewer than 1 out of 11 ~~families~~ ^{prospective first-time homebuyers} can afford to buy a ~~home~~ ^{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 or \$30 billion is~~ ^{billions more are} spent by government handling the paperwork created by those regulations. ^{don't use}

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

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

In the years following the 2nd World War it was easy (for awhile at least) to overlook the price tag. Our income more than doubled in the 25 years after the War. We increased our take home pay in those 25 years by more than we had amassed in all the preceding 150 years put together. Yes there was some inflation, ^{less than 3} ~~100%~~ percent, that didn't bother us. But if we look back at those golden years we recall that even then voices had been raised warning that inflation, like radioactivity, was cumulative and that once started it could get out of control. Some government programs seemed so worthwhile that borrowing to fund them didn't bother us.



68-70
560-45

revised
debt subj
to limit

By 1960 our national debt stood at ⁴²⁸⁴ ~~284~~ billion. Congress in 1971 decided to put a ceiling of \$400 billion on our ability to borrow. Today the debt is ⁴⁹³⁴ ~~332~~ billion. So-called temporary ^{or extensions} increases in the debt ceiling have been allowed 21 times in these 10 years and now I must ask for another increase in the debt ceiling or the government will be unable to function past the middle of February and I've only been here 2 ~~months~~ ^{weeks}. We face in the near future a public debt that could exceed a trillion dollars. This is a figure literally beyond our comprehension.



has been fueled by
[We know now that inflation ~~is the result of~~ all that deficit spending.] Government has only two ways of getting money other than raising taxes. It can go into the money market and borrow, competing with its own citizens and driving up interest rates, which it has done, or it can print money, and it's done that. *The consequence has been rising inflation and rising interest rates.* ~~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~~ 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 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 4 and 5~~ ⁴ weeks each year to pay our total Federal, state, and local tax bill. Today we have to work ~~between 5 and 6~~ 5 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 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 ~~20 times~~ ^{80 percent} greater per worker as it is in America. The Japanese steel workers out-produces his American counterpart by ~~about 25~~ ^{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 prevented us from updating plant and equipment. When capital investment is made it is ~~usually~~ ^{all too often} for some unproductive alterations demanded by government to meet various of its regulations.

Excessive taxation of individuals has robbed us of incentive and made our 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. ~~And~~ ^{In the past year} ~~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} ~~the~~ 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 always we held that taxes couldn't be cut until spending was reduced. Well, we can lecture our children about extravagance until we run out of voice and breath. Or we can cure their extravagance simply by reducing their allowance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our basic system is sound. ~~We~~ 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 ~~360~~⁴⁶⁸ billion. Prices have exploded by 178 percent. How much better off are we for it all? We all know, ^{in many ways} we are very much worse off.

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

We must not be timid.

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

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

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

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

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

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

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

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

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

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

Thank you and good night.

THE WHITE HOUSE

WASHINGTON

February 5, 1981

MEMORANDUM FOR DISTRIBUTION

FROM: Kenneth L. Khachigian

We are still reviewing some of the data in the speech.
Please do not circulate other than for review purposes.

the worst economic mess since the Great Depression

Good evening:

am ^{*ing*} *to speak to you*

I have ~~asked for this time~~ tonight to give you a report on the state of our Nation's economy. ^{*I regret to tell you that we are in*} 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, \$80 billion ^{*including the so-called off-budget items*} for this budget year that ends ^{*September 30.*} ~~October 1~~. That deficit is larger than the entire Federal budget in 1957 and so is the \$80 billion we ^{*will*} ~~now~~ pay in interest on the national debt ^{*this*} every year.

with version only

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

^{DG}~~delete~~ (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.

4/17 And if the present inflation rate should continue a couple more years, that dollar of 1960 will be worth a ~~dime~~ ^{quarter}.

What has happened to that American dream of owning a home? Only ten years ago a family could buy a home and the monthly payment averaged little more than a quarter -- 27¢ out of each dollar earned. Today it takes 42¢ out of every dollar of income. So, fewer than 1 out of 11 families can afford to buy ^{their first} 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 or \$30 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 \$291 billion. Congress in 1971 decided to put a ceiling of \$400 billion on our ability to borrow. Today the debt is \$931 billion. So-called temporary increases in the debt ceiling have been allowed 21 times in these 10 years and now I ~~may~~ ^{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.} ~~2 months.~~ ^{P. insert}

^{now} ~~face in the near future a public debt that could exceed a trillion dollars.~~ ^{will} This is a figure literally beyond our comprehension.

was forced

Even if ~~the~~ ^{our} economic are fully implemented as we hope they will, we face in the very near future a public debt which could exceed a trillion

results from

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

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* ~~ability of our people~~ ^{people's tolerance or} 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 ⁴/₅ or ⁵/₆ weeks each year to pay our total Federal, state, and local tax bill. Today we have to work between 5 or 6 months to pay that bill.

But

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 help collect the taxes. ^{They are hidden in the price, and we aren't aware of the actual tax we 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} ~~20 times~~ as great per worker as it is in America. The Japanese steel worker ⁵ ~~5~~ out-produce ^{his} ~~his~~ American counterpart ⁵ by about 35 percent.

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

We invented the assembly line and mass production, but punitive tax policies and excessive and unnecessary regulations plus government borrowing have ^{stifled our ability to} ~~prevented us from~~ updating 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. Today the big 3, the major auto companies, in our land have sustained tremendous losses in the past year and have been forced to lay off thousands of workers.

That is no longer true. And in addition.

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 standard of living in our country is going down.

Over the past decades we've talked of curtailing government spending so that ~~that~~ ^{they} we can lower the tax burden. Sometimes we've even taken a run at doing that. But ^{there have always been 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 ^{threatened} ~~faced~~ with an economic calamity of tremendous proportions and the old business as usual treatment can't save us.

Together, we must chart a different course. We must increase productivity, ~~and~~ ^{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.

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

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

On February 18th, I will present in detail an economic program to Congress embodying the features I have just stated. It will propose budget cuts in virtually every department of government. It is my belief that these actual budget cuts will only be part of the savings. As our Cabinet Secretaries take charge of their departments, they will search out areas of waste, extravagance, and costly administrative overhead which could yield ^{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 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 clear understanding of what our program is intended to do. Budget cuts can sound as if we are going to reduce government spending to a lower level than was spent the year before. This is not the case. The budgets will increase as our population increases and each year

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

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

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

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

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

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

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

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

Our basic system is sound. ^{AW}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 \$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 ^{us} ~~them~~ to be. All it takes is a little common sense and recognition of our own ability. Together we can forge a new beginning for America.

Thank you and good night.

cc: Marty Anderson
Ed Heete

MEMORANDUM FOR:

Kenneth L. Khachigian
Room 196 Old Executive Office Building

FROM: Richard Wirthlin

First, Ken my apologies for the typing errors---this is not only hand crafted but done so under a time crunch.

Generally the [↑]trust and tone is just about right. However, I feel there are too many statistics that come pounding in especially on pp 2-3.

If you use the Eisenhower comprison it would be stronger to speak in terms of ~~the~~ average increase in inflation over his eight year term of 1.4% in my opinion.

Are mortgage rates NOW only 13.5%? It sounds too low.

Like the section on the growth of government.

The trillion dollowr debt level can be a real emotional trigger, but there are some hooks in it. See the attached.

Pages 7-8 are the strongest sections of the speech.

On page 8, I would like to see you lead off with the business reference first. We should also have the President report on what has already been done to cut down the size of government etc.----freeze on federal hiring, limits on travel and consutlting...etc....

P. 10 when we talk about growth and expansion....why limit its source only to Business? *Workers etc will do their part*

P. 11 You might consider substititing "sound" for "simple" solutions.....

P. 13 stewardship reference "no powers except those that we drei-e from the people..." stong and good reference in this context...

Suggest you reword the "shake the very foundations of our economic system." What poeple are looking for from the Presidency is an open but orderly thrust at the economic challenge that conveys the sense of careful, systematic, balanced deliberation NOT CRISIS OR CONFUSION...

GOOD SPEECH!

PS. No surprises? (p.1) I think we were all surprised ^{hid} but ^{the} magnitude of the debt which JC ^{placed}

The strategic opportunity here is to ask for only a 100-day extension and a dollar increase sufficient to finance the government through that period. This would create a fixed time for action on the spending package. The President would then present his comprehensive economic program, offering it as the only way to prevent the federal government from heading over the one trillion dollar national debt level before the end of calendar 1981 sharp budget cuts are made. The symbolism of a trillion dollar national debt could be used to good effect in forcing attention on the need to reverse the pattern of persistent and growing annual deficits.

Most Americans are terribly uninformed about the size of the national debt, but, contrarily, express considerable concern about a debt at the trillion dollar level. Fully eighty percent (80%) of those interviewed thought the national debt was below \$800 billion with many (59%) under the impression that the total national debt was less than \$500 billion. Over one-third thought it under \$100 billion. Six out of ten Americans said that a federal debt of a trillion dollars would cause them a great deal of concern. Fifty-seven percent (57%) indicate that even if they agreed with a candidate running for Congress on almost all issues, they would vote against him if he did not think it was important to try to limit the debt to something under one trillion dollars. Without question, the symbolism of a trillion dollar national debt should be skillfully used in generating citizen and grassroots support for the administration's budget control program.

As it is almost certain that over the next two years the debt will break the trillion-dollar level, it must be made clear to the public that:

- . The debt is a legacy left us by the past administration.
- . Even though it is possible, over the next two-year period, that the trillion-dollar debt level will be exceeded, all reasonable and prudent steps must be taken now to get the debt generated by the federal government under control by cutting spending.

- . Federal debt fuels inflation. Inflation hurts all Americans and especially our oldest and youngest citizens. (Too frequently Republicans speak of the debt in accounting terms when they should speak about it in human terms.) Or, more generally stated, our ultimate interest is not "programs" or "policies," but how these in turn impact people for the better.

Leadership and Developing the Economic Program

The way in which a program is developed can significantly influence its acceptance. It is crucial that the Congress and the country perceive the Reagan expenditure control package as equitable and balanced. Two things will strongly shape their perception. First, the extent to which your proposals for restraining spending fall on all groups and sectors in our society. Second, the process by which you develop your proposals. Are key congressional figures adequately consulted? Do department and agency heads feel ignored or excluded? Do major constituencies feel they had a chance to be heard?

The American people want a presidency that is open but orderly, that conveys the sense of careful, systematic, balanced deliberation, not confusion. This will be difficult in view of the severe time constraints. But it is important. Part of the problem of the Carter programs was the image of haphazard external consultations (relations with the Congress were consistently reported as poor) and internal confusion.

The way in which the economic program is developed and articulated will form important first impressions about the administration and about the President's capacity to lead the federal government. It will help set the pattern for relations with the Congress, with the business and labor communities, and between the White House and cabinet departments and agencies.

It will also communicate a sense of priorities and the level of presidential commitment to his programs. What does he really want and how persistently will he work to get it?

When Jimmy Carter assumed the Presidency he tried to move on many fronts simultaneously -- energy, welfare reform, government reorganization, a tax stimulus package, tax reform. It left the Congress and the country unsure about what he really cared about. He had so many priorities that he had no priorities. After a frantic week in announcing his energy program, a struggle he called the "moral equivalent of war," he seemingly lost interest in the issue. He laid it all out and expected the country and the Congress to respond. He failed to realize that leadership means more than "laying it all out;" it also means keeping at it.

The serious economic problems we face present a great challenge but also a great opportunity. The American people yearn for a leader with a sense of vision, who knows what is needed, and is willing to lead the country, whatever the price, down that path.

Foreign Policy at the Beginning

Nothing destabilizes the international system more than a superpower that has lost its way in the world. Hence, nothing would contribute more to international stability and to domestic revitalization in the United States, including economic recovery, than the United States recovering its confidence, leadership and margin of safety in world affairs.

Unfortunately the prevailing sense among many Americans, and the country's allies and adversaries is that the United States is uncertain of its national interests and role in world affairs. United States foreign policy has recently been fraught with ambiguity, uncertainty and inconsistency. Worse still is the growing view that America has grown weak in its foreign policy resolve, in its defense posture, and in its ability to respond to security threats around the globe.

cc: Ed Hoover
Y. City: Indecor

MEMORANDUM FOR:

Kenneth L. Khachigian
Room 196 Old Executive Office Building

FROM: Richard Wirthlin

First, Ken my apologies for the typing errors---this is not only hand crafted but done so under a time crunch.

Generally the ^htrust and tone is just about right. However, I feel there are too many statistics that come pounding in especially on pp 2-3.

If you use the Eisenhower comprison it would be stronger to speak in terms of ~~the~~ average increase in inflation over his eight year term of 1.4% in my opinion.

Are mortgage rates NOW only 13.5%? It sounds too low.

Like the section on the growth of government.

The trillion dollowr debt level can be a real emotional trigger, but there are some hooks in it. See the attached.

Pages 7-8 are the strongest sections of the speech.

On page 8, I would like to see you lead off with the business reference first. We should also have the President report on what has already been done to cut down the size of government etc.----freeze on federal hiring, limits on travel and consutlting...etc....

P. 10 when we talk about growth and expansion...why limit its source only to Business? *Workers etc will do their part*

P. 11 You might consider substititing "sound" for "simple" solutions.....

P. 13 stewardship reference "no powers except those that we drei-e from the people..." stong and good reference in this context...

Suggest you reword the "shake the very foundations of our exonomic system." What poeple are looking for from the Presidency is an open but orderly thrust at the economic challenge that conveys the sense of careful, systematic, balanced deliberation NOT CRISIS OR CONFUSION...

GOOD SPEECH!

PS No supricas? (p.1) I think we were all surprised but ^{the} magnitude of the debt which JC ^{planned}

- . Federal debt fuels inflation. Inflation hurts all Americans and especially our oldest and youngest citizens. (Too frequently Republicans speak of the debt in accounting terms when they should speak about it in human terms.) Or, more generally stated, our ultimate interest is not "programs" or "policies," but how these in turn impact people for the better.

Leadership and Developing the Economic Program

The way in which a program is developed can significantly influence its acceptance. It is crucial that the Congress and the country perceive the Reagan expenditure control package as equitable and balanced. Two things will strongly shape their perception. First, the extent to which your proposals for restraining spending fall on all groups and sectors in our society. Second, the process by which you develop your proposals. Are key congressional figures adequately consulted? Do department and agency heads feel ignored or excluded? Do major constituencies feel they had a chance to be heard?

The American people want a presidency that is open but orderly, that conveys the sense of careful, systematic, balanced deliberation, not confusion. This will be difficult in view of the severe time constraints. But it is important. Part of the problem of the Carter programs was the image of haphazard external consultations (relations with the Congress were consistently reported as poor) and internal confusion.

The way in which the economic program is developed and articulated will form important first impressions about the administration and about the President's capacity to lead the federal government. It will help set the pattern for relations with the Congress, with the business and labor communities, and between the White House and cabinet departments and agencies.

It will also communicate a sense of priorities and the level of presidential commitment to his programs. What does he really want and how persistently will he work to get it?

When Jimmy Carter assumed the Presidency he tried to move on many fronts simultaneously -- energy, welfare reform, government reorganization, a tax stimulus package, tax reform. It left the Congress and the country unsure about what he really cared about. He had so many priorities that he had no priorities. After a frantic week in announcing his energy program, a struggle he called the "moral equivalent of war," he seemingly lost interest in the issue. He laid it all out and expected the country and the Congress to respond. He failed to realize that leadership means more than "laying it all out;" it also means keeping at it.

The serious economic problems we face present a great challenge but also a great opportunity. The American people yearn for a leader with a sense of vision, who knows what is needed, and is willing to lead the country, whatever the price, down that path.

Foreign Policy at the Beginning

Nothing destabilizes the international system more than a superpower that has lost its way in the world. Hence, nothing would contribute more to international stability and to domestic revitalization in the United States, including economic recovery, than the United States recovering its confidence, leadership and margin of safety in world affairs.

Unfortunately the prevailing sense among many Americans, and the country's allies and adversaries is that the United States is uncertain of its national interests and role in world affairs. United States foreign policy has recently been fraught with ambiguity, uncertainty and inconsistency. Worse still is the growing view that America has grown weak in its foreign policy resolve, in its defense posture, and in its ability to respond to security threats around the globe.

The strategic opportunity here is to ask for only a 100-day extension and a dollar increase sufficient to finance the government through that period. This would create a fixed time for action on the spending package. The President would then present his comprehensive economic program, offering it as the only way to prevent the federal government from heading over the one trillion dollar national debt level before the end of calendar 1981 sharp budget cuts are made. The symbolism of a trillion dollar national debt could be used to good effect in forcing attention on the need to reverse the pattern of persistent and growing annual deficits.

Most Americans are terribly uninformed about the size of the national debt, but, contrarily, express considerable concern about a debt at the trillion dollar level. Fully eighty percent (80%) of those interviewed thought the national debt was below \$800 billion with many (59%) under the impression that the total national debt was less than \$500 billion. Over one-third thought it under \$100 billion. Six out of ten Americans said that a federal debt of a trillion dollars would cause them a great deal of concern. Fifty-seven percent (57%) indicate that even if they agreed with a candidate running for Congress on almost all issues, they would vote against him if he did not think it was important to try to limit the debt to something under one trillion dollars. Without question, the symbolism of a trillion dollar national debt should be skillfully used in generating citizen and grassroots support for the administration's budget control program.

As it is almost certain that over the next two years the debt will break the trillion-dollar level, it must be made clear to the public that:

- . The debt is a legacy left us by the past administration.
- . Even though it is possible, over the next two-year period, that the trillion-dollar debt level will be exceeded, all reasonable and prudent steps must be taken now to get the debt generated by the federal government under control by cutting spending.



THE VICE PRESIDENT
WASHINGTON

MEMORANDUM TO: KEN KHACHIGIAN 2/3/81
FROM: VICE PRESIDENT BUSH

This language was handed to me by Senator Roth. The general feeling of the Republicans in the Senate is that we need to hit the "trillion dollar" level. They feel that the President should make it clear that he is inheriting inevitably a trillion dollar debt.

I agree that the more we can put this monkey on someone else's back, the better it is for future votes and it happens to be true. Suggest strengthening the language on the trillion dollar debt as much as you can.

Ken

prepare

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.

* Because of economic decisions made in the past, our national debt will unavoidably break the trillion dollar barrier within the next 12 months. In other words, the Federal Government will have borrowed the equivalent of \$4,444 for every man, woman and child in the United States.

Comments
from
Ed Harper

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, ^{today} 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 25 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

*Brad
Mikulak*

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.

Means what
action
New law

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.

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
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.

But today,
~~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, ^{350,000} ~~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 feel⁹. 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~~ ^{us} ~~government of the~~ answer ~~to that~~ question.

The government is us

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; ^{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 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.

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

February 3, 1981

MEMORANDUM FOR: Ken Khachigian
FROM: Elizabeth Dole *EHD*
SUBJECT: COMMENTS RE: PRESIDENT' ADDRESS TO THE NATION

1. Feel use of strong language like "shake the very foundations of our economic system" ala last paragraph in draft should be used up front. Need to grab viewers attention and quickly state order of seriousness.
2. As soon as viewer's attention is gained, hit him with facts that directly affect the individual. Use examples which are easy to relate to. Current focus in this regard is not until page #4.
3. Discussion of family impact by working wives/mothers adds little compared to the potential for alienation of large segments of people if not handled perfectly. Suggest deleting. See page # 19.
4. Also on page #9, may wish to compare 1981 tax increase with size of that of 1976. Tax cut is actually lessening of tax increase rather than a true cut.
5. First and second paragraphs on page #11 appear a bit awkward in the sense that we really do not mention a specific about our monetary policy. One of the key points is that the policy will be stable and sound and our economic policy, once announced, will be consistent for long-range planning; rather than irratic to meet short term aberrations.
6. When mentioning institutions on page #13, suggest agriculture somehow be mentioned.
7. From an overview standpoint, do we have too many facts and figures? Would fewer of the most graphic nature achieve a more powerful impact?
8. Like strong, powerful ending.

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

2601

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~~ ^{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.

*explain
2 speeches
This
on our
progress
later (10m)
to joint
serv. on
our
details
crisis.*

*Side-wise
way they
or "domesticity"
or the*

Let us begin with the plain truth. We are not on the road to recovery. Instead, we stand on the ^{what could be} brink of economic calamity -- if we do not act.

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. ^{That deficit -- not the budget, just the deficit --} ~~The entire U.S. budget in 1957 was is larger than the entire federal budget was at the end of the Eisenhower admin.~~ ~~less than this year's deficit and less than the \$80 billion~~

^{So is} ~~the interest alone that~~ we are paying this year in ~~interest alone~~ on our staggering national debt ~~is larger than the entire federal budget~~

~~The average American now pays more~~ ^{just} to service the national debt ~~than he or she paid for all government services and programs~~ ^{1.47%} ~~more than two decades ago.~~ ^{It has gone}

This irresponsible spending ^{is the result of} 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 ^{federal} 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 ^{-- slightly more than 1% per year.} Today, that seems hard to believe.

20 yrs ago, mkt. int rates avg'd about percent (^{probably, about 3%?})
~~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 ^{about a dime} ~~less than 11¢~~ to the Federal Government on every dollar
 you earned. Today, you are paying nearly ^{twice as much.} ~~18¢~~. [The burden
 of Federal taxes per family has quadrupled since 1965.]

non-seg.

~~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 ^{can} ~~do~~ not adequately measure the human
 suffering this implies.

slat

~~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.~~ ^{It is no wonder that so many of you would worry.}
 Instead, let's look at these
 In stead of the general statistics,
 alarming economic trends in personal terms.

The dollar you spent in 1960 will only buy 38¢ worth
 of goods or services today. ⑨ While you spent a quarter of
 your income to buy a home in 1960, it now takes more than
 40 percent. ^{Indeed, for many of you the}
^{American dream of a home of one's own}
^{must seem only a distant fantasy.}

Have you purchased a car lately? Just ten years ago, it took about 35 months to pay for it -- today, nearly 44 months. ~~72~~

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 *this time of year.* ~~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 *almost \$700* ~~\$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 ^{that} *may soon exceed a trillion dollars.*

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

perspective
curriculum

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 ^{ultimately} ~~everyone~~
all America 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 ^{enforcement} ~~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

non-
self

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 ^{-- and then rebuild --} 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.

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~~^{- 2.2} billion.

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 2.4 million Federal employees being paid \$12.7 billion a year, and now there are 2.8⁴ million employees making ~~\$75~~ billion per year.

In 1960, ^{the federal} government ~~consumed~~^{spent} 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.

Look at your income tax burden. Two decades ago, you paid less than 11¢ to the Federal Government on every dollar ~~you~~ ^{it} earned. Today, ~~you~~ ^{it} are ~~paying~~ ^{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 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 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 36¢ worth of goods or services today. While you spent a quarter of your income ~~to buy~~ ^{for monthly payments on a new} home in 1960, it now takes more than 40 percent.

ago. Today, though the average family is truly no better

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~~ ^{almost 9,000} in 1985. ^A utility bill which runs at \$110 per month today would jump to \$~~200~~ ¹⁰³ 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 \$~~291~~²⁹¹ billion.
By 1974, as I prepared to leave the Governorship of
California, it had leaped to \$~~486~~⁴⁸⁶ billion. When I took
the oath of office 16 days ago, it stood at \$~~931~~⁹³¹ billion.
And now we have been forced into asking the Congress to
raise ~~the debt ceiling~~^{the debt ceiling} to \$935 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
debt limit has been raised, ~~21~~^{or extended} times since 1971.

would let you go back 21 times to increase the loan with
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 slick 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.

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.

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 \$~~5.1~~^{5.1} trillion; our debt has grown by \$640 billion. ~~Prices have~~^{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 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.

Rohrbacher 1

The current economic malaise is not a result of tens of thousands of businessmen across the country, each making poor business decisions. No, government itself must take responsibility for this situation. And only changes in government and government policy is going to make things better.

There has been considerable discussion as to what label best describes our current economic plight. Some of my advisors urged me to declare an "economic emergency" while others counseled use of the word "urgency". Whatever label one puts on it, undoubtedly America is in economic trouble and things are not going to get better unless we act and act quickly.

I don't have to tell you how bad things are. Many of you have been touched personally by the economic tragedy ravaging America. The inflation rate has destroyed the dreams of millions of older Americans who diligently saved money in their productive years in order to live with dignity later on. Long periods of unemployment has led to drinking, divorce and despair for many who otherwise would be living happy and productive lives. Those just entering the job market are finding their opportunities limited when compared what was available to people just a few short years ago.

Make no mistake about it: the merican people are experiencing an actual decline in their standard of living. Families who once ate roasts now find themselves changing their diet to less expensive foods. Eating dinner out has for many become a memory of former good times.

Simply stating the current levels of inflation and unemployment is not enough to explain our predicament. We are now suffering the economic consequences of long standing high levels of inflation. In reality, the nation has had unacceptably high levels of inflation for almost a decade. The economic quagmire we now face has been building for years and we are not going to rid ourselves of it overnight--but we must begin.

While many federal programs are themselves counterproductive, the method used to finance them has proved devastating. The government has been borrowing money for the last decade to the tune of _____ billion dollars. That's right, we've been living on borrowed money and the political leaders of this country have been acting as if the day of reconing would never come. We'll the day of reconing is here.

Back on the American frontier, families would experience hard winters but one thing they would never do is eat the seed^d they had set aside to plant in the spring. ~~Now~~ seed grain is much like money used by business to invest in new plants and equipment. It can be consumed right away or it can be invested in ways which will produce in the future. Unfortunately, for the last decade we've been eating our economic seed grain. It has got to stop or by the next decade the greatness of the American economy will be a distant memory.

***Today research and development --the true seed grain of progress-- is at its lowest point. ^{Further more,} American business has not been investing new plants and equipment, which are the means of employing future generations. And while research and development, ~~and~~ industrial investment are down^{taxes are up.} ~~what is up is taxes.~~ ~~What's up is~~ government mandated spending. ^{is up.} ~~What's up is~~ money spent on filling out government forms^{is up.} ~~What has been happening is~~ ^{nothing less than} the government mandated eating of America's industrial seed gain.

(Dana) 3

Over the years the American people have been sold a bill of goods by ^{Politicians} using the oldest trick in the book. ~~The people had~~ ^{They} ~~were told~~ ^{could} ~~politicians convinced~~ ^{convinced} ~~them~~ they could have something-for-nothing. ~~The people~~ were told ~~they could have~~ local programs ~~which~~ ^{could} be financed with "federal" money. Unfortunately, the federal money is actually local money which is taken and then returned--minus a federal holding charge, of course.

Then there was the biggest scam of all. The public was told that programs could be financed by ^{taxing} business. This ploy was particularly successful because it played on two human frailties: greed and envy.

Nevertheless, it did not , and can not, work. Business taxes are simply passed on to the customers in the form of higher prices or they are taken from money allocated for research and investment, which forces future generations to pay with lower standards of living.

In short, over the last 25 years the public has been conned into supporting government spending programs thinking they were going to get something free or someone else was going to pay. Now, with record high inflation and jobs disappearing because business is near bankruptcy, the American people must face reality--you're never going to get something for nothing. The economic woes of today are the price we are paying for yesterday's folly.

Well not much for the audit itself, but
 me try to put this in perspective ~~to~~ terms. It is
 is a dollar each as you earned, about on hand
 in 1960. Here is a quarter, a dime & a penny - 36¢.
~~Three Six Nine~~
~~Three Six Nine~~ ~~is~~ ~~not~~ ~~this~~ ~~1960~~ ~~dollar~~ ~~is~~ ~~worth~~ ~~36~~ ~~cents~~ ~~today~~.
 And if the present inflation rate ~~is~~ ~~about~~ ~~continuing~~ ~~a~~ ~~couple~~ ~~of~~ ~~more~~ ~~than~~ ~~100%~~ ~~per~~ ~~year~~
~~for~~ ~~the~~ ~~past~~ ~~few~~ ~~years~~ ~~that~~ ~~dollar~~ ~~of~~ ~~1960~~ ~~would~~ ~~be~~ ~~worth~~ ~~a~~ ~~dime~~
 What has happened to that American dream
 of owning a home? Only 10 yrs. ago a family could
 buy a home ~~for~~ ~~less~~ ~~than~~ ~~1000~~ ~~dollars~~ - 27¢
 out per 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.

Regulation adopted by govt. will the cost of
 industry have added 66¢ to the cost of an
 automobile. It is estimated that all Japanese regulation
 of every kind, on ships, planes, farmers and major
 industries add 100% to the cost of the goods &
 services we buy. And then another 20 or 30% is
 spent by govt. Rounding the paper work created
 by these 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 right in tendency to
 grow. We all had a hand in leading to govt.
 for benefits as if govt. had some ~~extra~~ services
 of revenue ~~to~~ ~~take~~ ~~our~~ ~~earnings~~. Many if not most
 of the things we thought of as that govt. effort
 to us seemed ~~attractive~~.

In the years following the 2nd World War it
 was easy (from article at Rand) to overlook the
 price tag. Our income more than doubled in
 the 25 years after the war. We increased our
 take home pay ~~more~~ in those 25 yrs. by more than
 we had earned in all the preceding 150 yrs. But

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

even then ~~that~~ ^{had been} voices ~~were~~ raised warning that inflation 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. ~~and there is a~~ ^{So called} temporary increases ^{IN THE DEBT CEILING} have been allowed 21 times in these 10 years and now I must ask for ^{another} an increase ^{IN THE DEBT CEILING} so the govt. will be unable to function past the middle of Feb. and

I've 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 that} 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.

which it has done,

We're victims of language, the very word "inflation" leads us to think of it as high prices. Then of course we resent the person who puts on the price tags forgetting that he or she is also a victim of inflation. Inflation is not high prices it is ^{a reduction in the} ~~reduced~~ value of our money.

Keep this in if you think it's OK

~~The money supply is increased ^{but} and the goods & services available for buying are not. We have too much money chasing too few goods.~~

Wars are usually ^{ACCOMPANIED} ~~characterized~~ by inflation. Everyone is working or fighting but ~~the~~ production is ~~not for consumer goods it is for weapons & munitions.~~

We increased the assembly line goods production, but primitive tax policies and excessive government regulation have held back. Increasing labor productivity is from ~~increasing~~ updating plant & equipment. When capital investment is made it is usually for some unproductive alterations demanded by govt. To meet various of its regulations.

Excessive taxation of individuals has reduced ~~us~~ of investment & made overtime unprofitable.

We once produced about 40% of the world steel. We now produce 19%.

We were once the greatest producer of automobiles, producing more than all the rest of the world combined. Today the big 3, the major auto companies in our land have ~~lost~~ sustained ^{themselves} 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 first for trying to hold your own. The result is the thousands of living in our country is going down.

Over the past decades we've talked of cutting govt. spending ^{so that there} ~~that~~ we can ~~save~~ ^{save} even the tax burden. Sometimes we've even taken a run at doing that. But always we held that taxes couldn't be cut until spending was reduced. ~~you~~ ^{Wage} we can reduce our children about ~~extraordinary~~ ^{extraordinary} until we run out of ~~money~~ ^{money} & ~~break~~ ^{break} down. We can cut this extraordinary simply by reducing their allowance. It is time to recognize that we have come

to a turning point. We are faced with an economic calamity of tremendous proportions and the old business as usual treatment can't save us.

Together we must chart a different course. We must increase productivity and that means putting Americans back to work. That means making it possible for industry to modernize & make use of the technology which we ourselves invented. That means ^(ABOVE ALL) bringing govt. spending back within govt. revenues which is the only way ~~we can~~ together with increased productivity that we can reduce & yes eliminate inflation. ~~And that means reducing the rate of~~
~~over a period of time to make govt's share of~~
~~governmental~~

In the past we've tried to fight inflation one year and then when unemployment increased ~~we'd~~ ^{THE NEXT YEAR} turn to fighting ~~that~~ ^{UNEMPLOYMENT} with more deficit spending as a pump primer. ^{SO AGAIN} ~~we'd~~ ^{GOES} up ~~inflation~~ ^{HAS'NT} again. It ~~hasn't~~ worked. We don't have to choose between inflation & unemployment - they go hand in hand. It's time to try something different and that's what we're going to do.

We've already placed a freeze on hiring replacements for those who retire or leave govt. service. We have ordered a cut in govt. travel, reduced the number of ~~govt. employees~~ consultants to the govt. & stopped the buying of office equipment & other items. We have put a freeze on pending regulations and set up a task force under V.P. Bush to review existing regulations with an eye toward getting rid of ~~unnecessary~~ as many

as possible. ~~But it will take more,~~
~~much more~~ We have decontrolled oil which
 should result in more domestic production & less
 dependence ~~on~~ ~~time~~ on OPEC. And last we
 have eliminated the ineffective wage & price
 program of the Council on Wage & 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 ec. program aimed at
 reducing tax rates to stimulate productivity &
 reducing the rate of increase in govt. spending &
~~to~~ ~~also~~ ~~will~~ 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~~ ^{Cabinet Secretaries} 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 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~~

~~budgets & 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 ~~with~~ ~~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. ~~In already mentioned~~

Now on ~~the 2nd~~ ~~chart~~ ~~you~~ ~~see~~ ~~what~~ ~~we~~ ~~are~~ ~~of~~ ~~income~~ ~~that~~ ~~will~~ ~~follow~~ ~~if~~ ~~Congress~~ ~~accepts~~ ~~our~~ ~~confident~~ ~~will~~ ~~be~~ ~~the~~ ~~result~~ ~~of~~ ~~the~~ ~~ec.~~ ~~program.~~ Both lines continue to rise allowing ^{necessary} for growth but they don't rise ~~so~~ ^{as} steeply and ~~at the end~~ the gap narrows as spending cuts continue over the next few years until ~~spending cuts~~ ~~but~~ 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~~ ^{will be increasing} reductions ~~is~~ ~~far~~ ~~more~~ ~~than~~ ~~spending~~ ~~which~~ ~~means~~ ~~we~~ ~~can~~ ~~have~~ ~~far~~ ~~far~~ ~~reductions~~ ~~in~~ ~~the~~ ~~tax~~ ~~rates.~~

