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Folder Title: Address to Joint Session/Economy February 18, 1981 [1]

Box: 2

2/6 pm

Misty,

Would you see if this looks like a good idea to include in the message to congress? It's an idea Ken might go for. Barb/

Ken: This is from Barb Honegger.
Fyi.

Misty

KELSO & CO.
INCORPORATED
INVESTMENT BANKERS

GREENSBORO, N.C. SAN FRANCISCO LOS ANGELES

December 29, 1980

The Honorable Ronald Reagan
President-Elect of the United States
Executive Offices
White House
Washington, D.C. 20500

Dear President-Elect Reagan:

You will remember our meeting with you and your Cabinet during the last year of your Governorship. At Peter Hannaford's suggestion, we presented a brief summary of capital theory. We dwelt particularly on Employee Stock Ownership Plan (ESOP) financing as one method for building capital ownership of new or existing businesses into employees without taking a cent from their paychecks or savings. You were quite taken with that concept and subsequently gave several talks on it. You may be interested to learn that there are now more than 5,000 ESOPs in operation today. Most of these are working superbly,* despite allegations to the contrary by vested interests which are displeased by the success of an investment banking tool they did not invent and which is superior to any conventional technique.

Your election as President of the United States is the only event in the grim national and international economic scene which promises a glimmer of hope. You will be the ninth President since Franklin D. Roosevelt came to office in the depths of the Great Depression. Despite his efforts and those of his successors, the forces which brought on the collapse of the 30's have continued to work unabated. These forces, or causes, are no better understood by economists and businessmen today than in the 1930's. They will never be understood until our political and economic leadership begins to ask the right questions, rather than to look for new answers to wrong questions as every Administration has done since 1932.

Although there has been talk that you may declare an "economic emergency" the purpose of which would be primarily to prepare the nation psychologically to make the "sacrifices" necessary to restore prosperity, there seems to be no recognition in any quarter that the nation is not just undergoing a periodic "recession," but is leading the world into a depression far worse than the Great Depression of the 30's. Technological change has for the intervening 40 years further eroded income distribution systems based on jobs and employment. There seems to be no recognition that the problems of the U.S. economy are profoundly structural and must be corrected at their source.

* See Exhibit A attached hereto.

Mr. President-Elect, we are not only entering a depression, but a depression that has every probability of becoming the most awesome depression the world has ever experienced. The signs are these:

— Admitted unemployment in the United States is in the range of 8 million.

— True economic unemployment is at least 50% of the labor force, with more than 40 million people holding synthetic jobs subsidized by civilian and military boondoggle.

— Inflation ravages purchasing power.

— Taxes at all levels of government have incited taxpayers to revolt.

— The American standard of living — except for the rich 5% who own the economy's productive capital — has been falling steadily for years, with no bottom in sight.

— Government deficits and debt each year set a new record.

— Half the population is dependent on some kind of government check — transfer payment — which are outright welfare.

— Business runs increasingly on governmental subsidies.

— Businesses are setting new bankruptcy records, and the size of these collapses is growing. Cities — led by the greatest, New York — edge toward financial collapse.

— Arsons, murders, kidnappings for ransom, burgularies, muggings and white collar crimes are at all time highs. Fear for personal safety has not been as great since the latter part of the 19th century.

— The world no longer looks to the U.S. for leadership in solving economic problems. We are heartily disliked and even reviled by the third world.

— To unemployment — our standard inflation-fighting tool — we have added strangulating interest rates — the highest since the Civil War. But high interest is itself a cost of production and a deterrent to both production and consumption. It is fiercely inflationary. There is talk of a large tax cut. But our defective economic policy, the Employment Act of 1946, commands us to correct the maldistribution of income (caused by ever increasing technological change and conventional financing that awards newly-formed capital to the already rich) forces us to synthesize jobs through various forms of military and civilian boondoggle. These jobs must be financed with progressively heavier taxes and inflationary deficits. With insignificant exception, every President since Roosevelt has promised to balance the budget, while committing the nation to more mountainous debt burden.

— The United States economy has lost to foreign competition one after another of the industries that were the source of its economic greatness. Additional industries will soon be lost for the same reasons.

— Only World War II "cured" the Great Depression. That dangerous precedent is behind the ever more frantic attempt by the United States to synthesize jobs outside the market economy, through arms production, the full employment we do not know how to achieve by legitimate means. The different but equally defective economic policies of the Soviet Union force it to play the same desperate game. The competition of the two world super-powers to out do each other in the arms potlatch not only squanders resources needed to improve material conditions of the world's poor, but makes atomic war almost certain. The most recent winner of the Nobel Peace Prize described the arms race as the "greatest crime of our time." Conventional economics offers no alternative except massive income redistribution which goes against the grain of human nature.

The truth, Mr. President-Elect, is that while no political administration can survive a failing economy, economists do not know the cause of depressions, including the one we face, nor how to cure them. If you have any doubt about the truth of this statement, please read the 50th Anniversary issue of Business Week, September 3, 1979, pp. 2 to 56, which was devoted to this subject.

We sincerely believe that declaring an "economic emergency," to serve as a platform for discredited experts to discuss their favorite answers to the wrong questions, can only tarnish your Administration and lead to its unravelling.

We would like to offer an alternative suggestion, for which there is national precedent.

On April 29, 1938, President Franklin D. Roosevelt sent to Congress a message recommending the establishment of the Temporary National Economic Committee. This committee was charged with conducting a thorough investigation of the American economy with the object of discovering what caused the Great Depression, and how it might be cured. After two years and nine months of the most profound and searching investigatory effort in history, the TNEC replied, in effect, "We don't know the cause." World War II answered the question of how to cure it.

It is often maintained that the TNEC produced nothing. That is not true. It produced capital theory. As our forthcoming book, Finishing the Unfinished Revolution, makes clear, the insights and intuitions that led to the discovery of the theory of capitalism or two-factor economics, came directly from the more than 70 volumes of testimony and monographs that make up this incredibly profound and searching study.

The first and most important lesson to be drawn from the TNEC reports is that the

United States needs a capitalist revolution* — a revolution that will solve the problem of how to make capitalism, in our modern industrial world, work for all the people as well as it has worked for the capital-owning few since 1776.

We urge you to recommend in a message to Congress the establishment of a "Second Temporary National Economic Committee." TNEC II would be instituted not to rehash the wrong questions aimed at the symptoms of poverty, but at finding and correcting the structural root causes. This initiative on your part — especially if it were made in your first message to Congress — would strengthen your leadership. It would also share with Congress the responsibility for changing the direction of our search and enlist its cooperation. It would be a bipartisan attack on the cause and cure of modern depressions.

We suggest these as illustrative of the right questions:

— Why are people poor, and thus inadequate, as citizens, customers and taxpayers?

— How can we make them not poor, while conforming to the rules of a private property, market economy? That this is possible, even in the face of a wrong national economic policy, has been proven again and again by the 5,000 operating ESOPs.

— What would be the effect of switching, on a national scale, from monetizing welfare as we have been doing to monetizing only self-liquidating productive capital owned primarily by those to whom capital ownership has traditionally been denied — the capitalless?

— How can government, without redistribution, facilitate people's becoming economically independent and self-supporting?

ESOPs are but one of the seven types of financing mechanisms built upon the logic of capital theory. The others are the General Stock Ownership Plan (GSOP), intended primarily for public utilities, that has been legislatively implemented in part by Subchapter U of the Internal Revenue Code; the Consumer Stock Ownership Plan (CSOP), the power of which is demonstrated by Valley Nitrogen Producers in California; the Individual Stock Ownership Plan (ISOP); the Residential Capital Ownership Plan (RECOP) that could reduce present housing costs to a small fraction of what they are; the Commercial Building Capital Ownership Plan (COBCOP), and the Public Capital Ownership Plan (PUBCOP). Each of these involves spectacular reductions in the cost of new capital formation: supply side economics that does not merely make the rich richer, but rather makes both poor and rich richer.

A conservative society is one in which the entire population makes an effort to

* For our definition of "revolution," see Exhibit B.

perpetuate itself and its institutions. There has never been such a thing — only societies with minorities who are conservative because only they have income-producing wealth to conserve, and who are therefore pitted against a majority who do not. The attached pyramid diagram illustrates this point.

The object of the capitalist revolution is to speedily create a conservative society. The rare moment when this is possible coincides with the threshhold of your Presidency.

Political mail and Holiday mail being what they are, we are sending you four copies of this letter through the four members of your Cabinet whom we know in varying degrees: Cap Weinberger, William French Smith, Bill Casey and Michael Devers. We are also taking the liberty of sending a copy to Peter Hannaford.

Most respectfully,

Louis O. Kelso

Louis O. Kelso

Patricia Hetter

Patricia Hetter

LOK:cae
Encls.

EXHIBIT A

THE NEW YORK TIMES, WEDNESDAY, OCTOBER 24, 1979

Letters

If Chrysler Workers Were Chrysler Stockholders

To the Editor:

The Chrysler Corporation has recently been in the news with its request for financial assistance from the Federal Government. Such a request raises an array of issues, one of which we would like to address.

A chief difficulty currently facing American industry is the steady decline in productivity. In the second quarter of this year, U.S. nonfarming businesses suffered the sharpest drop in productivity since the Federal Government started keeping such figures, in 1947. Although this problem is not as severe in the automobile industry as in other sectors of the economy, it has become so great a national problem that we feel it is an issue which must be kept in mind whenever the American taxpayer is asked to assist a financially troubled company.

If American business is to be competitive, we must find a way to reverse productivity's downward spiral. During the decade of 1967 to 1977, the United States was tied with Great Britain for the lowest productivity gains of any major industrial nation in the Western world.

If a beleaguered American corporation is to be offered Federal assistance in any form, the form that assistance takes should be one that directly addresses this productivity issue. Over the past several years, we have begun to accumulate evidence indicating that employee stock ownership may offer a solution to this troublesome problem.

Employee stock ownership may offer a route by which we can move imaginatively to reverse productivity's decline. For example, a recent survey by the Senate Finance Committee of almost 100 companies with employee stock ownership plans indicates that in the average three-year period since the adoption of such a plan, as opposed to an average corporate age of 24 years, the responding companies:

- Realized a 72 percent increase in sales.
- Realized a 37 percent increase in number of employees.
- Realized a 157 percent increase in profits.

The merit of employee stock ownership can be easily summarized: Ownership counts. It seems to summon up a common determination to succeed. It creates a climate wherein a unity of interest and incentive can emerge. If a company succeeds, its success is widely shared. And its eventual success or failure is placed in the hands of those upon whom its success or failure will largely depend. Certainly the U.S. economy can only be made stronger by providing the American worker with an opportunity to own the tools and equipment with which he works.

In 1970, the United States guaranteed a $250 million loan by a group of banks to Lockheed Aircraft Corporation. This step was taken to assure the continued viability of Lockheed. At that time, Lockheed directly and indirectly employed almost 400,000 individuals; had we not guaranteed these loans, these jobs could have potentially been lost.

Today, Lockheed is a thriving corporation, these loans have been repaid and the Federal Government actually realized a profit because we received a fee for guaranteeing the loans. Had we required that Lockheed establish an employee stock ownership plan as part of its Federal assistance and contribute an amount of stock to the plan equal to $10 million, today that stock would be worth about $100 million.

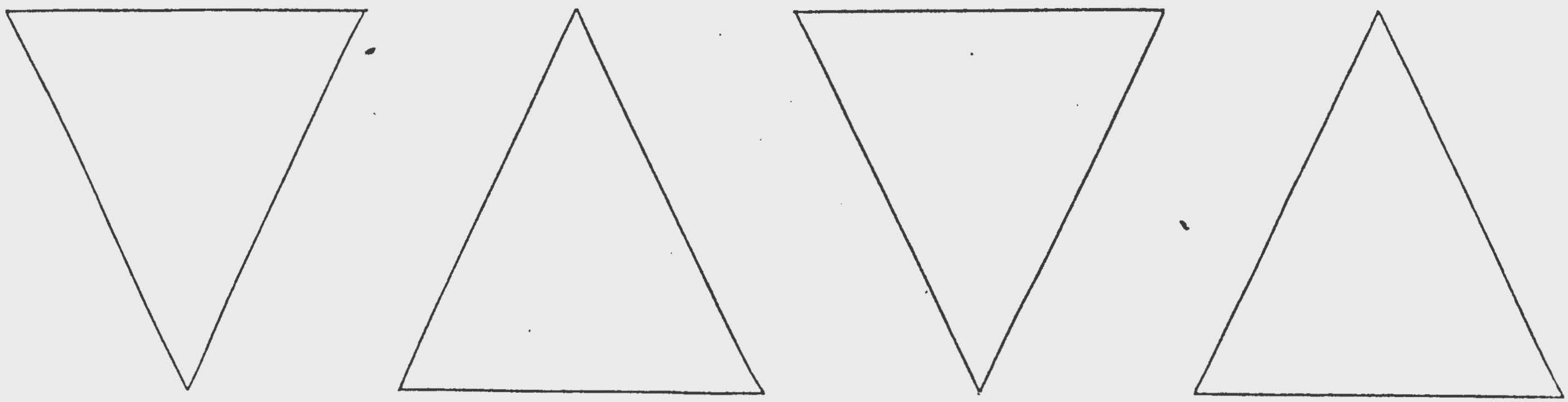
This is not meant to indicate at this time that each of the signatories to this letter either supports or opposes the granting of Federal assistance to the Chrysler Corporation. We do feel, however, that, should aid be offered, it should only be offered in such a way as to create an opportunity for a solution to this difficult productivity issue. Employee stock ownership seems to offer such an opportunity.

(Senator) ROBERT C. BYRD
(Senator) RUSSELL B. LONG
(Senator) CHARLES McC. MATHIAS JR.
(Senator) GAYLORD NELSON
(Senator) DONALD W. STEWART
(Senator) MIKE GRAVEL
(Rep.) PETER H. KOSTMAYER
(Rep.) MATTHEW F. McHUGH
Washington, Oct. 17, 1979

ECONOMIC STABILITY

CAPITAL OWNERSHIP IN PRIVATE ENTERPRISE

CAPITAL OWNERSHIP IN A NATIONAL ECONOMY



FAMILY OR PARENT CORPORATE OWNERSHIP

EMPLOYEE OWNERSHIP THROUGH AN ESOP

PLUTOCRATIC ECONOMY

CAPITALIST DEMOCRACY

(From FINISHING THE UNFINISHED REVOLUTION)

EXHIBIT C

SOCIAL REVOLUTION

The word "revolution" as used in this book does not mean or refer to force and violence of any kind. Revolution as here used is the process by which the ideas of the few become the dominant ideas of the many. "... history as a discipline ... takes no interest in ideas until those of the few become the ideas of the many."*

"Ideas of the few" does not refer to the politico-economic ideas of Louis Kelso and Patricia Hetter. Rather, that phrase refers to the fiercely-guarded secret of the top three million wealthholding consumer units (five percent of the population) in the United States who own all of the productive capital in the economy that the ownership of capital is a good thing, at least for them. It involves ending the outrageous myth that capital ownership is too good for the remaining 220 million people in the United States and for virtually the entire remainder of the population of the world.

Revolution thus is the sum total of human activity by which every human being makes his peace with technology and brings technical civilization into line with nature. It is the process by which the cause of poverty, already abolished at the conceptual level by technology, becomes a fact permanently abolished by institutions conforming to capital theory. It is the process by which the cause of affluence and physical well-being — capital ownership — is extended to every human being.

* Laboring Classes and Dangerous Classes, Louis Chevalier, French Edition, 1958, English Edition, Howard Fertig, Inc., 1973, p. 126.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

February 13, 1981

MEMORANDUM

TO: Ken Khachigian

FROM: David A. Stockman

SUBJECT: Outline/Argument Sequence for President's Economic Address

I. Bridge the transition from last week's "diagnosis" to this week's "remedy" by means of an opening in which old, failed policy principles are set up in straw-man fashion: this sets the stage for a totally new framework for national economic policy:

A) The dire state of our economy and national finances described last week -- is not due to a breakdown in the internal strengths or an erosion of the human, natural, and technological resources of the U.S. economy. Failure lies in decades of national economic policy that embodied several false premises:

1) That more government spending and borrowing would stimulate demand, economic growth, jobs and living standards;

2) That tax and transfer payment programs designed to redistribute national income -- would improve the lot of less fortunate at no cost to the economic betterment of all Americans;

3) That the Federal Reserve was obligated to "accommodate" excessive Federal spending and deficits by printing money to cover the massive borrowing demands of the U.S. Treasury;

4) That the new and appropriate national agenda of environmental, health and safety protection could be pursued by full-throttle issuance of new regulatory mandates without reference to economic costs or the need to balance conflicting national goals;

5) That government in Washington was a munificent, imperial court at which all politically organized claimants for aid, subsidies and benefits would be satisfied from the public treasury; where all local, regional and sectoral dislocations in the economy would be remedied; and where every social problem -- real and alleged -- would be fixed with a new Federal program or regulation.

B) These approaches to national economic policy have proven to be dangerously erroneous. The new economic blueprint I am presenting tonight represents a clean departure. It seeks to restore sound principle of fiscal management, monetary policy, Federal-State relations, private sector incentive and efficiency, wealth creation and limited government -- to the conduct of our national economic affairs.

II. Presentation of new economic policy framework and specific program details.

A) Proposing a 10% across-the-board cut for all individual income taxpayers beginning July 1, with additional 10% installments in each of the next two years. This proposal represents a fundamental departure from the "tax relief" bills of the last decade because:

1) It is designed to restore private incentives and re-awaken the dormant supply-side resources of growth in our national economy -- savings, risk-taking, work-effort, entrepeneural energy, and technological and managerial innovation. Higher after-tax rewards will mean a greater contribution of these vital ingredients to our new national project of revived economic growth. Due to these tax rate reductions during the next 5 years, $500 billion will be kept rather than paid-over to the Treasury by millions of American producers and workers.

2) Unlike tax bills of past years aimed at shifting the existing pie of income and wealth between classes of taxpayers -- making some better off and some worse off -- my proposal for equal reduction in everyone's tax rates will expand the pie, enlarge national incomes, and increase opportunities for all Americans.

My advisors forecast that with full implementation of this tax program and other elements of our plan, by 1985 our real production of goods and services will grow by $400 billion - nearly $2,000 more per capital - higher than today's level, the average worker's wages will rise by _______ percent in after-inflation dollars, and the average American family will enjoy __________ more in after-tax purchasing power.

3) This tax proposal restores another important principle that has been lost along the way: the essential purpose of the tax code is to equitably raise the revenues necessary to finance important public purposes. But for the last 20 years, we have witnessed an unintended but destructive deviation from that principle: as inflation has pulled producers into higher and higher brackets, taxpayers have naturally sought refuse in shelters and deductions to avoid punitive tax rates. This defensive response has distorted and stunted the process of investment and growth.

In turn, faltering growth and worsening inflation have increased pressures on Congress to create even more shelters, deductions and tax incentives.

It is time to break this debilitating spiral. By lowering tax rates by one-third and cutting inflation by one-half over the next four years, we can draw our national savings out of tax shelters and into productive investment in new factories, better technologies and more jobs. From a higher base of economic activity and with less need for shelters from punitive rates, the essential revenue needs of government can be easily met.

B) We are also proposing to reform business tax depreciation so that American industry will have the incentives to retool, expand and create eight million new jobs between now and 1985.

The present depreciation system is obsolete, needlessly complex and economically counter-productive. It forces business to replace worn out plants and machinery at today's high prices from capital recovery allowances based on yesterday's low costs. The consequences are that many American businesses are earning and paying taxes on phantom profits --profits that only exist by virtue of IRS accounting rules --not real economic returns. My proposal to institute a modified 10-5-3 depreciation system will stop the liquidation of industry capital and restart the flow of after-tax profits needed for revitalization. In calendar year 1982, additional funds available for investment would exceed $10 billion, growing to $45 billion by 1985.

C) When these two tax reform plans are considered together, the fundamental new direction in tax policy I am proposing is crystal clear. With existing tax law, American workers and industries would pay 22.2% of national income during FY 82 in Federal taxes -- the highest rate in our national history including during the peak of World War II. Moreover, the tax rate would steadily rise to 24% of national income after 1985 due to bracket creep and inadequate depreciation.

By contrast, my plan would reduce the Federal tax rate on workers and industry to 20% in 1982 and 19% by 1985. Yet with a growing economy, Federal revenues will expand by nearly $200 billion during that period despite the reduced Federal share of national income.

III. The spending control program is the second integral component of our new economic plan.

A) Reducing marginal tax rates and business depreciation will solve only part of our economic problem. A severe slow-down in the rate of government spending growth is equally essential. Our budget reform plan is designed to effect a sharp turn in the explosive spending growth trend of recent years.

In contrast to the 18% growth of Federal spending in FY 80, and the 14% growth rate built into the budget we inherited for this fiscal year, I will soon submit to Congress a revised FY 82 budget that will hold spending growth to 5%, the lowest rate of increase since FY 61(?).

Moreover, this recommendation does not envision a one-time crash effort, but the first stage in a multi-year effort to squeeze excess from the Federal budget, eliminate programs and activities that are unnecessary or counter-productive, and establish new priorities for targeting funds on our most important national needs and objectives. With sufficient discipline and determination, we can reduce the 12% average spending growth rate of the past four years to less than half of that during the next four years.

B) But the difficulty of this task should not be minimized. To provide for prudent additional defense resources and to lower the deficit to less than $40 billion in FY 82, will require a $53 billion reduction in spending compared to what is built into Federal law and the recommendations of the previous Administration.

Moreover, to achieve a balanced budget within two subsequent years will require further savings, building to $85 billion in FY 83 and $115 billion in subsequent years.

To some, budget savings of these magnitudes will seem impossible to achieve or unreasonably large. But I would remind the Congress that in each of the past two fiscal years, the federal budget has experienced a $50 billion over-run from planned levels. We must now seek even larger reductions from this built-in momentum of growth.

C) The stark truth is that it has been this relentless spending growth and these massive budget over-runs which have shattered confidence in our nation's financial markets and among participants in our entire economy. A powerful expectation has now become deeply embedded in the nation's economic psychology: the American people expect government to fail to curtail its spending and deficits, and plan for permanent high inflation in setting prices, wages, and interest rates.

Expectations have become a self-fulfilling prophecy and a corrosive force in our economy. Faced with the prospect of permanent high and worsening inflation, businesses defer high pay-off long-term investment; savers seek hedges in unproductive intangible assets -- like precious metals, undeveloped land and antiques; debt maturities become shorter and shorter; balance sheets become burdened with short-term credit rather than long-term capital; and bond and equity markets continue to falter as financial asset prices steadily fall in real terms.

This erosion will lead to widespread insolvency among business firms, financial institutions and households if it is not stopped soon. The way to stop this deterioration is to abruptly rein-in the growth of Federal spending in order to restore confidence in the financial policies of government and the value of the money it issues.

IV. The proposed Budget Savings Plan is based on a new set of consistent, economically sound and social compassionate principles of public finance.

A) We will not weaken the essential social safety net needed to support the elderly, our veterans, disadvantaged young people and those who are poor for reasons beyond their own control. For that reason, we will ensure the retirement benefits of 31 million Social Security recipients, including necessary cost of living adjustments. Many analysts have pointed out that eliminating cost of living adjustment for three years could save $30 billion per year by 1983. But it would also mean a 25% reduction in the standard of living for our senior citizens, many of whom live on the margin of poverty already and who collectively suffer the loss of billions each year in the value of accumulated savings, life insurance and private pensions due to the inflation caused by government. It would be wrong to ask those who can least afford it to bear such a heavy burden of sacrifice.

Likewise, I have not proposed reductions in medicare, aid to the blind and disabled, school lunches for low-income children, Headstart, or job training programs for the disadvantaged. In total, more than $216 billion in safety net benefits provided in more than a dozen programs have been maintained at present funding levels in the new budget I am proposing.

B) At the same time, my fiscal reform plan asks more affluent Americans to accept a bargain. In return for lower taxes, higher living standards and improved economic opportunities, it will be necessary to reduce or eliminate unessential benefits provided to better off Americans by many Federal programs.

Thus, our budget plan would require all families with incomes above $16,000 per year to pay an additional $50 per child for school lunches. It would eliminate the privilege of many higher income families to borrow money at zero percent interest in order to pay higher education costs. It would limit the ability of better-off farmers to borrow at below market interest rates from the Farmers Home Administration. It would require new suburban areas desiring a sewer system to pay for collector lines with local taxes rather than Federal subsidies. Similarly, airline travelers and recreational boaters would be asked to pay the cost of air traffic control and navigation services now provided free by government and financed by all taxpayers. These charges would save _________ billion per year. While the direct sacrifices would be real, the reduction in inflation and revival of economic growth our plan will bring would more than compensate.

C) While I am determined to protect the needy, this Administration will be equally committed to reforming and tightening the vast structure of entitlements and automatic spending created by government over the last decade. These entitlements to cash assistance, retirement benefits, housing, medical, and food aid now consume nearly 50 percent of total government outlays - $350 billion this year.

In all to many case benefits are dispensed without regard to genuine need, original program intent, or disincentives for work and self support. These excesses and abuses must be stopped.

I am therefore proposing thorough revision of more than a dozen entitlement programs with a view to putting government back in control of the uncontrollables and saving $______ billion in 1982 and $______billion by 1985.

These entitlement revisions include:

--- retargeting Federal extended unemployment assistance to areas of high unemployment only, at a savings of $2 billion.

--- limiting trade adjustment payments to State unemployment benefit levels and the combined duration of unemployment and trade adjustment benefits to 52 weeks. This program was so grossly mismanaged by the previous Administration that costs exploded by 500 percent during FY 81.

--- placing an income cap at $11,000 per year for a family of four on food stamp eligibility, eliminating duplicative benefits, and eligibility of those with high annual but seasonally fluctuating incomes.

--- similar tightening measures will be proposed for medicaid, the black lung program, AFDC, and social security disability.

--- two other targeting efforts need mention. Both the automatic student and special minimum benefit programs of social security are now obsolete. Current needy beneficiaries are eligible for more than $6 billion in Federal higher education aids and $7 billion in supplemental security income. Needy beneficiaries will receive dollar for dollar replacement from these other programs, while double dippers will be removed from the special minimum program and non-needy students from the Social Security education benefit program.

D) Aids to business firms, economic development and promotion programs, and inefficient commercial subsidies will also be sharply reduced. To promote exports, job creation, new energy technologies, I propose to replace targeted subsidies with new general tax, regulatory and fiscal measures to stimulate renewed economic expansion and financial health in all sectors of our economy.

--- thus, we will reduce subsidized export- import bank lending by 20 percent because our economic plan will make all U.S. exports more competitive, not just the 21 percent directly subsidized by ex-im today.

--- I am proposing saving $7 billion in synfuels spending during the next year by eliminating direct federal subsidies and relying on market forces, private capital, and loan and price guarantee support from the new synfuels corporation.

--- Likewise we will reduce unnecessary subsidies for rural utilities, barge operators and milk producers.

--- we will eliminate the non-productive $4 billion per year CETA job-creation program, relying on private sector job creation instead.

--- Also, my budget reform plan calls for fundamental reform of current Amtrack, mass transit and railroad subsidy programs. By establishing new criteria for efficiency and economic viability we can reduce outlays by billions each year.

E) I am also proposing to reduce spending levels by about 20 percent for highway, sewage treatment, water resource, airport construction and other public sector capital improvement programs. These programs provide important long-run benefits to our national economy and local communities. But under present conditions of economic and fiscal crisis, we must defer and stretch out these projects in order to solve our near-term economic problem and ensure that future benefits from these projects will provide maximum value in a vigorous and non-inflationary economy.

F) Low priority programs or those which have not proved cost effective will be substantially reduced. Today the Federal Government is spending billions for worthwhile but unessential programs to support local cultural activities, various kinds of research, economic, urban and health planning, energy technology demonstrations, low priority space initiatives and urban and rural development programs. Our budget plan calls for a $___ billion reduction in these activities, so that essential programs can be preserved, and so that a growing, prosperous economy in the future can provide the resources necessary to support these programs more generously.

G) While our nation must spend substantial new sums on defense in the years ahead -- we have not excepted defense from our cost control program. As a minimum, we will seek to save $4 billion by 1983 and $10 billion by FY 86 through civilian personnel reductions, defense base realignment, improved contracting procedures and elimination of non-cost effective programs.

H) My fiscal reform plan calls for sweeping consolidation of narrow Federal categorial grant programs into a few no-strings block grants for social, education and community support services. Specifically, I am proposing to consolidate 59 major education programs into two block grants to be distributed to State and local education agencies on a formula basis. This change will eliminate need for 10,000 Federal employees, thousands of pages of program regulations. At a Federal cost of $2 billion less per year, we can provide more real support at the class-~~four~~ level.
room

STATUS REPORT ON FACT SHEETS THAT ARE ALMOST FINAL

(as of 4:30, Feb. 9)

	Rec'd from Div.	Typ'd by FAB						
Department of Agriculture Food Stamps	✓	✓						
Child Nutrition	✓	✓						
Rural Electrification Administration (off-budget)	✓	✓						
CCC Storage Facility Loans	✓	✓						
Farmers Home Admin.	✓	✓						
Alcohol Fuels/Biomass Assistance	✓	✓						
Department of Commerce Economic Development Administration: Regional Commissions including Appalational Regional Commission	✓	✓						
Maritime Subsidies Program								
Various National Oceanic and Atmospheric Admin. Programs	✓	✓						
Department of Education Elementary and Secondary Grants Consolidation	✓	✓						
School Assistance in Federally Affected Areas (Impact Aid)	✓	✓						
Vocational and Adult Education	✓	✓						
Student Loans and Pell Grants	✓	✓						
National Institute of Education	✓	✓						

<u>Department of Energy</u> Synthetic fuels Subsidies............	✓	✓						
Fossil Energy Programs	✓	✓						
Solar Energy Program..	✓	✓						
Other Energy Supply Programs.............	✓	✓						
Energy Conservation...	✓	✓						
Energy Information Administration.......	✓	✓						
Energy Regulation.....	✓	✓						
Departmental Admin....	✓	✓						
Alcohol fuel/Biomass Financial Assist.....	✓	✓						
<u>Department of Health and Human Services</u> Minimum Social Security Benefits.............	✓							
Social Security Disability Insurance.....								
Social security - student benefits.....	✓							
Aid to Families with Dependent Children...	✓	✓						
Medicaid cap..........	✓	✓						
Social/Community Services and Health Program Consolidation	✓	✓						
Health Planning......	✓	✓						
National Institutes of Health...........	✓	✓						
Health Professions Education...........	✓	✓						
Health Maintenance Organizations........	✓	✓						
National Research Service Awards.......	✓	✓						
Public Health Service [illegible]	✓	✓						

National Health Service Corps Scholarship....	✓	✓						
Department of Housing and Urban Development								
GNMA Tandem Mortgage Assistance............	•							
Planning Assistance....	✓	✓						
Urban Development Action Grants.........	✓	✓						
Community Development (Section 108) Loan Guarantees............	✓	✓						
Rehabilitation Loan Fund.................	✓	✓						
Neighborhood Self-Help Development...........	✓	✓						
Housing Counseling Assistance............	✓	✓						
Public Housing Modernization.........	✓	✓						
Tenant Rent Burden.....	✓	✓						
Solar Energy and Conservation Bank.....	✓	✓						
Community Development Block Grant (increase)	✓	✓						
Department of the Interior								
Acceleration of Outer Continental Shelf Leasing (off-setting receipts)............	✓	✓						
Department of Labor								
Unemployment Insurance Extended Benefits	✓	✓						
Trade Adjustment Assistance...........	✓	✓						
Comprehensive Employment and Training (CETA)...............	✓	✓						
Department of Transportation	✓	✓						

								4	2
Program..............	(✓)	(✓)							175
Urban Mass Transportation Capital Grants -- changes from Carter Budget.........	✓	✓							177 178 179 180
Airport Construction--changes from Carter Budget................	✓	✓							182 183 184
AMTRAK Subsidies.......	✓	✓							186
Northeast Corridor Improvement Project...	✓	✓							188 189
Local Rail Service Assistance............	✓	✓							191 192
Highway Saftey Grants..	✓	✓							194
Cooperative Automotive Research Program......	✓	✓							196 197
<u>Other Independent Agencies</u> EPA-Waste Treatment Grants................	✓	✓							199 200 201
NASA-Retrenchment of Programs..............	✓	✓							203 204
Corporation for Public Broadcasting..........	✓	✓							206 207
Export-Import Bank.....	✓	✓							209
National Consumer Cooperative Bank......	✓	✓							211 212
National Endowment for the Arts/National Endowment for the Humanities............	✓	✓							214 215 216 217
National Science Foundation............	✓	✓							219 220
Postal Service Subsidies	✓	✓							222
TVA Loan and Construction activities	✓	✓							224 225 ~~226~~
									227

STATUS REPORT OF NEW OR PENDING ISSUES

sChecklist:60
February 9, 1981

(as of 4:30, Feb. 9)

REVENUE GENERATING ITEMS	Rec'd from Div.	Typed by FAB						
<u>Transportation</u> Federal Aviation Administration Increase trust fund taxes to cover all operating expenses (increase to governmental receipts)..................								
<u>Highway Trust Fund</u> Increase motor fuels taxes -- discussion paper -- no recommendation..............								
<u>Coast Guard</u> Phase-in fees for Coast Guard Services.....................								
<u>Corps of Engineers</u> Inland Waterway User Charges Increase fuel tax to recover operation, maintenance and replacement costs and capital cost on new waterways.......								
<u>Off-budget</u> CONRAIL Sell CONRAIL to avoid further Federal Subsidies (Option 1)................ ($1.5-2.1B over 1981-85)	✓	✓						
<u>Commerce Interior, Agriculture Corps of Engineers</u> Increase recreation fees (Park Service, Forest Service etc.)....								
Increase the price of publications (Geological Survey)..........								
<u>Agriculture</u> Institute user charges to cover the full cost of meat and poultry inspection cotton and tobacco classing and inspection services and federal grain inspection and weighing.......	✓	✓						
<u>Environmental Protection Agency</u> Establish permit fees for pollutants and registration fees for pesticide								

Tax expenditure savings proposals (Increase to receipts):								
-- Scale back percentage depletion allowances to 500 BBL/day or less.....................								
-- Curtail the tax exclusion on indistrial development bonds								
-- Restrict or curtail the consumer interest deduction..........								
-- Cap on home-ownership interest-property tax exclusion (Treasury Department estimating staff).....................								
-- Exclusion of State and local student bonds -- disallow the use of tax-exempt financing of student loans (Carter proposal)..................								
-- Exclusion of unemployment benefits lower threshold for exemption of employment benefits from an average of $22,000 to $15,000 or $18,000..........								
EXPENDITURE REDUCTION ITEMS								
Water Resource Development Construction programs..........								
Commodity Credit Corporation, Dairy Price Supports...........	✓	✓						
Defense budget totals (from Carter budget)...........	✓	✓						
Mass Transit Operating Subsidies......................	✓							
Continued reduction of government employment (large reduction option)..............								
Non-Financial asset sales -- GSA stockpile sales (Schneider memo recommending stockpile be retained until policies reformulated)..................								
Reduced pay increases............								

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Defense savings.................									121
COLA (Military)..................									123
Subsidized housing...............									125
Section 2106 Airline Subsidy Program..........................									127 128
Sally Mae									130
Institute of Museum Sciences									131
Black lung.......................									133
Unemployment work test...........									135
Ex-servicemen's compensation.....									137
Federal Employee Compensation....									139
Young Adult Conservation Corps Phase-out.......................									141 142

Proposed Schedule

February 12th, Thursday 6:00 p.m. - Deliver initial draft and sections of the report to Document Preparation, Room 18, OEOB.

a. Document Preparation will have three work stations (Xerox Alto equipment) and three operators dedicated exclusively to production of the report.

b. Word Processing operators will be Lisa Wacker, Doris Wilson and Sharon Holdridge.

February 13, 14 and 15 - Redrafts and changes to the report will be typed by the Document Preparation staff.

February 16th, Noon - Cut-off for any further changes in the report. Delivery of final document to Executive Associate Director for proofing/final review

5:00 p.m. - Delivery of final, proofed report to Printers - Attention Newell Quinton, Room 4204,NEOB.

Estimated printing run=100 pages; 5,000 copies; stapled, covered
- Using 5 presses will take 16-20 hours.

February 17th, 1:00 p.m. - Documents ready for pick up and distribution

1-5:00 p.m. - Distribution to internal OMB senior staff and senior White House staff
3-7:30 p.m. - Distribution to select Members of the Congress (i.e. Chairman of Budget Committees, Appropriations Committees; Ways and Means and Finance)

February 18th
8:00-10:00 a.m. - Distribution to Hill, Agency Heads
10:00-12:00 - Distribution of embargoed copies to the Press

February 19th, 9:00-12:00 - Continue Press Distribution
Distribution to embassies/public interest groups
Mailings to States and local governments

Total Advance Distribution = 4,400 copies

February 19th, Overnight printing and binding of combined Budget Reductions and Economic Reports documents along with a copy of the President's Address

February 20th - Combined Documents available for distribution to the press and public in our Publications Unit.

BUDGET-CUTTING PRINCIPLES

There are eight principles that have been followed in determining where the budget should be cut:

1. Removing the non-needy. The social safety net will be strengthened by revising and refocusing programs intended to protect the truly needy. Eligibility for these programs will be tightened to ensure that a program's benefits are restricted to those people it was originally meant to help. Program eligibility and benefits will also be adjusted to ensure equitable treatment among comparable groups. Otherwise allowing such programs to become open-ended income supplements unrelated to a person's genuine need reduces the integrity of the program while seriously impairing the government's ability to promote the economic conditions necessary for all Americans, especially the poor, to improve their standard of living.

2. Eliminating middle/high-income subsidies. Programs intended to subsidize middle and higher income groups will be cut or reduced. It is unfair to tax lower-income Americans to pay for programs which primarily benefit the more economically well-off members of society. In particular, where higher-income Americans benefit directly and disproportionately from specific programs, and the costs of such programs can be allocated, these costs should be borne by the users of the programs.

3. Eliminating subsidies to business. Programs which benefit particular business interests, as opposed to the public interest, will be cut or reduced. If the costs of the programs are easily divisible, those who primarily benefit from such programs will be asked to bear their costs. The public has no responsibility to protect, through its taxes, private businesses from the legitimate risks of failure or loss of profits. Rather, the proper function of the government should be to help foster the favorable economic conditions in which efficiently managed businesses can succeed and prosper.

4. Eliminating regional subsidies. Programs which funnel national tax resources to particular regions of the country or levels of government will be reduced and generally limited to instances of greatest need. Our nation cannot afford to continue taxing all areas of the country to selectively assist a few areas, especially when the amount of money returned to the various regions is far less than the total amount taxed away from all regions in the first place. The prosperity of the different regions will be best

enhanced by general economic improvement, with specific national help reserved for the most urgent cases.

5. Ending needless duplication. Programs which duplicate the benefits or services of other already existing programs will be eliminated. We do not enjoy the luxury of excess federal funds that would allow us to pay for the same activity two or more times.

6. Converting categorical aid programs into block grants. We will shift resources and decision-making authority for specific programs to state and local governments through block grants and program simplification. This step will ensure that necessary aid programs have sufficient resources to carry out their objectives while reducing administrative overhead, eliminating waste caused by ineffective targeting of funds, and promoting local and state flexibility in responding to true needs which those levels of government can best recognize and act upon.

7. Improving cost-effectiveness. Programs which provide little benefit to society, or whose costs greatly exceed their benefits, will be reduced or eliminated. Unnecessary administrative costs will be pared as much as possible. Some construction schedules and activity rates for desirable public investment projects will need to be stretched out; their long-term benefits will be enhanced by an improvement in the general economy. In a period of budgetary stringency, we must be especially prudent to ensure that the public is forced to pay for only those programs which are efficient, timely, and of the highest priority.

8. Terminating counterproductive policies. Programs which exert an affirmatively harmful influence on society not only waste federal money, but introduce other economic distortions as well which often reduces Americans' economic well-being. Such programs will be a prime target for elimination or substantial modification.

The attached chart lists the proposed budget cuts, and notes the principle(s) upon which each suggested action is predicated.

	1	2	3	4	5	6	7	8
Department of Agriculture Food Stamps...........	✓							
Child Nutrition.......	✓				✓			
Rural Electrification Administration (off-budget).............				✓				
*NIB CCC Storage Facility Loans.................								
Farmers Home Admin....					✓			
Alcohol Fuels/Biomass Assistance...........			✓					
Department of Commerce Economic Development Administration: Regional Commissions including Appalational Regional Commission..........			✓	✓				
Maritime Subsidies Program..............			✓					
Various National Oceanic and Atmospheric Admin. Programs.............				✓				
Department of Education Elementary and Secondary Grants Consolidation........						✓		
School Assistance in Federally Affected Areas (Impact Aid)...				✓				
Vocational and Adult Education.............							✓	
Student Loans and Pell Grants................	✓							
National Institute of Education...........							✓	

* Not in Book

Department of Energy Synthetic fuels Subsidies...........			✓						61 62 63
Fossil Energy Programs			✓						65
Solar Energy Program..			✓						67
Other Energy Supply Programs.............			✓						69 70
Energy Conservation...			✓		✓		✓	✓	72
Energy Information Administration.......							✓		74 75
Energy Regulation.....								✓	77
Departmental Admin....							✓		79
Alcohol fuel/Biomass Financial Assist.....			✓						81 82
Department of Health and Human Services									84
Minimum Social Security Benefits.............	✓								85 86
Social Security Disability Insurance.....	✓								88 89
Social security - student benefits.....	✓								91 92
Aid to Families with Dependent Children...	✓								94 95
Medicaid cap..........							✓		97
Social/Community Services and Health Program Consolidation						✓			99 100 101
Health Planning......							✓	✓	103
National Institutes of Health...........							✓		105 106
Health Professions Education...........		✓							108 109
Health Maintenance Organizations........							✓		111 112
National Research Service Awards.......		✓					✓		114 115
Public Health Service			✓						117

	National Health Service Corps Scholarship....							✓	
	Department of Housing and Urban Development								
N I B	GNMA Tandem Mortgage Assistance............								
	Planning Assistance....				✓				
	Urban Development Action Grants.........				✓		✓		
	Community Development (Section 108) Loan Guarantees............							✓	✓
	Rehabilitation Loan Fund................					✓			
	Neighborhood Self-Help Development...........					✓			
~~NIB~~	Housing Counseling Assistance............					✓		✓	
	Public Housing Modernization.........							✓	
~~NIB~~	Tenant Rent Burden.....	✓							
	Solar Energy and Conservation Bank.....			✓		✓			
N I B	Community Development Block Grant (increase)						✓		
	Department of the Interior								
N I B	Acceleration of Outer Continental Shelf Leasing (off-setting receipts)............								✓
	Department of Labor								
	Unemployment Insurance Extended Benefits	✓							
	Trade Adjustment Assistance.............	✓				✓			
	Comprehensive Employment and Training (CETA)................							✓	
	Department of Transportation Highway Construction						✓	✓	

Program..............	1	2	3	4	5	6	7	8	175
NIB Urban Mass Transportation Capital Grants -- changes from Carter Budget.........									177 178 179 180
~~NIB~~ Airport Construction-- changes from Carter Budget................				✓			✓		182 183 184
AMTRAK Subsidies.......		✓		✓			✓		186
Northeast Corridor Improvement Project...		✓		✓			✓		188 189
Local Rail Service Assistance............			✓	✓			✓		191 192
Highway Safety Grants..							✓		194
Cooperative Automotive Research Program......			✓						196 197
<u>Other Independent Agencies</u> EPA-Waste Treatment Grants...............				✓			✓		199 200 201
NASA-Retrenchment of Programs..............							✓		203 204
Corporation for Public Broadcasting..........		✓							206 207
Export-Import Bank.....			✓						209
National Consumer Cooperative Bank......			✓					✓	211 212
National Endowment for the Arts/National Endowment for the Humanities............		✓							214 215 216 217
National Science Foundation............							✓		219 220
Postal Service Subsidies							✓	✓	222
TVA Loan and Construction activities				✓					224 225 226
									227

(as of 4:30, Feb. 9)

REVENUE GENERATING ITEMS	1 Rec'd from Div.	2 Typed by FAB	3	4	5	6	7	8
Transportation Federal Aviation Administration Increase trust fund taxes to cover all operating expenses (increase to governmental receipts)..................			✓					
Highway Trust Fund Increase motor fuels taxes -- discussion paper -- no recommendation..............	AD HOC TAX INCREASE							
Coast Guard Phase-in fees for Coast Guard Services.....................		✓	✓					
Corps of Engineers Inland Waterway User Charges Increase fuel tax to recover operation, maintenance and replacement costs and capital cost on new waterways.......			✓					
Off-budget CONRAIL Sell CONRAIL to avoid further Federal Subsidies (Option 1)................ ($1.5-2.1B over 1981-85)		✓		✓			✓	
Commerce Interior, Agriculture Corps of Engineers Increase recreation fees (Park Service, Forest Service etc.)....		✓						
Increase the price of publications (Geological Survey)..........		✓						
Agriculture Institute user charges to cover the full cost of meat and poultry inspection cotton and tobacco classing and inspection services and federal grain inspection and weighing.......			✓					
Environmental Protection Agency Establish permit fees for pollutants and registration fees for pesticide products			✓	✓				

	1	2	3	4	5	6	7	8
Tax expenditure savings proposals (Increase to receipts):								
-- Scale back percentage depletion allowances to 500 BBL/day or less....................			✓					
-- Curtail the tax exclusion on indistrial development bonds			✓	✓				
-- Restrict or curtail the consumer interest deduction..........		✓						
-- Cap on home-ownership interest-property tax exclusion (Treasury Department estimating staff).....................		✓						
-- Exclusion of State and local student bonds -- disallow the use of tax-exempt financing of student loans (Carter proposal)..................		✓		✓				
-- Exclusion of unemployment benefits lower threshold for exemption of employment benefits from an average of $22,000 to $15,000 or $18,000..........	✓							
EXPENDITURE REDUCTION ITEMS								
Water Resource Development Construction programs..........				✓				
Commodity Credit Corporation, Dairy Price Supports...........			✓					
NIB Defense budget totals (from Carter budget)...........								
Mass Transit Operating Subsidies.....................				✓				
Continued reduction of government employment (large reduction option)..............							✓	
Non-Financial asset sales -- GSA stockpile sales (Schneider memo recommending stockpile be retained until policies reformulated)..................							✓	
Reduced pay increases...........							✓	

	1	2	3	4	5	6	7	8	
NIB Defense savings..................									121
NIB COLA (Military)..................									123
NIB Subsidized housing................									125
NIB Section 2106 Airline Subsidy Program.........................									127 128
NIB Sally Mae									130
NIB Institute of Museum Sciences									131
NIB Black lung......................									133
Unemployment work test............							✓		135
Ex-servicemen's compensation.....	✓								137
NIB Federal Employee Compensation....									139
NIB Young Adult Conservation Corps Phase-out........................									141 142

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

TO: Ken Khachigian

FROM: Anthony R. Dolan

At this morning's staff meeting, Craig Fuller made the point that during a conversation with Governor Snelling, the governor made the observation that a few points shaved off the inflation rate could mean a great deal to local and state government as some aid packages.

There was a consensus -- Martin Anderson made this point initially -- that if we pin down what it will mean to the average family if inflation drops, this will help us sell the economic program.

The Reagan spending control program is the strongest effort this century to bring the federal budget under control. The proposed budget is stringent, focusing on many programs that have long been unjustifiably considered sacrosanct. However, it is also fair, preserving those programs necessary to protect the truly needy while requiring all other groups to contribute to the control of government spending.

Indeed, several of the most important social programs, which serve millions of elderly and disadvantaged individuals, will not be trimmed at all. For example:

* We will not be cutting the cost of living increases for Social Security which help America's retired keep up with inflation.

* We will not be reducing the benefit coverage and the eligibility of elderly Americans for Medicare.

* We will continue to provide free breakfasts and lunches for the children of America's most needy families.

* Head Start will be maintained, helping meet the educational needs of America's disadvantaged children.

* Funding will be continued for the Summer Jobs for Youth program, which provides summer jobs for some 665,000 young people.

* We will preserve veterans compensation and pension programs.

* And for the same reasons, Supplemental Security Income, which helps the very low income aged, blind, and disabled, will not be impaired.

By insulating these programs from major budget cuts, we will be helping to protect the 35 to 40 million neediest people in America.

Moreover, even where programs affecting the needy will be revamped, such as food stamps, the focus will be on tightening eligibility standards so that the taxpayers will no longer be forced to pay for those who are not truly needy. Thus, such changes will not hurt the most disadvantaged in society.

Similarly, our revision of the Child Nutrition program will merely eliminate the overlap between food stamps and school lunches. No poor child will go hungry because of this change; each needy family will continue to receive help to meet its nutritional requirements.

This does not mean, however, that low-income, though non-needy, Americans will not have to contribute to America's recovery. Eligibility for several income assistance programs will be more restricted. But unless America's budget policies are changed, these low-income families, as well as the more severely needy Americans, will never have a chance to climb up the economic ladder of success.

Middle and higher income Americans will be asked to forego some of their special benefits: student loan eligibility will be tightened, funding for the Corporation for Public Broadcasting, the National Endowment for the Arts, and the National Endowment for the Humanities will be cut, and user fees for waterways and recreation lands will be increased.

We will also be asking consumers to understand the fact that we can no longer afford to fund, at current levels, some of the programs that have primarily benefitted them, such as the National Consumer Cooperative Bank. Other programs, such as Health Maintenance Organizations and health planning funding, have not been effective enough to retain priority funding.

We are expecting American business to contribute an even larger share, for it is they who will benefit so greatly from renewed economic growth and lower inflation--which is possible only through a balanced program of spending control along with tax rate cuts and deregulation.

For example, we will be cutting subsidies to energy companies. Synthetic fuels can, and will, be developed, but primary reliance for funding must lie with the companies themselves. Alternative fuels producers, such as solar power operators and alcohol fuels manufacturers, will also have to bear a greater share of the cost of developing their particular fuels.

Similarly, dairy farmers and the maritime industry must share with other Americans in our program to control government spending. We can no longer afford to provide them with such expensive government support programs. And many other similar programs will have to be reduced, such as cooperative automobile research for the auto companies, and the Export-Import Bank for exporters.

Moreover, just as American labor shares in the benefits of a growing, job-producing economy, so must they contribute to the cuts in government spending that are necessary to achieve it. For this reason, we must reduce the duplicative or inequitable aspects in programs such as Trade Adjustment Assistance and CETA. We must also strictly control the number of federal employees.

No particular region of the country will be expected to bear a disproportionate share of the burdens of controlling the budget. While some programs which must be controlled focus on urban areas, such as Urban Development Action Grants, others, such as the Farmers Home Administration and the Rural Electrification Administration, are of greater benefit to rural areas. The various geographic sections of the country will each have to yield some projects of special interest.

Particular interest groups will also be called upon to share in the effort to control federal spending. For example, we remain fully committed to quality education in America, but some programs, such as National Institute of Education research funding, cannot command as high a priority as other educational programs and other social programs which help meet the fundamental needs of Americans. Similarly, we must review science funding subsidies, to reduce funding for those programs of the lowest priority.

This, then, is the fundamental principle: everyone but the truly needy must contribute to a reduction in the growth of federal spending to help this nation achieve long-run economic recovery. Though there may be some justification in isolation for current funding levels in each of the listed programs, in the overall context of the need for spending control, such high levels of funding cannot be continued. Fairness demands that special interest subsidies and ineffective programs be cut or eliminated. No one will be asked to accept a disproportionate burden, but no one will receive special privileges either. The principle of "funding based on need" will be restored in the Reagan budget.

THE WHITE HOUSE

WASHINGTON

Among lower income groups, this situation is even more aggravated. The growth of government programs that promote dependency and the shrinking of real economic opportunity for many minority groups has created a new kind of servitude -- a servitude to the social worker, to the government bureaucrat, to the politician -- to the power of the state itself.

And finally, middle-class and upper income families, whose willingness to risk investment on new ventures is the cutting edge of the economy, are so burdened by taxes and inflation they seek speculative shelters like gold, silver or real estate rather than reinvestment of their economic resources in a dynamic economy.

When the family is weakened, when too many lower income groups become wards of the state, when potential investors and entrepneurs are discouraged and disheartened from taking risks -- this weakens not just the economy but our society -- our civilization -- as a whole.

History is filled -- from the Roman Empire to the Weimar Epublic -- with examples of the havoc that follows the slow decay of economic and social bonds brought on by excesses of government.

Tom Sowell's point about endormous dependence on gov't by the poor.

I ask, where is the social justice in the 18 percent inflation and 20 percent interest rates and 15½ percent mortgages, and modest pensions chewed relentlessly by higher prices? When programs stand quite often to provide large incomes to professional grantsmen, then where is the social justice for those to whom the grants were intended? What social justice is parceled out to the average American worker when taxes eat up his and her extra effort?

We will not succeed one more time by hiding from the problems that confront us. We can shut things off so that we do have to see them; but we can't shut things off so that we don't have to experience them.

The solution in our program is to organize things differently. The engine of our enterprise is not unworkable; it has come off its track. We can change the way we do things -- and then, I assure you, we will do them in the way that satisfies our needs.

We've already seen the beginnings of protest to this plan. We do not fear debate, because that is our way. Sadly, however, too many will bring to this debate not the merits of their case but the benefits they want to keep. We have anticipated that, and in those cases where they are ~~dxx~~ deserving, they have been served. But ~~axn~~ many will come to satisfied intersts not based wholly on need. And that is a tragedy of where we've come from. We've turned producing Americans into people looking to Washington for funds. Millions upon millions of AMericans have been reduced to coming to Washington looking for a portion of our national wealth. The government sits over them as a distant entity -- doling out funds, but with those funds, doling out controls.

Well, ~~xf~~ this might be a life's need for ~~xxj~~ some people, and for them we ~~havexxaded~~ will continue to make the ~~gxnxxxxx~~ compassionate provision that lies at the heart of our nation. But for others, that is not the case.

Who benefits from inflation? What social good does it provide? It is a terrible phenomonon that has ill-served us. Beyond driving ~~xxxaxxxixxhax~~ millions of Americans into the worry of economic survival -- it has transformed a saving and productive people into a people ~~hx~~ who hedge etc..

We don't help the poor of our society by making everybody in our society inflation-poor.

Clearly, I am here to speak the truth -- to admit of no easy answers, no overnight solutions, and no pretty packages. The way will be difficult. Because of some of what we have done with ~~xxjxx~~ some of these federal programs, certain services will cost more. We know that. But in the process we are also returning to the AMerican people that which belongs to them -- their productive output. Though on some things they will pay more, they will also have more money left to them with which to pay it. The critical point is this: it will be <u>left</u> to them to decide how that money will be spent. They will allocate their product. Their tax ~~xxxxyxx~~ burden will be reduced, and then the decisions they make on spending will be made in their living rooms, at their places of work, within their families, in their neighborhoods, at their local governments -- that is a giant step for us all. It is ~~xxxxthingxxx~~ the first principle we must return to -- thefounding ~~xp~~ principle of ~~htxx~~ this republic -- that the taxing power shall not be used to destory, but to build. That the spending powers of the government shall be used only when necessary and not simply when convenient.

Let's begin with the most fundamental principle of them all. The Federal lGovernment creates no wealth. The wealth of America is created byu its people. Govenrment is a steweard and a servant. We know that for many very good and practical reasons, our system requires that some of the wealth of thepople be shared through the government. But this should be done only when it needs to be. And it is only done well when it needs to be.

- Wages brought home from the mills & factories
- Income produced by farmers & ranchers as they feed the world
- services provided . .
- Interest on savings & returns from equity investments

It's the reward for those who build, produce, create, serve etc. - Government exists to protect them & serve them

The problem arises in that when the welath and productivity of the people is absorbed by the government, then the decisions if removed from the people on how to dispose of something that they in fact created. And that is the basis course we must alter. We are going to return to the people more control over their wealth -- more freedom in deciding on the kindsof decisions they want to make with that which they create.

We have strayed

Many say that government does not create inflation. Well, if ogvernment does not create inflation, then the only other source would be the people and institutions of our nation. Therefore, I ask now as I have asked so many times: why isn't inflationary when the govenrment takes the people's money and spends it the way it wants to and it is inflationary when the people take their money and spend it the way they want to.

The basis cimplicity of what we do is so basis that I cannot understand how we would want to do it any differently. A free society creates bounty -- and the people own that bounty. What could possibly be wrong with the peo-ple deciding how to dispose of the vast majority of that boundty consistent with the national defense and the humane principles of a generous poeple?

This, then, is ~~myxpxxpx~~ our proposal. It is submitted not as my plan for America but -- as our Constitution precribes -- our plan.

Let's put this asidd for a moment. Let's ~~tiak~~ talk about ourselves. We have projected a new path for us to follow. It is a fundamnental change in the ~~xxx~~ economic course of America. ~~Bxt~~ Such efforts are not taken lightly. They should not be taken lightly.

But the times require this action. ~~OXj~~ The stratits in which we find ourselves requires this action.

We can continue down the path we have and, I am positive, will find ourselves confronted with the calamity I have spoken of. Our social, political, cultural as well as our economic insitutions can no longer absorb the repeated shocks that ~~hxXe~~ hav been dealt them over the past ~~fewxyexxs~~ decades -- and especially in the past years.

And yet, we are in control. We are in charge of our destiny. It is, as ~~Thxx~~ Thomas Paine challenged us so many years ~~xxg~~ ago, within ourselves to ....

Thank goodness, it is not that we can do nothing. In fact, there is nothing ~~wxxxxxxk~~ wrong with America that we can't fix.

We are embarked on economic renewal -- not economic revolution. The ~~xxd~~ fact is that our task is not to make things easy -- our task is to make things better. That lies before us not as ~~axthxxxtyxbxk~~ a threat but as a challenge.

Can we do the job? The answer is yes. Is there an alternative if we do not do the job, The answer to that is no.

We have, in principle, run out of alternatives

THE WHITE HOUSE

WASHINGTON

February 10, 1981

MEMORANDUM TO ALL CABINET MEMBERS

FROM: CRAIG FULLER, DIRECTOR
OFFICE OF CABINET ADMINISTRATION

SUBJECT: Schedule for Economic Program Working Group Meetings

The following schedule reflects the final sessions with the President on major policy and program issues.

Wednesday, February 11, 1981 -- 10:00 - 11:30 AM (Cabinet Room)

- Department of Agriculture
- Department of Health & Human Services
- Department of Energy
- Department of the Interior

Thursday, February 12, 1981 -- 10:00 - 11:30 AM (Cabinet Room)

- Department of Labor
- Department of Commerce
- Independent Agency Issues
  - Export-Import Bank
  - National Consumer Cooperative Bank
  - NASA
  - National Science Foundation
  - Tennessee Valley Authority - Federal Financing Bank Obligations
  - Appalachian Regional Commission
  - EPA Waste Treatment Grants
  - Post Office Subsidies
  - Veterans Administration

Friday, February 13, 1981 -- 9:30 - 11:00 AM (Cabinet Room)

- Department of Education
- Department of Transportation
- Transportation-related Subsidies
- Department of Housing & Urban Development
- Department of Defense savings and budget totals
- Cross Cutting Issues
  - Civilian employee pay
  - Continued reduction of civilian employment
  - Cost of living adjustments for civilian & military retirement
- Water Resource Projects

Budget Working Group Participants:

The Vice President
Edwin Meese
James Baker
Donald Regan
David Stockman
William Brock
Michael K. Deaver
Murray Weidenbaum
Martin Anderson
Edwin Harper

Cabinet Participants:

Attendance by Cabinet Members is requested in accordance with Departments scheduled for discussion. Attendance in other sessions is optional.

White House Staff Invited to Attend*:

Richard Allen
James Brady
Elizabeth Dole
Max Friedersdorf
Craig Fuller
Dick Darman
Dave Gergen
Ken Khachigian
Lyn Nofziger
Rich Williamson

* Staff may attend any or all meetings of interest. Please do not send representatives.

TABLE 1

BUDGET STATUS: OPTION 1 TAX PACKAGE
(JULY EFFECTIVE DATE FOR PERSONAL TAX REDUCTIONS)
(in billions of dollars)

	1982	1983	1984	1985	1986
1. Current policy outlays (before defense add-on).	729.0	790.3	846.4	904.6	968.0
2. Defense add-on	5.7	25.1	38.6	54.0	72.2
3. Total outlays before budget savings program.	734.7	815.4	885.0	958.6	1040.2
4. Receipts with July effective date	642.5	698.0	756.1	826.2	912.4
5. Deficit before budget savings plan	92.2	117.4	128.9	132.4	127.8
6. Maximum allowable deficit.	39.0	19.0	--	--	--
7. Budget savings required to achieve 6	53.2	98.4	128.9	132.4	127.8
8. Approved savings - Budget Working Group(BWG)	38.2	57.7	71.3	86.6	92.7
9. Pending savings (BWG).	3.6	9.7	9.2	11.3	13.3
10. Expected additional savings from small programs & accounts - FY82 Budget revision.	8.0	15.0	15.0	15.0	15.0
11. Total budget savings expected to date	49.8	82.4	95.5	112.9	121.0
12. Remaining savings to be identified	3.4	16.0	33.4	19.5	6.8
13. Status of Budget savings goal					
a. share of required savings approved (BWG).	71.8	58.6	55.3	65.4	72.5
b. share of required savings pending (BWG)	6.8	9.9	7.1	8.5	10.4
c. share of required savings expected on FY82 revision . . .	15.0	15.2	11.6	11.3	11.7
d. share of required savings yet to be identified.	6.4	16.3	25.9	14.7	5.3
14. <u>Consequences of Plan</u>					
a. Current tax law share of GNP. .	21.9	22.4	22.8	23.3	23.9
b. Proposed tax plan share of GNP	20.1	19.4	18.9	18.8	19.0
c. Current policy share of GNP . .	22.8	22.0	21.2	20.6	20.1
d. Proposed share of GNP with full achievement of spending savings plan.	21.2	19.2	17.9	17.6	17.5
15. Difference between current policy and Administration Plan:					
a. Spending.	-47.5	-73.3	-90.3	-78.4	-55.6
b. Taxes	-57.4	-106.5	-157.5	-199.2	-239.0

TABLE 2

BUDGET STATUS: OPTION 1 TAX PACKAGE
(JANUARY EFFECTIVE DATE FOR PERSONAL TAX REDUCTIONS)
(in billions of dollars)

	1982	1983	1984	1985	1986
1. Current policy outlays (before defense add-on).	729.0	790.3	846.4	904.6	968.0
2. Defense add-on	5.7	25.1	38.6	54.0	72.2
3. Total outlays before budget savings program.	734.7	815.4	885.0	958.6	1,040.2
4. Receipts with January effective date	624.0	683.0	752.1	826.2	912.4
5. Deficit before budget savings plan	110.7	132.4	132.9	132.4	127.8
6. Maximum allowable deficit.	39.0	19.0	--	--	--
7. Budget savings required to achieve 6	71.7	113.4	132.9	132.4	127.8
8. Approved savings - Budget Working Group(BWG)	38.2	57.7	71.3	86.6	92.7
9. Pending savings (BWG).	3.6	9.7	9.2	11.3	13.3
10. Expected additional savings from small programs & accounts - FY82 Budget revision.	8.0	15.0	15.0	15.0	15.0
11. Total budget savings expected to date	49.8	82.4	95.5	112.9	121.0
12. Remaining savings to be identified	21.9	31.0	37.4	19.5	6.8
13. Status of Budget savings goal					
a. share of required savings approved (BWG).	53.3	50.9	53.6	65.4	72.5
b. share of required savings pending (BWG)	5.0	8.6	6.9	8.5	10.4
c. share of required savings expected on FY82 revision . . .	11.2	13.2	11.3	11.3	11.7
d. share of required savings yet to be identified.	30.5	27.3	28.1	14.7	5.3
14. Consequences of Plan					
a. Current tax law share of GNP. .	21.9	22.4	22.8	23.3	23.9
b. Proposed tax plan share of GNP	19.6	19.0	18.8	18.8	19.0
c. Current policy share of GNP . .	22.8	22.0	21.2	20.6	20.1
d. Proposed share of GNP with full achievement of spending savings plan.	20.6	18.8	17.8	17.6	17.5
15. Difference between current policy and Administration Plan:					
a. Spending.	-66.0	-88.3	-94.3	-78.4	-55.6
b. Taxes	-75.9	-121.5	-161.5	-199.2	-239.0

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

FEB 13 1981

MEMORANDUM FOR KEN KHACHIGIAN

FROM: WILLIAM SCHNEIDER WS

SUBJECT: DRAFT TEXT ON DEFENSE FOR PRESIDENT REAGAN'S FEBRUARY 18 SPEECH

National defense is the only area of the Federal budget where I am obliged to recommend increases in spending in the coming years. The need for this effort is driven by the marked deterioration in the international climate in the past several years, and the failure of the previous administration to come to grips with our defense needs.

Since 1970, the Soviet Union has invested $300 billion more in its military forces than we have. This prolonged period of Soviet investment has left them with a militarily significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery, and anti-aircraft defense. To allow this dangerous situation to persist is to invite diplomatic coercion, or worse -- war itself. To restore the military balance after several years of neglect will require a major national effort. By making the financial sacrifice in the early years of this decade, we will avoid a far more costly "crash" program than will inevitably be necessary during the latter half of this decade. I have determined that the defense program I have proposed is the effort we must make if our security and the security of smaller nations who have come to depend on us for assistance is to be preserved.

No department or agency of government including the Department of Defense is free of waste or inefficiency, and so it will not be spared the burden of significant reductions in expenditure. I have directed that $_____ billion be cut from the five year defense program I inherited from the previous Administration. I expect to identify and terminate additional defense programs and operating practices which are inefficient or poorly managed, or contribute little to our defense posture. I intend to provide a defense program that provides the greatest effectiveness at the lowest possible cost.

UNITED STATES GOVERNMENT

memorandum

DATE: February 13, 1981

REPLY TO ATTN OF: David Munro

SUBJECT: Purchasing power of 1980 median income

TO: Misty Church

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

II. Consumer prices compared to 1980

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

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

	13-1/2%	Reagan	*Difference	*Pre-tax figures
1980	$19.4 thous.	$19.4 thous.	0	
1981	17.1	17.5	$400	505
1982	15.1	16.1	1,000	1260.
1983	13.3	15.2	1,900	2390.
1984	11.7	14.4	2,700	3400.
1985	10.3	13.7	3,400	42[illegible].

IV. Caveat:

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

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

OPTIONAL FORM NO. 10
(REV. 7-76)
GSA FPMR (41 CFR) 101-11.6
5010-112

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

V. How to relate the tax cut.

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

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

Re: "second tax bill:"

I recognize that there are many other desirable changes in the tax laws such as _______________, but I think we need these recovery plans as soon as possible, but I pledge to work with the Congress to achieve some of these goals at an early date in the ~~xkxxx~~ future.

UDAG language -- massage carefully

Put "spending controls" first

RR instructions:

-- Do it to the point where they can't say it wasn't specific.

-- Explain the "why" of what we're doing -- point out what we are not dooing --saving the poor.

-- Mention right up front what we won't cut

-- length 30 minutes.

-- defenes -- say there is one budget which can't be cut -- but also say, that it is not immune, however and that there will be ___ billion cut out by __.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 2/14

TO: Ken Khachigian

FROM: David Gerson's Office

Please make note of typo on page 7 (attached) in 2/13 DAS memo to you.

"...just the 2 percent directly subsidized..."

OMB FORM 38
REV AUG 73

--- two other targeting efforts need mention. Both the automatic student and special minimum benefit programs of social security are now obsolete. Current needy beneficiaries are eligible for more than $6 billion in Federal higher education aids and $7 billion in supplemental security income. Needy beneficiaries will receive dollar for dollar replacement from these other programs, while double dippers will be removed from the special minimum program and non-needy students from the Social Security education benefit program.

D) Aids to business firms, economic development and promotion programs, and inefficient commercial subsidies will also be sharply reduced. To promote exports, job creation, new energy technologies, I propose to replace targeted subsidies with new general tax, regulatory and fiscal measures to stimulate renewed economic expansion and financial health in all sectors of our economy.

--- thus, we will reduce subsidized export- import bank lending by 20 percent because our economic plan will make all U.S. exports more competitive, not just the 21 percent directly subsidized by ex-im today.

--- I am proposing saving $7 billion in synfuels spending during the next year by eliminating direct federal subsidies and relying on market forces, private capital, and loan and price guarantee support from the new synfuels corporation.

--- Likewise we will reduce unnecessary subsidies for rural utilities, barge operators and milk producers.

--- we will eliminate the non-productive $4 billion per year CETA job-creation program, relying on private sector job creation instead.

--- Also, my budget reform plan calls for fundamental reform of current Amtrack, mass transit and railroad subsidy programs. By establishing new criteria for efficiency and economic viability we can reduce outlays by billions each year.

E) I am also proposing to reduce spending levels by about 20 percent for highway, sewage treatment, water resource, airport construction and other public sector capital improvement programs. These programs provide important long-run benefits to our national economy and local communities. But under present conditions of economic and fiscal crisis, we must defer and stretch out these projects in order to solve our near-term economic problem and ensure that future benefits from these projects will provide maximum value in a vigorous and non-inflationary economy.

February 13, 1981

MEMORANDUM

TO: Ken Khachigian

FROM: Kevin Hopkins
Doug Bandow

RE: Budget Cuts in Brief

Attached are the summaries of the budget cuts among the eight principles, as follows:

1. Removing the Non-Needy
   a. Food Stamps
   b. AFDC
   c. Child Nutrition

2. Subsidies to Middle-Upper Income
   a. Corporation for Public Broadcasting
   b. National Endowments for Arts and Humanities

3. Subsidies to Business
   a. Synthetic Fuels Corporation
   b. Alcohol Fuels/Solar Power
   c. Export-Import Bank
   d. Dairy Price Supports
   e. Public Health Service

4. Regional Subsidies
   a. Rural Electrification Administration
   b. Urban Development Action Grants
   c. Planning Assistance
   d. National Oceanographic and Atmospheric Administration
   e. Economic Development Administration

5. Duplication
   a. Farmers Home Administration
   b. Trade Adjustment Assistance
   c. Rehabilitation Loan Fund
   d. Neighborhood Self-Help Development
   e. Housing Counseling Assistance

6. Block Grants
   a. Community Development Block Grant
   b. Federal Highway Administration
   c. Health and Social Services
   d. Elementary and Secondary Education Programs

7. Cost-Effectiveness
   a. Medicaid
   b. National Aeronautics and Space Administration

c. EPA Wastewater Treatment Plants
d. U. S. Postal Service

8. Counterproductive Policies
    a. Economic Regulatory Administration
    b. Section 108 Loan Guarantee Program
    c. Health Planning Assistance

FOOD STAMPS

Several changes will be made in the food stamp program to return the program to its original purpose of ensuring that truly needy families can purchase the basic food necessities:

*Family incomes over the previous three months will be computed to ensure an accurate accounting of family resources in order to determine eligibility. The current qualifying procedure involves the prediction of future income, a process highly susceptible to error and fraud.

*Families whose children receive school lunches will have to count the value of those lunches toward their family income in determining food stamp eligibility, to the extent that the combination of these and other benefits exceed the state standard of need.

*Food stamp benefits will be reduced by 35 cents, rather than 30 cents, for each additional dollar of income earned. This will bring the food stamp benefit reduction rate more in line with similar reduction rates in other welfare programs.

The federal responsibility is not to assure Americans adequate money to buy the food in the kinds and quantities they want, noble as that goal might be. Rather, the food stamp program should be strictly limited to assisting those Americans who do not possess the resources to purchase sufficient food for even a minimal standard of living. It is simply not fair to tax all Americans, including low- and middle-income wage earners, to subsidize the grocery bills of other low- and middle-income Americans who by some means are fortunate enough to qualify for food stamps.

Savings from this program change would be $2.6 billion in 1982.

Budget Cuts in Brief draft/krhopkins/2-12-81

AID TO FAMILIES WITH DEPENDENT CHILDREN

The primary focus of this program change is to ensure that all a family's income sources are properly considered when determining eligiblity for Aid to Families With Dependent Children, the primary federal welfare program. To do so, we will standardize work-related and child-care expenses to eliminated the almost-unlimited income exemptions for these items, count as income such benefits as food stamps and housing allowances which add to a family's spendable resources, and adjust benefits downward for families which own significant amounts of property. Also, we will impose a strong work requirement for welfare recipients.

There is a legitimate role for the government to financially assist those families who could not meet their basic necessities in the absence of the federal help. But we cannot afford general income supplements for all who earn low incomes, because it is just this kind of open-ended federal spending which has forced high taxes and continuing inflation, and thus most severely hampered the ability of low-income workers to advance economically.

This program change will save $671 million in 1982.

CHILD NUTRITION PROGRAMS

Changes will be made in this program to allow us to concentrate available resources on assistance for students and children from truly needy families. Meal subsidies for children of middle- and upper-income families will be reduced.

Specifically, assistance will be reduced for families whose incomes exceed the poverty level by more than 25%. Subsidies for snacks will be eliminated, as will payments for students in private schools with high tuition. Schools will be asked to verify income eligibility of students from needy families on a sample basis to ensure reporting accuracy.

This program will save $1.2 billion in 1982

CORPORATION FOR PUBLIC BROADCASTING

Federal funding for public broadcasting primarily relieves non-commercial stations of the responsibility of securing adequate financial support, and wealthy patrons of the stations from providing sufficient donations. Like most non-profit service organizations, public broadcasting stations perform useful services; however, their beneficiaries are frequently upper- middle-class Americans who are financially able to support the stations -- and who should do so to a greater extent, since they are the ones who listen to the stations' programming. At a time when budgetary constraints demand that we reduce benefits to lower-income, though not truly needy, Americans, there is little justice in continuing upper income subsidies such as public broadcasting at such high levels of federal funding.

This program change will save $43 million in 1982.

NATIONAL ENDOWMENT FOR THE ARTS
NATIONAL ENDOWMENT FOR THE HUMANITIES

We will reduce federal support for arts and humanities programs by 50% beginning in fiscal year 1982. This change is intended to reduce the burgeoning, and often wasteful, funding categories which have been spawned in both endowments in recent years. More important, we believe it is time that greater responsibility be placed on private philanthropists and state and local governments for supporting artistic and cultural activities. Not only are middle- and uperr-income Americans frequent beneficiaries of these activities, but they also have the personal financial resources to support them. It is far more equitable to force, through budget cuts, wealthier families to support them, than it is to tax all Americans, including lower-income families, to do so.

These program changes will save $85 million in 1982.

/

draft-business subsidies/bandow/2/13/81

We have looked carefully at programs which primarily benefit particular businesses, because the taxpayer should not be forced to protect businesses from the risk of failure or loss. Examples of such programs which I am proposing that we cut are the following:

1. I am proposing that we reduce the budget authority of the Synthetic Fuels Corporation by some $8 billion through 1985. The Board would continue assist in demonstrating the feasibility of syn-fuels, but it would not subsidize the industry on the massive scale as had been planned by the previous administration.

The Synthetic Fuels Corporation is the perfect example of an unnecessary subsidy to business--in this case, many of the large oil companies. American business already has an incentive to build syn-fuels plants; if they are cost-effective, they will be developed. If they aren't cost-effective, then they won't be developed. In either case, it makes no sense for American taxpayers to give them billions of dollars to do so. In addition, it removes energy decisions from the partisan political arena, and places them back in the marketplace where they belong.

2. For the same reason, I am proposing that we reduce by several hundred million dollars spending for subsidies for alcohol fuels, and even more for subsidies for solar power research. The federal government would continue to assist in basic, limited research, but not in fully developing these fuels.

Again, federal subsidies--more than $18 a barrel for alcohol fuels--provide a windfall for a few lucky businesses. But those businesses are going to benefit from the development of new technologies; they should pay the bill for them. Indeed, by providing special privileges for these particular businesses, we may make it more difficult for other, more productive enterprises to raise the capital necessary for them to grow and produce.

3. Another major business subsidy is the Export-Import Bank. I am

sending you a proposal to reduce the direct loan authority of the Bank 33 percent in 1982. Unfortunately, between 1977 and 1980, the lending operations of the Bank grew by more than 400 percent.

I am not, of course, saying that helping our exports is not a worthy activity. But we must remember that there are other ways to increase our exports--such as by reducing restrictive regulations and high tax rates. The primary beneficies of increased exports are the exporting companies themselves. For this reason, the exporting businesses should bear a greater burden of the costs.

4. I am also proposing that we eliminate the upcoming semi-annual adjustment in dairy price supports levels, and that we restructure the program to help return dairy production and marketing to a free and competitive system. By doing so, we will save nearly two billion dollars in the next five years.

In a period of budget stringency, we cannot justify this sort of expensive subsidy to one small group, ~~regardless of need.~~ especially when it raises prices to consumers as well as taxes for taxpayers. Neither the taxpayer nor the consumer should be forced to spend billions to assist the non-needy, who are ~~fully~~ capable of making a living on their own.

5. Finally, I hope to close down one terribly inequitable subsidy--the free federal hospitals for merchant seamen. The amount that we will save is small compared to the overall budget, just $40 million in 1981, and $115 million in 1982, But this program is a perfect example of the way the entire federal budget has gotten out of control, through both small and large programs.

It is simply unfair to expect the average American, who is attempting to cope with inflation, high interest rates, and economic stagnation, to provide free medical care to a group of people who are not needy, or disadvantaged. If this were not reason enough, the hospitals are barely half full, and are draining our limited resources from other programs which are necessary to help meet the basic needs of ~~for~~ the people.

draft-regional subsidies/bandow/2/13/81

The key to our economic recovery is the revitalization of the entire economy, and not the subsidization or any particular region. It does not make sense for us to tax everyone, spend part of that money for administration, and then help out a ~~couple of~~ few ~~luck~~ special regions. We can no longer afford it.

1. Among the programs which must be controlled is the Rural Electrification Administration (REA). I am proposing that we reduce by more than 25% the amount of direct loans made by the REA, and than we increase the interest rates for those loans which are still made. These changes will save the people of this nation more than $2 billion in 1981 and 1982 alone, and some $15 billion through 1985.

My proposal does not indicate a retreat from meeting the needs of utilities and telephone users. But it does recognize that we can no longer afford to have the taxpayers pick up part of the tab for ~~a few~~ selected companies and people. Federal help should be extended only to those most in need; the ~~rest~~ others should have to borrow at, or pay, market rates like the rest of us.

2. Another regional program that we have carefully reviewed is the Urban Development Action Grant (UDAG) program. I want to terminate this program, which will save the American taxpayer three and one-half billion dollars through 1985.

The UDAG program subsidizes a different region of the country than does the REA--~~local distressed~~ primarily urban areas--but the principle is the same. There is ~~no~~ little evidence that the UDAG grants have created new jobs and investment, thereby helping alleviate poverty, and they have been a ~~wt~~ windfall for selected cities and businesses. Moreover, the most important thing for ~~locally distressed~~ urban areas to have a vibrant, growing national economy. And the only way that we are going to achieve that is by reducing the growth of federal spending, so that we can control~~ling~~ inflation, and reduce~~ing~~ interest rates.

3. A similar ~~sort of~~ program which I want to end is the Planning Assistance program, which gives money to states and localities for planning activities. Eliminating this program will save us millions of dollars a year.

Here again, the federal government is subsidizing specific regions of the country. Local and state planning primarily benefits localities and states; it is only fair to expect them to pay for it. Where such activities may be of high priority, ~~great importance,~~ they should be paid for out of block grants.

4. I also want to reduce ~~Along the same lines are~~ several National Oceanic and Atmospheric Administration (NOAA) programs. ~~which I want to reduce.~~ My proposal would save several hundred million dollars through 1985.

These programs provide money to states to study and regulate their coastal zones. However, such management primarily benefits the particular states with coast lines. It will not be unreasonable for those states to fully fund their own programs.

5. But perhaps the program that best demonstrates how we cannot make the people better off by taxing everyone, and then creating expensive federal subsidy programs, is the Economic Development Administration. I am proposing that we terminate funding for it, which would save nearly $300 million in 1982, and more than two billion dollars through 1985.

The EDA now considers most of the country to be "distressed" areas, and therefore eligible for grants. However, the only way that we will solve the problems of distressed regions is to get the national economy in shape. And we won't be able to do that until we cut out programs, such as these, which have only a questionable impact, and subsidize unneedy, as well as needy, ~~specific~~ parts of the country.

FARMERS HOME ADMINISTRATION

The Farmers Home Administration was created in an effort to provide rural families with credit and decent housing in the wake of a series of bank failures which occurred during the 1930s. Since that time, the program has been substantially expanded, and now duplicates several other federal lending assistance programs. We intend to trim 25% from the direct lending activities of FmHA in order to restore its original purpose of assisting the neediest rural families.

In particular, moderate-income rural housing assistance will be cut, but housing assistance for the very poor will be left at currently projected levels. Likewise, eligibility for assistance in developing water and sewer systems will be limited to those communities too small to participate in the bond market or too poor to pay for such systems without federal help.

This program change will save $105 million in 1982.

TRADE ADJUSTMENT ASSISTANCE

Trade adjustment assistance (TAA) consists of benefits paid to unemployed workers, in addition to unemployment insurance, when increases in imports "contribute importantly" to their losing their jobs. At present, however, TAA benefits can be received concurrently with unemployment benefits, which can result in a virtual double-payment for the same instance of unemployment. In addition, the TAA benefit ceiling is higher than that for unemployment insurance, which is inequitable since those unemployed because of imports suffer no particularly greater hardship than those who become unemployed for other reasons.

We will set maximum TAA benefit amounts at the unemployment insurance benefit ceiling, and will restrict payment of TAA benefits to workers who have used up all their weeks of unemployment insurance.

This program change will save $1.15 billion in 1982

NEIGHBORHOOD PROGRAMS

Three programs oriented toward improving housing in urban neighborhoods will be ended or reduced because they duplicate resources available in other Department of Housing and Urban Development programs.

We will end the Rehabilitation Loan Fund, which subsidizes low-interest loans for housing and some commercial properties, because it duplicates rehabilitation efforts of the Community Development Block Grant program, which is being expanded.

We will end the Neighborhood Self-Help Development Program, which duplicates the efforts of the public Neighborhood Reinvestment Corporation.

And we will reduce funding for Housing Counseling Assistance, which has not been shown to be cost-effective, and which is duplicated by the funding available in the Community Development Block Grant.

These program changes will save a total of $204 million in 1982.

My commitment to reducing regional subsidies does not mean that the federal government will not assist states and localities in meeting the needs of their people. What it does mean is that I want to shift resources and decision-making authority to state and local governments by converting categorical aid programs into block grants. In this way, we can also reduce spending, by reducing administrative overhead and eliminating waste caused by ineffective targeting. For example:

1. Though I intend on cutting such programs as the UDAG grants and housing planning assistance, I plan on ensuring that states and localities are able to perform necessary services by increasing the funding of the Community (Development) Block Grant program and expanding the purposes for which it can be used. Indeed, I am proposing an increase of more than $400 million in 1982. This will protect vital local and state services, while reducing the total amount of federal spending in this area.

2. I am also proposing that the use of highway funds be restructured, to consolidate 16 Federal Highway Administration rural, urban, and safety programs into a single block grant allowing States greater flexibility in the use of highway funds. I am taking this action in conjunction with restricting funding for some highway completions.

These actions, together, will increase the flexibility of states to deal with their highway problems, while saving some $244 million in 1982, and even more in the years beyond.

3. Similarly, I plan on consolidating most of the 40 categorical grants for health and social services into a single block grant. The current approach makes it very difficult to develop a coherent financing and delivery system for needy individuals, and has resulted in increased federal spending.

By consolidating these grants, we will enable states to plan and coordinate their own service programs, and establish their own priorities. It will also reduce the great number of federal rules and regulations. Moreover, by reducing administrative costs, and eliminating the overlap between different categorical grants, the federal government will be able to save 20 percent of what it now provides in grants.

4. For the same reasons, I want to consolidate all or part of 57 separate federal elementary and secondary eduction programs into two block grant programs--a Local Education Agency, and a State Education Agency. By doing so, we will be able to eliminate many of the expensive requirements and regulations which hinder state and local education agencies.

Again, the purpose in consolidating these grants is to encourage a more efficient and effective use of the limited educational resources by state and local education agencies. I estimate that we will be able to save several billion dollars over the next five years by doing so.

Budget Cuts in Brief draft/krhopkins/2-13-81

MEDICAID

Medicaid is a program of grants to States to assist them in providing medical insurance coverage to the poor. The Federal Government provides States with open-ended, that is, unlimited, matching payments for their expenditures, which eliminates most incentives for the States to reduce the cost of their State low-income health insurance programs.

We will place a cap on Federal contributions to such State programs in order to give States the necessary incentive to enhance the cost-effectiveness of their health programs. At the same time, we will allow State's additional flexibility in managing and structuring their programs, with federal technical assistance where necessary, in order to promote rapid implementation of cost-effective reforms.

This program change will save $1 billion in 1982.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Continuing all NASA programs at the current services level would require a 19% increase in budget authority in 1982, a level totally inconsistent with budgetary constraint, especially in view of reductions in programs which assist low-income Americans. In particular, NASA will be asked to terminate or stretch out its least cost-effective, and therefore lowest priority, programs. For instance, funding for the solar electric propulsion system will be eliminated, since no mission applications for the system have been approved, and funding for missions to Venus and Jupiter will be deferred. This reordering of priorities will allow NASA to focus on its more cost-effective programs, such as the space shuttle.

This program change will save $252 million in 1982.

WASTEWATER TREATMENT PLANTS

The wastewater treatment grant program provides 75 percent funding to cities for building sewage treatment facilities. While an important goal in the abstract, many of the facilities now being planned are not cost-effective, such as collection sewer systems which would contribute to urban sprawl or projects which would have only a slight impact on water quality at great cost. Other projects go beyond immediate needs, such as plans for contruction of plant capacity which will not be needed until the year 2000. We will ask for significant reduction in this program, in order to target federal waste treatment assistance on the most cost-effective facilities.

This spending change will save $125 million in outlays in 1982, with outlay savings ranging up to nearly $2 billion per year in later years.

U. S. POSTAL SERVICE

The U. S. Postal Service has been consistently unable to live within its operating budget, and still depends upon a Federal subsidy for 7% of its total expenditures. We will reduce this subsidy in order to force the Postal Service to adopt more cost-effective techniques.

In particular, we will reduce the Public Service Subsidy, which is used to offset the cost of maintaining services which are not self-sustaining, and we will reduce Revenue Foregone Payments, which are subsidies paid to specific users of the Postal Service who receive free or reduced postage rates for certain classes of mail.

These changes will save $632 million in 1982.

draft-counterproductive policies/bandow/2/13/81

Another area that we have closely reviewed are policies or regulations which are counter-productive. Many of these laws are passed, or regulations implemented, with good intentions. But they end up harming the country, nonetheless. For instance:

1. The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It administers a gas rationing plan. And it used to run the oil price control program, until I deregulated oil just a couple weeks ago.

I have already eliminated the oil price control regulations, and I intend on eliminating any ~~others~~ other regulations which arbitrarily hinder the ability of Americans to respond to changes in the energy marketplace. With these regulations gone, we can save several hundred million dollars over the coming years, and some $150 million in 1982 alone.

2. Another well-meaning program, ~~those~~ ~~in~~ this one in the Department of Housing, which has had significant negative side-effects is the Section 108 Loan Guarantee program. I want to end this program, saving $275 million in 1982, and more than a billion dollars through 1985.

Though the idea of helping specific areas purchase and rehabilitate property may be a good one, this program encourages communities to in effect mortgage their block grants as security for repayment. Indeed, the program allows communities to exceed their own legal debt limits. The federal government should be providing moral leadership for decreasing government spending, not encouraging it.

3. I am also proposing the health planning program be phased out, saving several hundred million dollars over the next few years. This program has the worthy goal of supporting local and state health agencies. Unfortunately, it

has not worked out for the best.

For example, this program has focused on arbitrarily limiting the supply of health services and facilities, inhibiting the market forces which are so necessary to help improve the quality of, ~~care~~ and lower the cost of, care. It is also seen as a very obvious attempt by the federal government to impose a detailed federal program on states and localities, and has been incompatible with many state and local political processes.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 12, 1981

MEMORANDUM FOR: Mr. James Brady
Mr. James Baker
Mr. Dave Gergen
Mr. Martin Anderson
Mr. Edwin Meese
Mr. Ken Khachigian
Ms. Elizabeth Dole
Mr. Max Friedersdorf
Mr. Craig Fuller

FROM: David Stockman

SUBJECT: Programs Not Being Cut

Attached is the table you have requested. Please note that it is for your information only at this time.

Attachment

DO NOT RELEASE UNTIL OMB CLEARANCE - INFORMATION ONLY

PROGRAM	BENEFICIARIES	$ (M)
HEALTH & HUMAN SERVICES		
1. Social Security: Retirement, survivors, dependents	31,800,000	$140,300
2. Disabled Veterans	2,281,000	8,657
3. Veterans pensions	1,867,000	4,106
4. Low income school lunches and breakfasts	9,545,000	2,100
5. Medicare	28,600,000	45,400
6. Head Start	374,000	950
7. Supplemental Security Income for Blind, Aged & Disabled	4,165,000	7,900
8. Summer Youth Jobs	665,000	870
9. Services to the Aging (Title III)	665 Area Agencies 2,100 Senior Centers	247
10. Aging Nutrition	432,000 person-years of meals	383
11. Assistance to Disadvantaged Health Professions Students	Not presently available	30
DEPARTMENT OF LABOR		
12. Railroad Unemployment Insurance	Nearly 2 million weeks of benefits	218
CETA		
13. - Basic Prime Sponsor Training	350,000 slots	2,011
14. - Private Sector Programs	20,000 slots	314
15. - Community Service Employment for the Aged	54,000 jobs	277
16. - Basic Prime Sponsor Youth Grants	200,000 slots	992
DEPARTMENT OF EDUCATION		
17. College Work Study	986,000 student jobs	550
18. NDSL's	914,000 loans	286
19. Cooperative Education	120 schools	23
20. Special Institutions (Gaulladet, Howard, Printing House for the Blind, Nat. Tech. Inst. for the Deaf	Unknown	253

VETERANS ADMINISTRATION

We cut virtually all accounts a little; we're now searching for partials.

Report To The

Economic Policy Council

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

QUARTERLY	1980 Q/1	1980 Q/2	1980 Q/3	1980 Q/4	1981 Q/1	1981 Q/2	1981 Q/3	1981 Q/4
Monetary Base	151.9	154.1	158.0	162.0	164.8	167.6	170.4	173.3
Change	6.0	5.9	10.5	11.3	7.0	7.0	7.0	7.0
Tax/GNP	.209	.207	.209	.210	.210	.210	.210	.208
Real Govt.								
Change	6.5	3.2	11.6	19.4	-1.0	-2.0	-2.0	-2.0
RG/GNP	.218	.226	.231	.238	.232	.232	.229	.226
M1-B	390.2	387.9	401.0	411.9	417.3	423.6	432.1	440.3
Change	6.1	-2.4	14.2	11.3	5.4	6.2	8.3	7.8
Deflator	1.71	1.75	1.79	1.84	1.88	1.93	1.97	2.01
Change	9.3	9.8	9.2	11.2	10.1	9.6	9.4	8.9
Nom. GNP	2572	2565	2637	2741	2814	2871	2951	3045
Change	12.6	-1.1	11.8	16.8	11.2	8.3	11.6	13.3
Real GNP	1502	1463	1472	1490	1493	1489	1496	1511
Change	3.07	-9.89	2.37	5.01	0.90	-1.20	-2.00	4.00
CPI	237.1	244.8	249.1	256.4	264.6	271.0	277.3	283.5
Change	17.0	13.7	7.2	12.2	13.4	10.0	9.7	9.3
Oil $/BBL	26.00	28.00	30.00	32.00	33.50	35.03	36.62	38.24
Change	95.1	34.5	31.8	29.5	20.1	19.6	18.4	18.9
Labor Force	104.19	104.70	105.04	105.17	105.47	105.82	106.09	106.46
Labor Force Participation Rate	63.83	63.90	63.87	63.77	63.69	63.66	63.58	63.57
Employment	97.80	96.89	97.06	97.28	97.46	97.35	97.60	98.26
Unemploy.	6.13	7.50	7.63	7.50	7.60	8.00	8.00	7.70
GNP/Employ. Change	2.43	-6.45	1.63	3.33	-0.03	-0.78	-0.97	1.22

Reagan: Baseline Scenario

February 8, 1981
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QUARTERLY

	1982				1983			
	Q/1	Q/2	Q/3	Q/4	Q/1	Q/2	Q/3	Q/4
Monetary Base	176.3	179.3	182.4	185.5	188.2	191.0	193.8	196.6
Change	7.0	7.0	7.0	7.0	6.0	6.0	6.0	6.0
Tax/GNP	.208	.208	.208	.199	.199	.199	.199	.194
Real Govt.								
Change	-2.0	-2.0	-1.0	-1.0	-2.0	-2.0	-2.0	-1.0
RG/GNP	.222	.217	.214	.211	.207	.203	.200	.197
M1-B	448.3	445.9	463.7	471.6	478.4	485.4	492.6	499.8
Change	7.5	7.0	7.0	7.0	5.9	6.0	6.0	6.0
Deflator	2.05	2.09	2.13	2.17	2.20	2.24	2.28	2.31
Change	7.70	7.70	7.70	7.70	6.60	6.60	6.60	6.60
Nom. GNP	3141	3240	3343	3449	3547	3647	3751	3857
Change	13.30	13.30	13.30	13.30	11.82	11.82	11.82	11.82
Real GNP	1530	1550	1570	1590	1609	1628	1648	1667
Change	5.20	5.20	5.20	5.20	4.90	4.90	4.90	4.90
CPI	289.2	294.5	299.2	303.9	308.4	312.8	317.4	322.1
Change	8.3	7.5	6.6	6.3	6.1	5.9	6.0	6.1
Oil $/BBL	39.75	41.13	42.38	43.57	44.68	45.82	46.99	48.19
Change	16.7	14.7	12.7	11.7	10.6	10.6	10.6	10.6
Labor Force	106.94	107.45	107.99	108.55	109.12	109.68	110.21	110.72
Labor Force Participation Rate	63.62	63.68	63.77	63.86	63.95	64.04	64.11	64.17
Employment	98.92	99.60	100.32	100.95	101.70	102.33	102.93	103.52
Unemploy.	7.50	7.30	7.10	7.00	6.80	6.70	6.60	6.50
GNP/Employ. Change	2.44	2.35	2.22	2.62	1.85	2.33	2.46	2.53

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

QUARTERLY	1984 Q/1	1984 Q/2	1984 Q/3	1984 Q/4	1985 Q/1	1985 Q/2	1985 Q/3	1985 Q/4
Monetary Base	199.0	201.5	203.9	206.4	208.5	210.5	212.6	214.7
Change	5.0	5.0	5.0	5.0	4.0	4.0	4.0	4.0
Tax/GNP	.194	.194	.194	.194	.194	.194	.194	.194
Real Govt.								
Change	-1.0	-1.0	4.5	4.5	4.5	4.5	4.5	4.5
RG/GNP	.194	.191	.191	.192	.192	.192	.192	.192
M1-B	505.6	511.8	518.1	524.4	529.6	534.8	540.1	545.4
Change	4.7	5.0	5.0	5.0	4.0	4.0	4.0	4.0
Deflator	2.35	2.38	2.41	2.44	2.48	2.51	2.54	2.57
Change	5.7	5.7	5.7	5.7	5.2	5.2	5.2	5.2
Nom. GNP	3951	4048	4147	4248	4347	4448	4551	4657
Change	10.14	10.14	10.14	10.14	9.62	9.62	9.62	9.62
Real GNP	1685	1702	1720	1738	1755	1774	1792	1810
Change	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
CPI	326.3	330.3	334.3	338.4	342.2	346.1	349.9	353.8
Change	5.3	5.1	4.9	5.0	4.5	4.6	4.5	4.6
Oil $/BBL	49.31	50.47	51.65	52.86	54.04	55.24	56.47	57.72
Change	9.7	9.7	9.7	9.7	9.2	9.2	9.2	9.2
Labor Force	111.25	111.76	112.24	112.74	113.20	113.72	114.23	114.76
Labor Force Participation Rate	64.24	64.30	64.33	64.37	64.40	64.46	64.51	64.56
Employment	104.13	104.61	105.17	105.63	106.29	106.90	107.49	108.10
Unemploy.	6.40	6.40	6.30	6.30	6.10	6.00	5.90	5.80
GNP/Employ. Change	1.80	2.30	2.00	2.38	1.64	1.86	1.91	1.89

Reagan: Baseline Scenario

February 8, 1981
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1986

	Q/1	Q/2	Q/3	Q/4
Monetary Base	216.8	218.9	221.1	223.3
Change	4.0	4.0	4.0	4.0
Tax/GNP	.194	.194	.194	.194
Real Govt.				
Change	4.5	4.5	4.5	4.5
RG/GNP	.192	.193	.193	.193
M1-B	550.8	556.2	561.7	567.2
Change	4.0	4.0	4.0	4.0
Deflator	2.60	2.63	2.66	2.70
Change	4.70	4.70	4.70	4.70
Nom. GNP	4759	4864	4971	5080
Change	9.10	9.10	9.10	9.10
Real GNP	1829	1848	1867	1886
Change	4.2	4.2	4.2	4.2
CPI	357.2	360.7	364.3	368.1
Change	3.89	3.97	4.06	4.20
Oil $/BBL	58.67	59.63	60.60	61.59
Change	6.70	6.70	6.70	6.70
Labor Force	115.27	115.80	116.28	116.79
Labor Force Participation Rate	64.61	64.66	64.69	64.73
Employment	108.70	109.20	109.77	110.25
Unemploy.	5.70	5.70	5.60	5.60
GNP/Employ. Change	1.90	2.34	2.04	2.39

Reagan: Baseline Scenario

February 8, 1981
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QUARTERLY	1980				1981			
	Q/1	Q/2	Q/3	Q/4	Q/1	Q/2	Q/3	Q/4
Corp. Profits	215.6	186.9	195.9	209.3	210.1	205.2	208.2	215.6
Change	23.50	-43.50	20.70	30.43	1.45	-9.06	6.00	15.04
Wages & Salaries	1314	1320	1343	1398	1433	1458	1496	1542
Change	10.39	1.81	6.80	17.42	10.34	7.19	10.86	12.78
Plant &Equip.	297.8	289.8	294.0	297.3	311.2	326.1	344.9	366.5
Change	10.90	-10.30	5.90	4.57	20.01	20.66	25.22	27.39
Res. Investment	115.2	93.6	99.2	112.2	119.2	124.2	124.1	123.1
Change	-16.70	-56.40	26.20	63.65	27.28	17.85	-0.14	-3.22
Inventories	2.5	7.4	-16.0	-5.7	-2.5	0.4	13.5	10.8
Bill Rate	13.35	9.62	9.15	13.61	13.50	10.49	10.32	10.12
Bond Rate	11.15	10.02	10.43	11.83	11.90	11.40	10.91	10.72

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

QUARTERLY	1982				1983			
	Q/1	Q/2	Q/3	Q/4	Q/1	Q/2	Q/3	Q/4
Corp. Profits	225.5	235.8	246.5	257.8	268.1	278.9	290.1	301.7
Change	19.56	19.56	19.56	19.56	17.03	17.03	17.03	17.03
Wages & Salaries	1588	1637	1686	1737	1784	1832	1881	1932
Change	12.72	12.72	12.72	12.62	11.28	11.17	11.17	11.17
Plant &Equip.	390.8	418.8	445.8	470.8	492.5	516.8	539.5	562.3
Change	29.22	31.92	28.41	23.76	20.32	20.95	19.06	18.04
Res. Investment	128.0	133.6	137.1	141.1	147.1	155.0	164.0	172.3
Change	16.94	18.55	11.00	12.02	18.16	23.29	25.32	21.29
Inventories	8.6	14.5	23.7	28.8	31.1	31.8	32.3	32.7
Bill Rate	9.78	8.89	8.50	8.40	7.78	7.81	7.79	7.73
Bond Rate	10.30	9.94	9.70	9.48	9.42	9.11	9.01	8.78

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

QUARTERLY	1984				1985			
	Q/1	Q/2	Q/3	Q/4	Q/1	Q/2	Q/3	Q/4
Corp. Profits	310.9	320.4	330.2	340.3	350.3	360.6	371.2	382.1
Change	12.79	12.79	12.79	12.79	12.29	12.29	12.29	12.29
Wages & Salaries	1976	2021	2068	2115	2161	2209	2257	2306
Change	9.52	9.42	9.52	9.42	9.12	9.01	9.01	9.01
Plant &Equip.	583.4	602.9	622.6	642.6	662.1	681.8	701.7	721.8
Change	15.85	14.07	13.68	13.52	12.70	12.44	12.21	11.98
Res. Investment	174.8	177.4	182.8	192.1	199.2	207.2	217.6	229.1
Change	5.83	6.07	12.76	22.02	15.76	17.03	21.60	22.86
Inventories	32.9	33.2	32.9	32.4	32.0	32.8	33.5	34.3
Bill Rate	7.10	7.10	7.00	6.80	6.00	6.00	6.00	6.00
Bond Rate	8.40	8.30	8.30	8.00	7.40	7.40	7.40	7.40

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

QUARTERLY

1986

	Q/1	Q/2	Q/3	Q/4
Corp. Profits	392.9	404.1	415.5	427.2
Change	11.79	11.79	11.79	11.79
Wages & Salaries	2354	2401	2451	2501
Change	8.50	8.40	8.50	8.40
Plant &Equip.	741.6	762.0	782.8	803.5
Change	11.39	11.49	11.37	10.96
Res. Investment	239.9	250.8	262.1	273.9
Change	20.33	19.38	19.25	19.21
Inventories	35.1	35.8	36.6	37.4
Bill Rate	5.70	5.60	5.60	5.50
Bond Rate	7.00	7.00	7.00	6.90

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

FISCAL YEAR

	1981	1982	1983	1984	1985	1986
Monetary Base	166.2	177.8	189.6	200.3	209.5	217.9
Change	8.30	7.00	6.62	5.62	4.62	4.00
Tax/GNP	.210	.208	.199	.194	.194	.194
Real Govt.						
Change	-	-	-	-	-	-
RG/GNP	.233	.220	.205	.193	.192	.193
M1-B	421.2	452.1	482.0	508.8	532.2	553.5
Change	7.76	7.32	6.63	5.56	4.60	4.00
Deflator	1.91	2.07	2.22	2.36	2.49	2.62
Change	10.01	8.69	7.28	6.26	5.51	5.01
Nom. GNP	2844	3192	3599	4001	4398	4812
Change	10.79	12.22	12.73	11.18	9.94	9.42
Real GNP	1492	1540	1618	1693	1765	1839
Change	0.68	3.22	5.09	4.63	4.20	4.20
CPI	267.3	291.6	310.6	328.3	344.1	359.0
Change	11.49	9.09	6.52	5.68	4.84	4.32
Oil $/BBL	34.29	40.37	45.26	49.91	54.65	59.15
Change	29.39	17.75	12.11	10.25	9.51	8.24
Labor Force	105.64	107.21	109.39	111.49	113.47	115.53
Labor Force Participation Rate	63.67	63.66	63.99	64.26	64.43	64.63
Employment	97.42	99.28	101.98	104.36	106.58	108.94
Unemploy.	7.78	7.40	6.78	6.40	6.08	5.70
GNP/Employ. Change	0.61	1.29	2.31	2.25	2.03	1.94

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

FISCAL YEAR

	1981	1982	1983	1984	1985	1986
Corp. Profits	208.2	230.8	273.7	315.8	355.6	398.6
Change	3.73	10.87	18.58	15.38	12.60	12.10
Wages & Salaries	1446	1613	1809	1999	2185	2378
Change	10.00	11.56	12.12	10.53	9.31	8.81
Plant &Equip.	319.9	405.5	504.7	592.8	672.1	752.1
Change	9.20	26.75	24.46	17.47	13.37	11.91
Res. Investment	119.9	130.5	151.8	176.8	204.1	245.5
Change	11.92	8.79	16.34	16.48	15.41	20.32
Inventories	1.4	14.4	31.0	32.9	32.7	35.5
Bill Rate	11.98	9.32	7.95	7.23	6.20	5.72
Bond Rate	11.51	10.18	9.26	8.45	7.55	7.10

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

CALENDAR YEAR

	1981	1982	1983	1984	1985	1986
Monetary Base	169.0	180.9	192.4	202.7	211.6	220.0
Change	8.00	7.00	6.37	5.37	4.37	4.00
Tax/GNP	.209	.206	.198	.194	.194	.194
Real Govt.						
Change	-	-	-	-	-	-
RG/GNP	.230	.216	.201	.192	.192	.193
M1-B	428.3	459.9	481.1	514.9	537.9	558.9
Change	7.69	7.37	6.34	5.30	4.37	4.00
Deflator	1.95	2.11	2.26	2.39	2.52	2.65
Change	9.91	8.24	7.01	6.03	5.39	4.89
Nom. GNP	2921	3293	3700	4098	4500	4918
Change	11.09	12.78	12.36	10.75	9.81	9.29
monetary Base velocity change	2.86%	5.40%	5.63%	5.11%	5.21%	5.09%
Real GNP	1497	1560	1638	1711	1783	1858
Change	1.05	4.17	5.01	4.46	4.20	4.20
CPI	278.1	296.7	315.2	332.3	348.0	362.6
Change	11.03	8.25	6.23	5.45	4.71	4.19
Oil $/BBL	35.85	41.71	46.42	51.07	55.87	60.12
Change	23.61	16.34	11.30	10.03	9.38	7.62
Labor Force	105.96	107.73	109.93	112.00	113.98	116.04
Labor Force Participation Rate	63.62	63.73	64.07	64.31	64.48	64.67
Employment	97.67	99.95	102.62	104.89	107.20	109.48
Unemploy.	7.83	7.22	6.65	6.35	5.95	5.65
GNP/Employ. Change	0.63	1.79	2.28	2.20	1.95	2.03

Reagan: Baseline Scenario

February 8, 1981
1:00 pm

CALENDAR YEAR

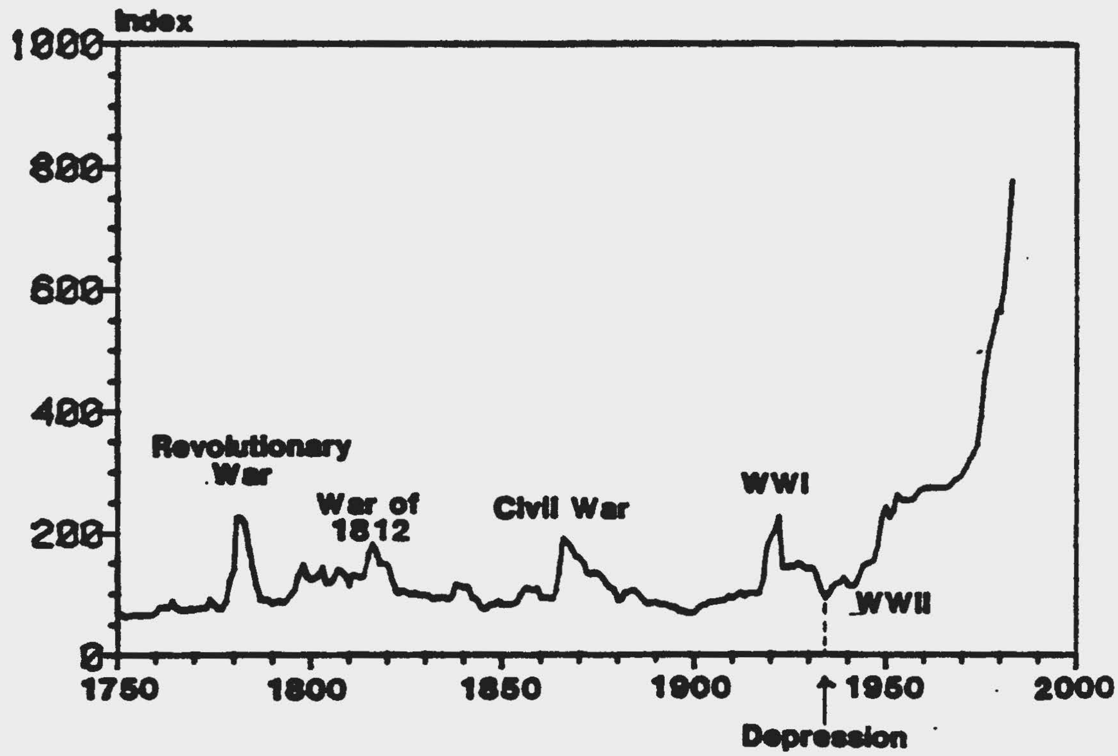
	1981	1982	1983	1984	1985	1986
Corp. Profits	209.8	241.4	284.7	325.5	366.1	409.9
Change	3.88	15.07	17.94	14.32	12.48	11.98
Wages & Salaries	1482	1662	1857	2045	2233	2427
Change	10.29	12.16	11.74	10.10	9.20	8.66
Plant &Equip.	337.2	431.4	527.7	612.9	691.9	772.5
Change	14.41	27.93	22.32	16.14	12.89	11.65
Res. Investment	122.7	135.0	159.6	181.7	213.3	256.7
Change	16.75	10.03	18.25	13.88	17.36	20.34
Inventories	5.5	18.9	32.0	32.9	33.2	36.2
Bill Rate	11.11	8.89	7.78	7.00	6.00	5.60
Bond Rate	11.23	9.87	9.08	8.25	7.40	6.97

THE REAGAN BASELINE SCENARIO
IN HISTORICAL PERSPECTIVE

CLAREMONT ECONOMICS INSTITUTE

FEBRUARY 8, 1981

Two Hundred Years of Price Stability



<u>TWO HUNDRED YEARS OF PRICE STABILITY</u>

Between 1750 and 1950 wholesale prices were stable aside from periods of wartime.

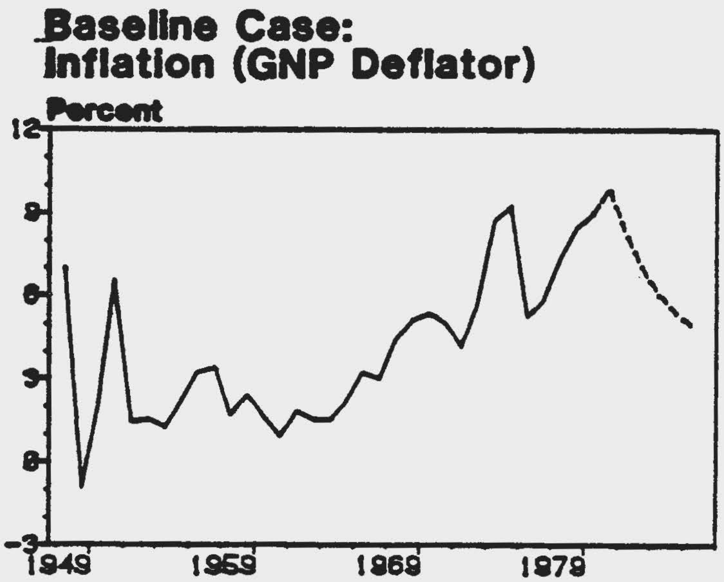
Since 1940 the price index has increased sevenfold.

Baseline Case:
Monetary Base Growth

MONETARY BASE GROWTH

Growth in the monetary base is assumed to decline in stages to four percent in 1985; the Fed maintains base growth at four percent thereafter.

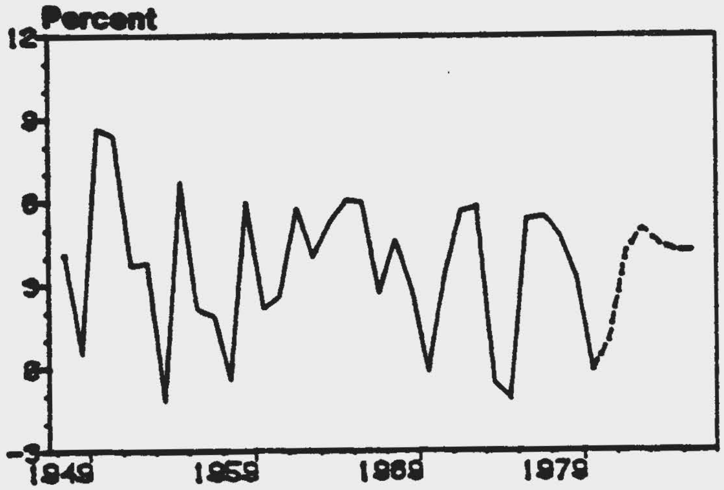
Although this money growth pattern reverses the upward trend of the 1960s and 1970s, the maintained level of base growth is higher than that experienced in the 1950s and 1960s.



INFLATION -- GNP DEFLATOR

Slowing growth in the monetary base will pave the way for gradual reductions in the inflation rate. The anticipated decline in inflation is less sharp than the declines in 1952 and 1976.

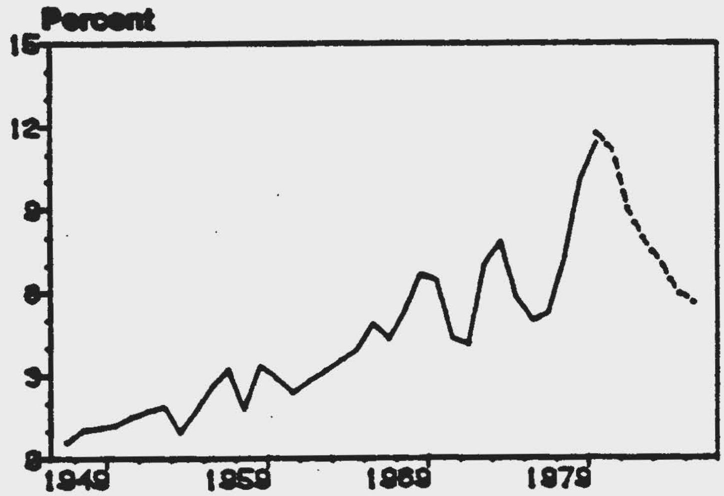
**Baseline Case:
Real Output Growth**



REAL OUTPUT GROWTH

Tax cuts and lowered inflation expectations prompt sharp increases in factor supplies; the resulting growth in potential output maintains real growth at above four percent through 1986. The magnitude of the rebound in 1982 is relatively mild by historical experience.

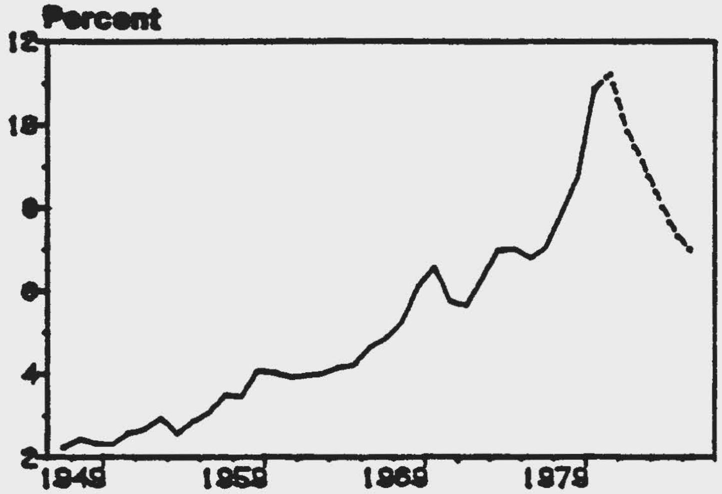
**Baseline Case:
Treasury Bill Yields**



TREASURY BILL YIELDS

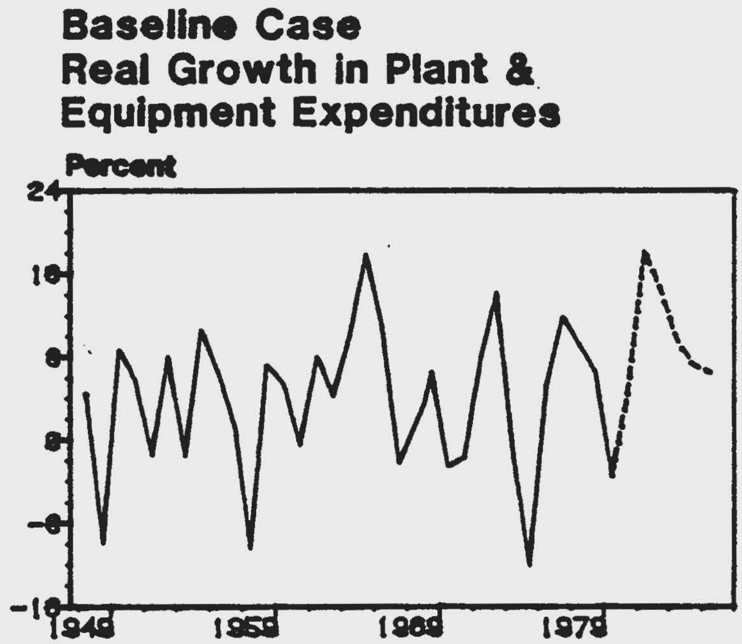
Short-term interest rates fall sharply in 1981 in the baseline case and then maintain a gradual downturn before leveling off between five and six percent. Inflation—below five percent in 1986 in the Baseline Case—establishes a floor under bill yields.

Baseline Case:
Treasury Bond Yields



TREASURY BOND YIELD

Falling inflation expectations cause a precipitous decline in bond yields over the next four years by inducing the private sector to sharply increase desired holdings of dollar securities. Bond yields level off at about 6 percent in the Baseline Case. Although quite favorable from current perspective, 6 percent bond yields are quite high by post-war experience prior to 1969.

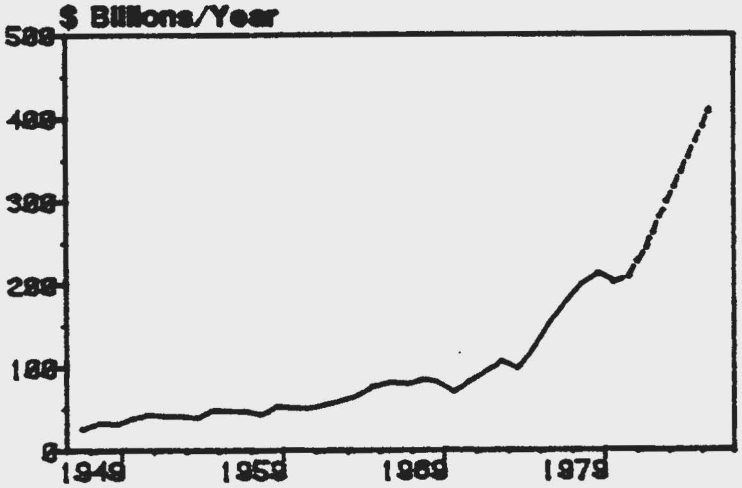


PLANT AND EQUIPMENT EXPENDITURE

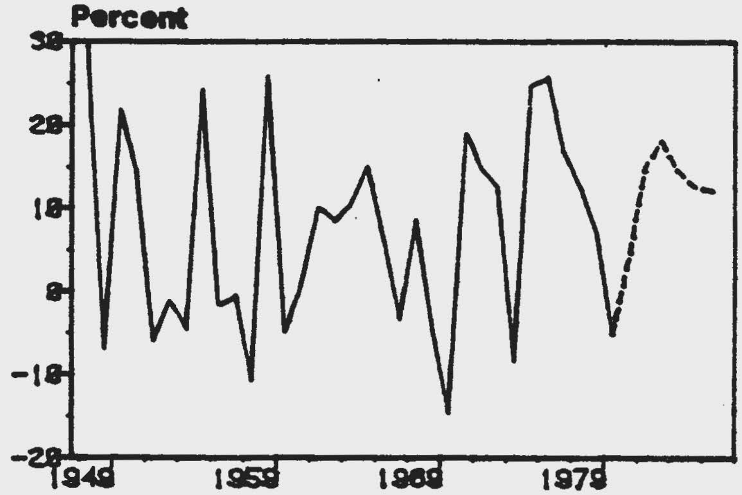
Capital investment will surge in 1981 and 1982 on expectations of tax cuts, money growth declines, and slowing inflation. Financing requirements will be met by substantial increases in stock and bond issues.

The magnitude of the rebound compares favorably with the investment surge following the 1964 Tax Cut.

Baseline Case:
Pre-Tax Corporate Profits



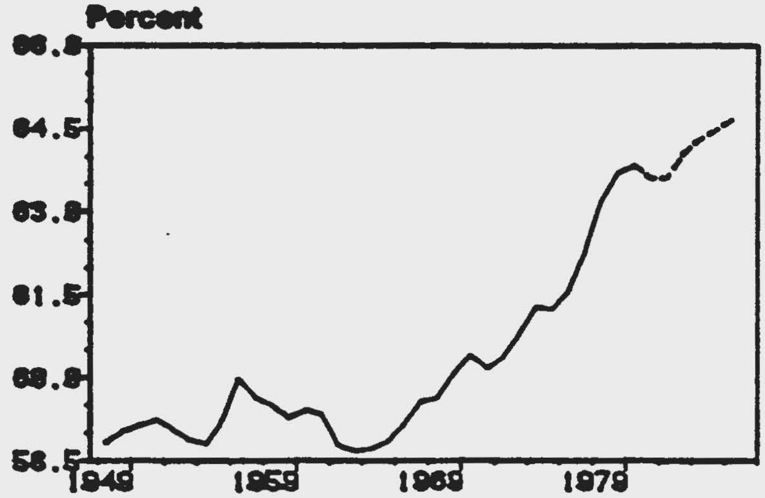
Baseline Case:
Real Growth in
Pre-Tax Corporate Profits



PRE-TAX CORPORATE PROFITS

Profits accelerate rapidly in 1982 and 1983 as output growth exceeds the potential growth path.

Baseline Case:
Labor Force Participation

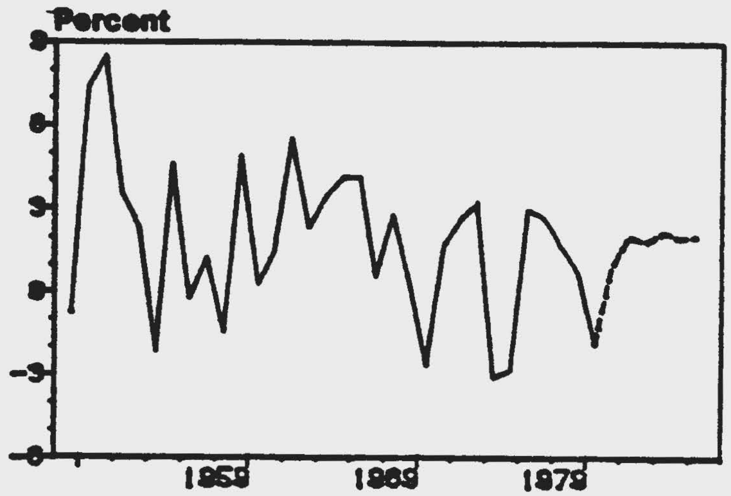


LABOR FORCE PARTICIPATION

Labor force participation depends on demographic and social variables as well as tax rates and unemployment. The strong upward trend in the participation rate experienced over the seventies is projected to moderate over the next few years.

Improved economic conditions weaken some of the necessity for multiple wage-earners in each family.

**Baseline Case:
Productivity**

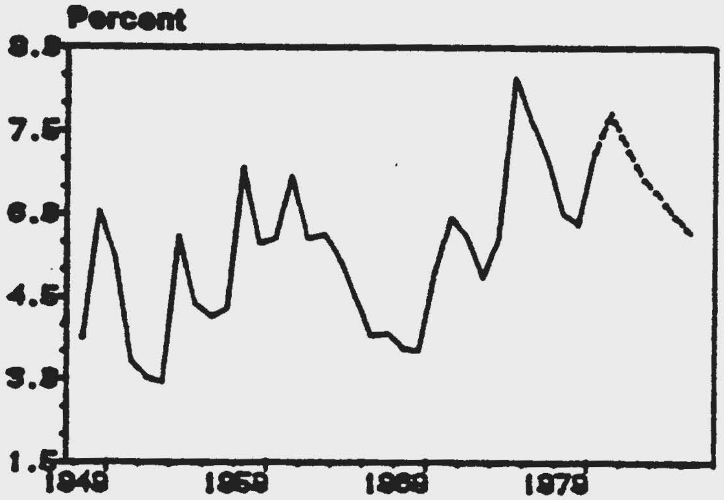


PRODUCTIVITY

Increased investment expenditure provides more capital per worker and expands the rate of productivity growth.

Still, productivity growth in the first half of the eighties falls far short of the three percent rate maintained through much of the 1960s.

Baseline Case:
Unemployment Rate



UNEMPLOYMENT RATE

Weak output growth assumed for 1981 will push the unemployment rate above eight percent by yearend. Strong growth thereafter brings the unemployment rate below six percent by 1986.

February 13, 1981

MEMORANDUM FOR: LARRY SPEAKS
KEN KACHIGIAN

FROM : DOYLE L. ARNOLD DLA

SUBJECT : PRESIDENT'S ECONOMIC PROGRAM

Attached is a copy of a draft memorandum entitled, "Framework for the Future". It is a complete overview description of the President's economic program, prepared as an initial draft for Secretary Regan's Joint Economic Committee testimony next week. It may be of use to you in drafting the President's economic address. The paragraph on the international implications of the program has been incorporated in this draft.

Some of the numbers, particularily regarding the budget cuts, are still subject to change and refinement this weekend. The basic thrust of the program and most of the economic scenario numbers, however, are firm.

Both myself and Tim McNamar will be available to you all weekend should you need us to answer questions. Phone numbers are as follows:

Tim McNamar:	Office	(566-2801)
	Home	(333-2798)
Doyle Arnold:	Office	(566-3887)
	Home	(546-1784)

Tim McNamar will also have a paging device all weekend. The paging number is 566-2120.

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

February 12, 1981

SUBJECT: President's Economic Program

ORIGINATOR: Secretary of the Treasury

INDEX: Framework for the Future - Descriptive Memorandum

OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

FRAMEWORK FOR THE FUTURE

The President is committed to a bold economic program that will provide a framework for the future of the American economy. This memorandum describes the major problems in the economy that have led to the program; discusses how we got there; describes the program; and outlines its implications.

STATE OF THE ECONOMY

Over the past several years, economic policy has been used to fight short-term swings in economic activity rather than to promote long-term growth of productive capacity, increase productivity, and raise the after-tax, after-inflation rate of return from both work and investment.

Repeated efforts to fine-tune the economy in the short run have produced a number of unintended long-term consequences, including:

1. Continued high unemployment
2. Unacceptably high inflation
3. Unstable and high interest rates
4. Declining rates of savings and investment
5. Unacceptably low improvements in productivity
6. Low real GNP growth.

The graphs at Tab 1 indicate the longer term secular trends in these key problem areas.

Causes of the Problems

To be sure, a number of major demographic and geopolitical developments have contributed to this drift into a low-incentive, slow-growth, high-inflation economy. The impact of OPEC on the U.S. economy has also been substantial. But, the single most significant factor has been the failure of the Federal Government to provide a consistent, stable, and rewarding framework for the investment of labor and capital. Instead it has:

1. Formulated inconsistent budget policies from year to year in attempts to stimulate or cool the economy.
2. Perpetuated a tax system that is biased against work and investment and allowed inflation to reinforce that bias.
3. Failed to follow stable, consistent monetary policies.
4. Imposed excessive and unproductive regulatory delays and burdens on both business and individual efforts.

The result of these policies has been an economy that has had low real growth and inadequate improvement in standards of living, but continued high nominal, or inflated growth in GNP and wage rates. Through the existing tax system, this has led to a continual increase in the percent of GNP that has gone to the Federal Government in recent decades. The following table summarizes this phenomenon:

	FISCAL YEAR				
	1965	1970	1975	1980	1981 (est)
Federal Outlays as Percent of GNP	17.9	20.3	22.0	22.6	23.3

The President is proposing a bold and dramatic fundamental break with these past practices. The break is clean, sharp, and designed to restore an environment where the after-tax, after-inflation return for hours worked and money invested is substantially higher than exists today.

PROGRAM DESCRIPTION

The President's economic program, which will be coordinated and administered through the new Cabinet Council on Economics chaired by the Secretary of the Treasury, has four components. They are:

1. A stringent budget policy to reduce the rate of increase in federal expenditures and bring it below the rate of increase in federal revenues targeted toward a balanced budget in late FY 1983 or FY 1984.

2. An incentive tax policy designed to increase the after-tax take-home pay for every working American, and an accelerated cost recovery system designed to improve the after-tax rate of return on investment in new plant and equipment for the economy.

3. A consistent nonpolitical monetary policy, developed in cooperation with the Federal Reserve, designed to provide a steady secular decline in the money stock growth over time.

4. A regulatory reform program designed to reduce the cost of unnecessary government regulations both to the Federal Government and state and local governments as well as to private business.

The following sections describe in more detail each of these program components.

I. BUDGET POLICY

The Administration's budget policy will have but one aim -- to regain control of a Federal budget that currently is beyond control. Our plan to regain control of the budget is based on three principles:

1. Short-run elimination of waste, fraud and unsupportable increases over 1980 spending levels.

2. Long-term reduction in the portion of the budget that is "uncontrollable" through changes and reductions in automatic entitlements.

3. Increased reliance on the free market, with reduction and elimination of subsidies and regulations that protect the inefficient.

Application of these principles will result in reduced budget outlays of $53* billion in fiscal year 1982, $98* billion in 1983, and an average of $130* billion in each year from 1984 through 1986.

This will place budget outlays permanently on a new trend line. Instead of increasing at an average rate of 12.5 percent annually (1975-1980), outlays will increase at a rate of 5.6 percent* annually (1981-1986).

Government spending growth will thus be held below the average rate of inflation, instead of exceeding it. The budget deficit will be reduced to $39* billion next year, $19* billion in 1983, and the budget will be balanced in 1984.

These budget reductions will be applied evenly and fairly; no region or group will bear an undue portion. Programs benefitting the truly needy, including basic Social Security retirement, Medicare, and Veterans' benefits, will not be cut at all. However, every area other than benefits to the truly needy will be cut. Cuts will even be made in some areas of military spending, though defense spending in real terms will increase.

II. TAX POLICY

The President will propose two major tax law changes: individual tax rate reductions and accelerated cost recovery.

These changes are essential to restoring incentives and stimulating increased growth and productivity of the economy. By increasing the after-tax returns to work, saving, and investment, they will promote each.

---

*Tentative budget outlay reductions. Final numbers to be determined this weekend.

In order to expedite passage of an immediate tax change, sharply focused on economic recovery, all other structural tax changes of interest to Congress and the Administration (for example, marriage penalty, oil depletion) will be deferred to a second proposal. Due to Congressional interest in these changes, this second proposal will be described along with the economic recovery program in order to assure Congressional support for the program, and it will be submitted soon after the recovery program is passed.

Individual Tax Cuts

Individual tax rates will be reduced in stages by 30 percent. This is the basic "10-10-10" tax cut. Rates would be reduced from a range of 14 to 70 percent to a range of 10 to 50 percent. Rate reductions will be uniform across the board, benefitting all income levels.

Rates that would otherwise exceed 50 percent during the phase-in period would be limited to 50 percent beginning with the first round of reductions. This will eliminate the complex "maximum tax on earned income" provisions of the present law.

If the effective date is July 1, the rate reduction would be 5 percent in calender 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984 and thereafter.

Withholding would be reduced in four phases -- 10 percent on July 1, 1981 15 percent on January 1, 1982, 25 percent on January 1, 1983, and 30 percent on January 1, 1984.

The direct static revenue loss from rate reductions before taking into account any stimulative effects on the economy is expected to be as follows ($ billions):

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
Static Revenue Loss	- 6.5	-45.7	-82.7	-118.4	-141.5	-162.4

Accelerated Cost Recovery

The second part of the President's tax program is the acceleration of capital recovery - a necessary measure for increasing incentives for business investment, which will lead to economic growth. To this end, the President will propose legislation that will accelerate the recovery of capital costs invested in new plant and equipment.

Business property will be included in one of five classes of assets, distinguished by different, defined write-off periods. All additions to each class of property in each year will be carried as a separate "vintage account" for that year until fully written-off or disposed of. The five classes are:

1. 3 years (and a 6 percent investment credit) for up to $100,000 of autos and light trucks each year, and for research and development outlays; accelerated depreciation available.

2. 5 years (and a 10 percent investment credit) for all other machinery and equipment; accelerated depreciation available.

3. 10 years for factories, stores, and warehouses used by their owners; accelerated depreciation available.

4. 15 years for other nonresidential buildings, such as offices and leased stores, and for low-income housing; straight-line depreciation.

5. 18 years for other rental residential structures; straight-line depreciation.

A 5-year phase-in provides progressively shorter recovery periods for long-lived machinery and buildings acquired in years before 1985.

This program will also reduce the burden of accounting and tax planning for taxpayers and remove sources of dispute between taxpayers and the Federal Government. It streamlines tax accounting for capital allowances, and will also eliminate disputes over useful lives for real estate.

The direct revenue costs of the program, before taking into account any stimulative investment effects are ($ billions):

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
Static Revenue Loss	-2.9	-11.7	-23.6	-39.0	-57.7	-76.6

III. MONETARY POLICY

Inflation is largely a monetary phenomenon. Stable prices are impossible if the rates of money growth consistently increase faster than the growth of goods and services year in and year out, as they have done, on average, for more than a decade. There is substantial evidence both at home and abroad that serious inflation can be reduced only if monetary growth is consistently restrained. A mandatory prerequisite to slowing inflation will be curbing the growth in our monetary base.

This Administration clearly recognizes the importance of the independence of the Federal Reserve System, and that independence will be maintained. A common objective is shared by both, however. That objective is the control of inflation in the years ahead. A stable, declining rate of growth in the monetary base is important to that objective. To that end, the Administration will regularly consult with the Federal Reserve Board on the full range of its economic program, and will pursue budget policies that will make easier the task of the Federal Reserve in reducing monetary growth along the lines of the Administration's economic scenario:

	-------Annualized Quarterly Rates-------					
	1981	1982	1983	1984	1985	1986
Monetary Base Growth Rate	7%	6%	5%	4%	4%	3%

Furthermore, the Administration will seek to avoid the extreme volatility in the monetary growth path that has characterized recent years. It believes there are some important changes that can improve the Federal Reserves' control over the money supply, and thereby produce monetary results more in line with policy objectives. The Administration will outline these suggestions to the Federal Reserve in the near future, and expect to work with them to achieve the changes.

With a successful program in achieving a stable and moderate growth pattern for the monetary base, both inflation and interest rates will recede, thereby restoring vigor to our financial institutions and markets.

IV. REGULATORY REFORM

The past decades have seen a proliferation of Government regulatory activities. All have been well-intended, some have been reasonably implemented, many have failed. This Administration will not eliminate Government regulation. Rather, under the leadership of Vice President George Bush and the Regulatory Reform Group it will review existing and proposed regulations to determine that they indeed promote the public good, and that the method chosen to achieve that public good is appropriate.

Excessive reports and regulations can have an exceedingly detrimental effect on capital investment. Delays caused by regulations introduce uncertainty into the investment decision-making process of all business enterprise. Uncertainty and delay combine to prevent reallocation of capital and improvements in productivity.

Further, when companies are required to make nonproductive, unnecessary investments, their rates of return on capital are lowered, and new investment is stifled. Similarly, government regulations that subsidize nonproductive businesses, prevent the reallocation of investment into more productive uses.

This Administration is committed to provide an environment where regulation will again be balanced for all the peoples' interest rather than for the special interest of any group, including business. Costs as well as benefits from regulations will be carefully analyzed. It is committed to eliminating regulations that protect weak and inefficient business. And it sees no economic rationale for subsidizing a high-cost producer of goods and services at the expense of American taxpayers and consumers.

INTERRELATED NATURE OF PROGRAM COMPONENTS

No one of these program components by itself will provide the type of economic environment that America needs to create the jobs, investment, and improvements in the standard of living that must be achieved during the 1980's to meet our economic and social goals.

Spending cuts alone could release resources to the private sector of the economy, but would not significantly subdue inflation nor stimulate savings, investment, and work. Tax cuts would provide the necessary productive incentives, but without spending cuts could create high deficits that would make monetary control more difficult.

Deregulation alone would make a contribution to productivity improvement, but would provide insufficient stimulus for capital formation and inflation control. Reduced monetary growth alone could reduce inflation, but provide insufficient stimulus to output.

The uniqueness of the President's program is in the long-term interraction of the program's components. Taken together they can produce a framework for real economic prosperity and reduced inflation.

In addition, the President is committed to pursuing the program in an unwaivering manner. He will not permit short-term political exigencies to dissuade their consistent application. As a result, American's can work and invest with confidence that the Government's underlying economic policies will continue to be consistently applied.

Both the spending and tax cuts will be submitted to the Congress simultaneously and will go forward concurrently. This means that budget deficits will temporarily increase prior to the time the economy strengthens and produces increased Federal revenues. Nevertheless, the President is willing to accept temporary budget deficits as a result of reducing taxes because of the long-term expected benefits.

IMPLICATIONS AND RESULTS

Together, these coordinated policies will attack all of our major economic problems. The expected results of these policies are woven together in an economic scenario. This is not a forecast in the conventional sense, projected by a traditional econometric model assuming no changes in people's behavior. Rather, the Administration's economic scenario is an internally consistent set of policies and results, that if enacted will produce an economic climate in which people's expectations and behavior will change as a result of these policies.

The complete scenario and a detailed description of the economic enviroment will be published in the Mini-Economic Report of the President that will accompany the Budget Report. The scenario is summarized as follows, and key elements are noted at Tab 2.

The Federal Reserve policy of gradually reducing the growth of the monetary base and monetary aggregates should cut inflation at least in half by 1986. The scenario shows the rate of growth of the CPI falling from 11 percent in 1981 to just over 4 percent in 1986, the GNP deflator falls from 9.9 percent in 1981 to 4.9 percent in 1986.

Real GNP should grow between 4 and 5 percent each year from 1982 through 1986, nearly as fast as in the last half of the 1960s. Two quarters of mild recession and an overall growth of only 1 percent are indicated for 1981.

The economic program will generate substantial increases in employment, principally in the private sector. Total employment, 1986 is expected to be approximately 11.8 million greater than in 1981; the unemployment rate is expected to decline steadily from 7.8 percent in the current year to less than 5.6 percent in 1986.

Significant improvements in productivity will accompany these employment gains, as a result of the expansion of saving and capital formation. Real output per worker should average over 2 percent per year from 1982 through 1986. In real terms, plant and equipment outlays are expected to rise at an average annual rate of 11.6 percent from 1981 through 1986.

Substantial resources will be diverted from the public to the private sector. The ratio of taxes to GNP will drop from 20.9 percent in 1981 to 19.4 percent in 1984. Over the same period, spending will fall from 23.0 percent of GNP to 19.2 percent. And as a result, the budget should be balanced in 1984.

Finally, this strengthened domestic economy will be the foundation of a strengthened American position in the international economy. The decontrol of oil prices will discourage U.S. consumption and encourage production, thereby reducing American demands on the international oil markets. Increased productivity will make American products more competitive internationally. A low and stable rate of inflation will restore confidence in the dollar as a medium of international exchange and as a store of value. And a stable, vigorous rate of economic growth will diffuse protectionist pressures at home, even while providing growing markets for products from developing and industrialized countries.

CONCLUSION

It is clear that frequent policy reactions to short-term economic changes are not the solution to our problem. Indeed, they have been a major cause of the problem. As a result of such policies, our nation has come to expect more business usual -- more inflation, more stagnation, more government growth and more directionless economic policy.

It is essential that these expectations be changed. This cannot be done without short-run costs. Little short-term progress can be expected on either inflation or real growth this year. Nevertheless, an economic policy focusing on fundamental structural reform will restore long-term strength and prosperity. The only way this can be accomplished is through a consistent, stable set of policies maintained over a period of years. The President's economic program is such a set of policies, designed to provide a Framework for the Future.

TAB 1

Chart 1

UNEMPLOYMENT RATE

(annual average)

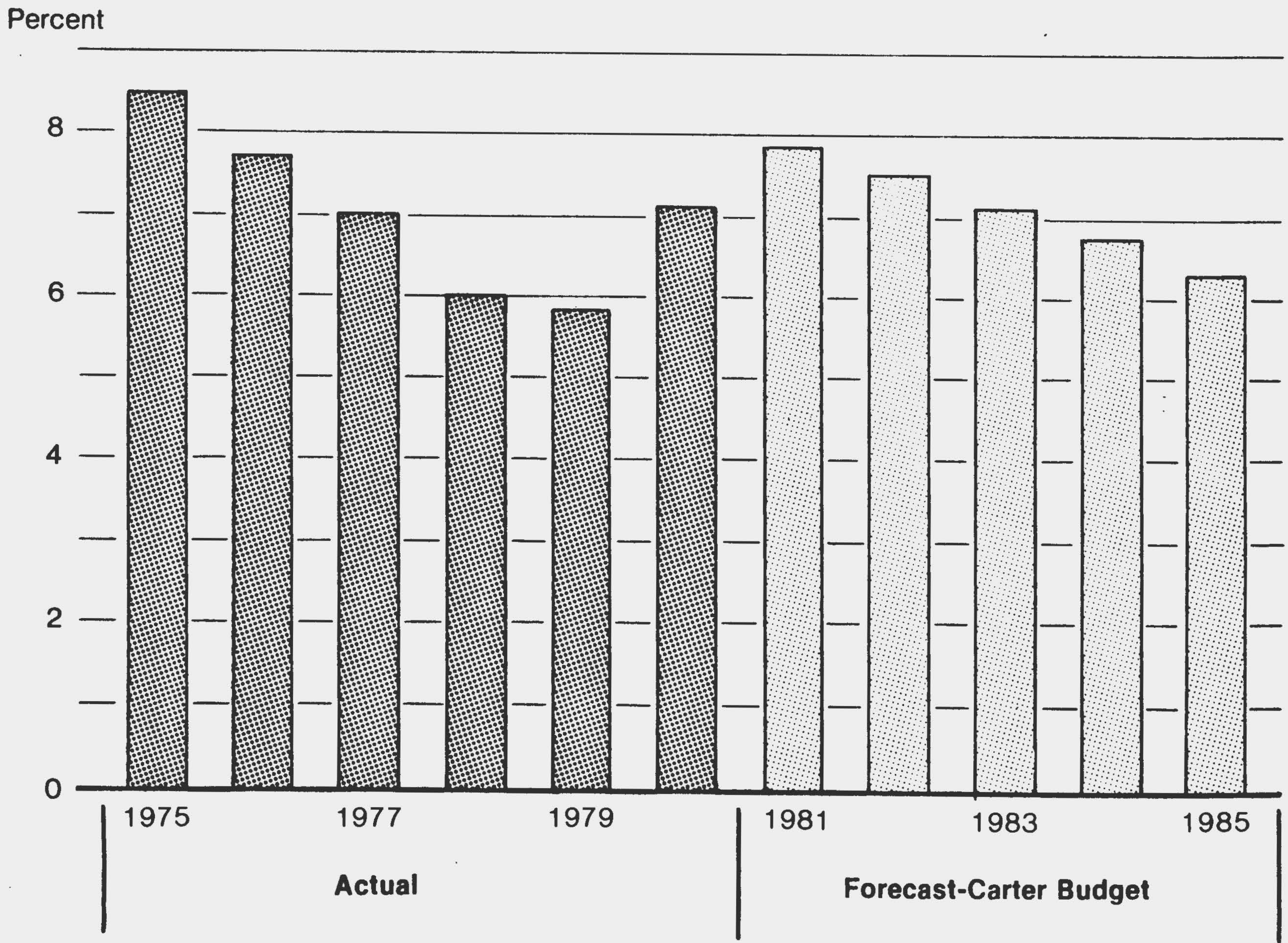


Chart 2

INFLATION RATE (CPI)

(annual average change)

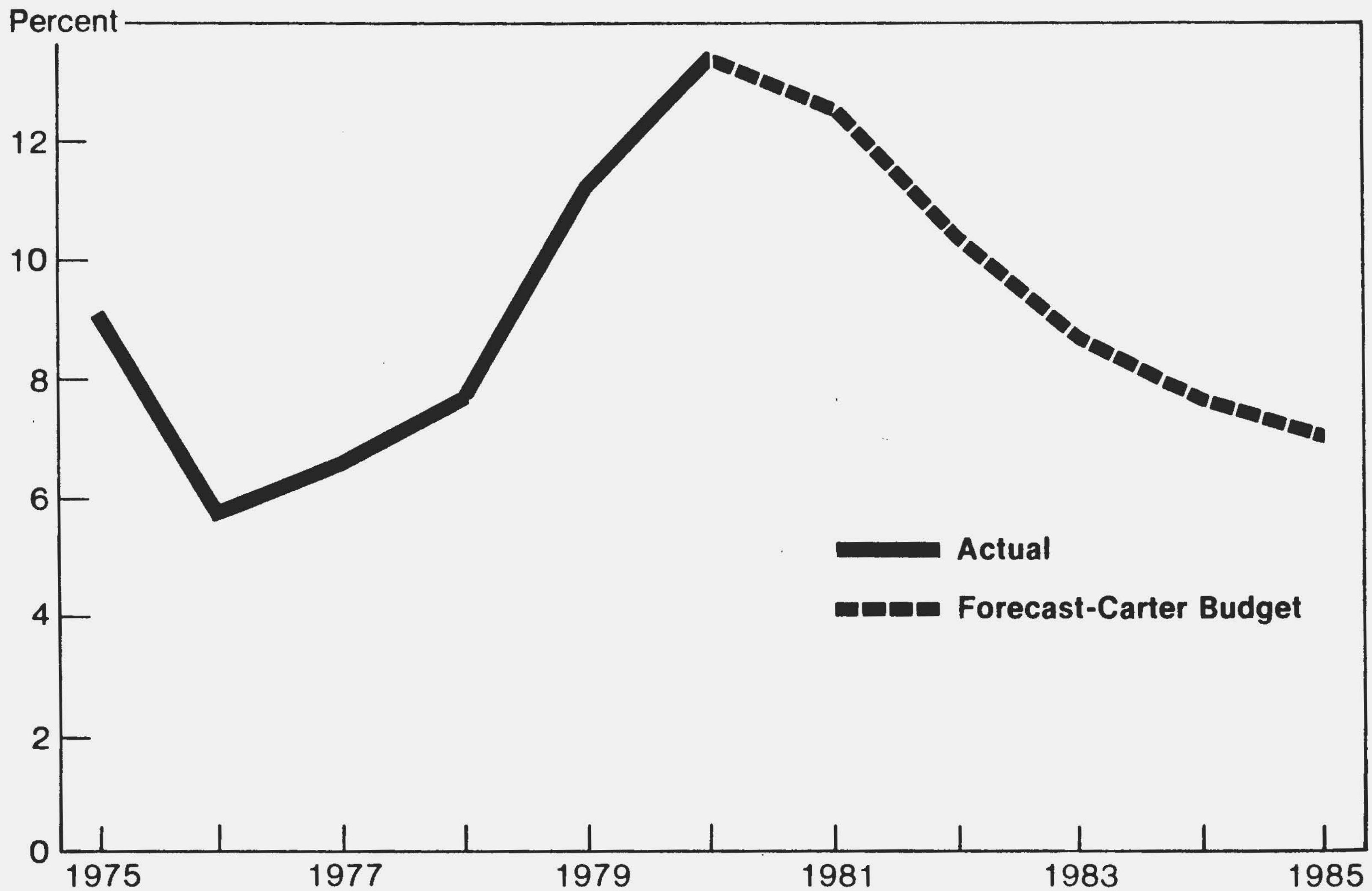
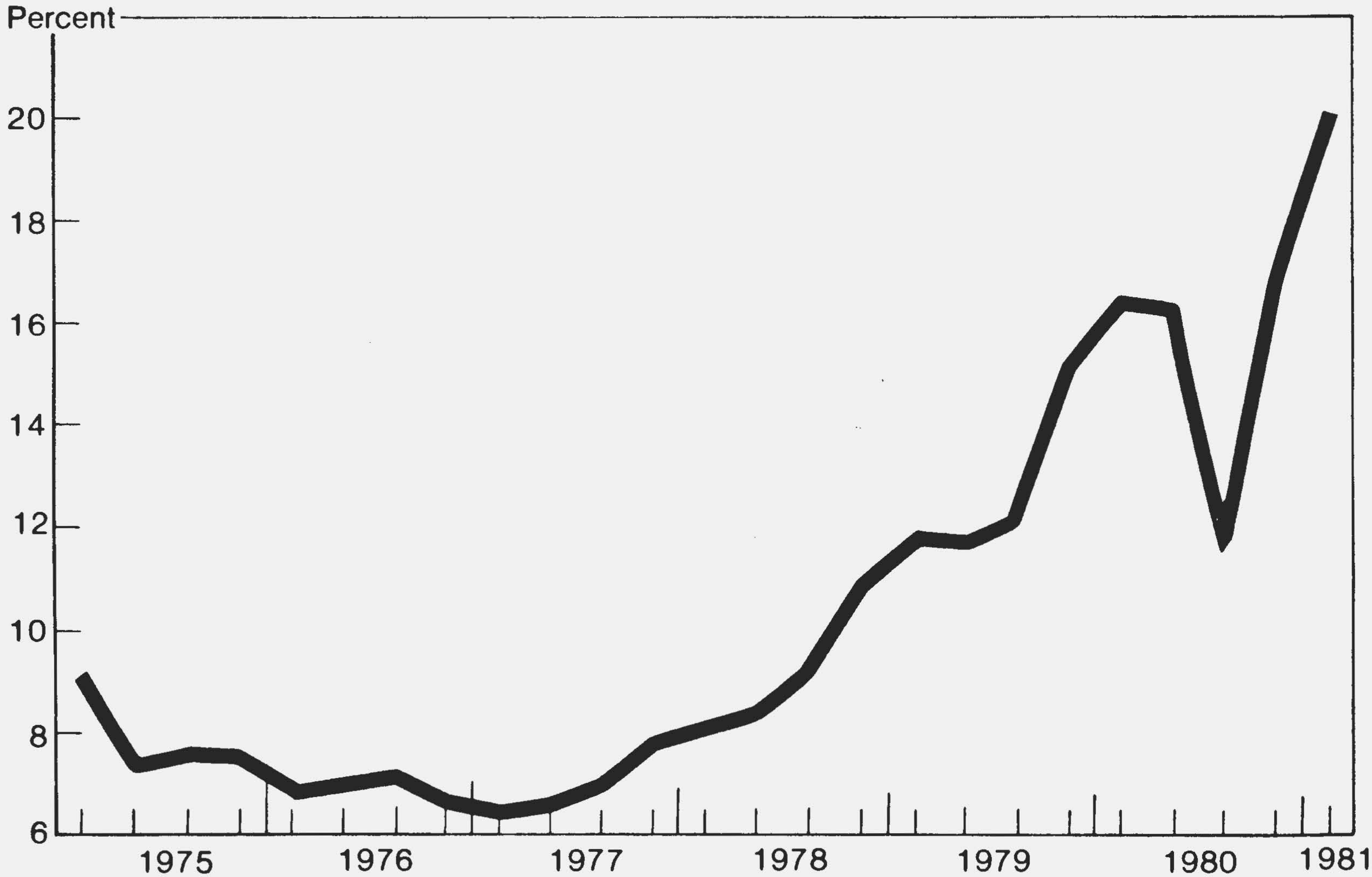


Chart 3

PRIME RATE

(quarterly average in percent)



Note: The prime rate is currently 19½ percent at most major banks.

Chart 4
PERSONAL SAVING RATE
(quarterly average)

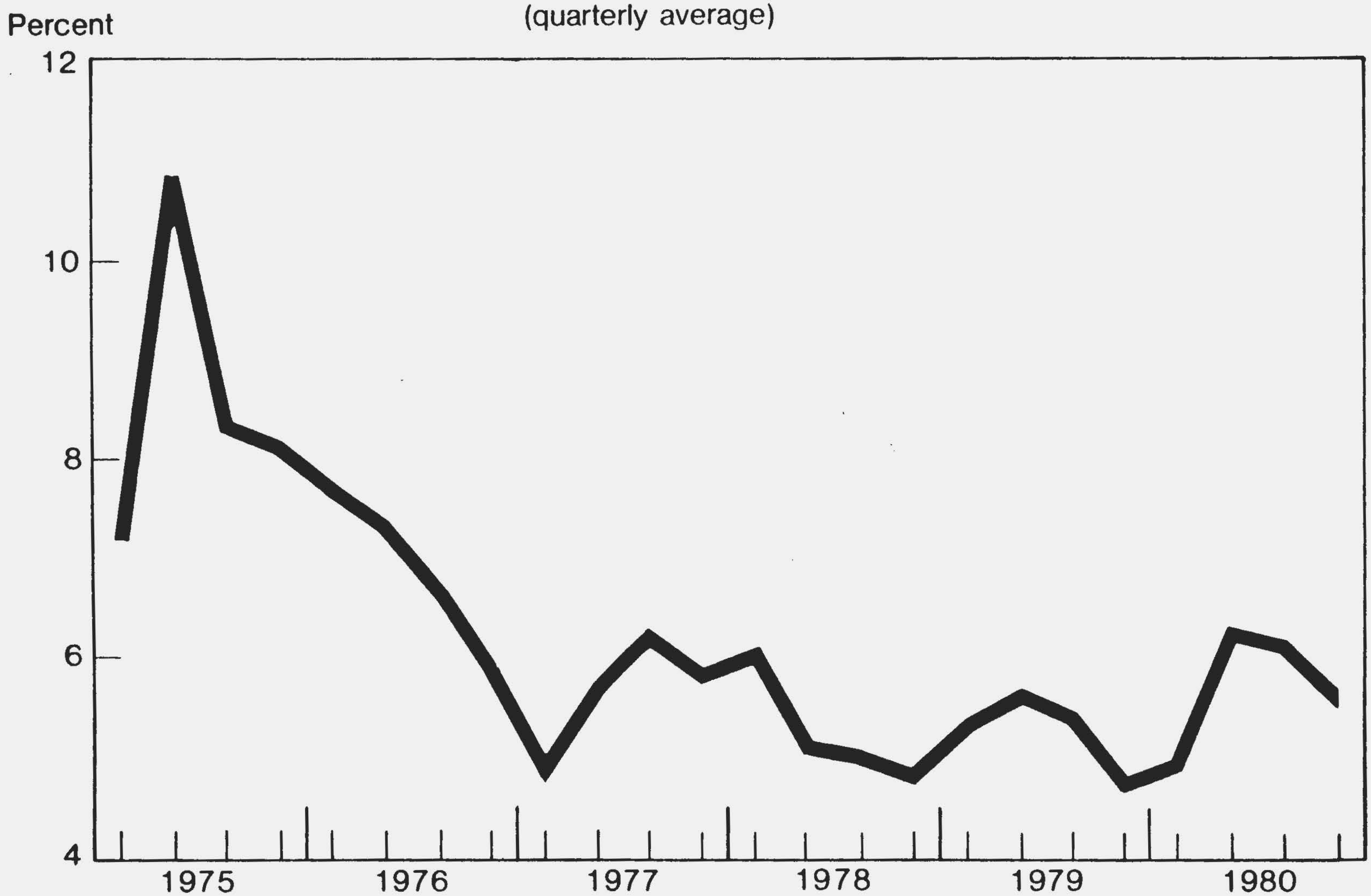


Chart 5

RATE OF PRODUCTIVITY GROWTH

(private business sector)

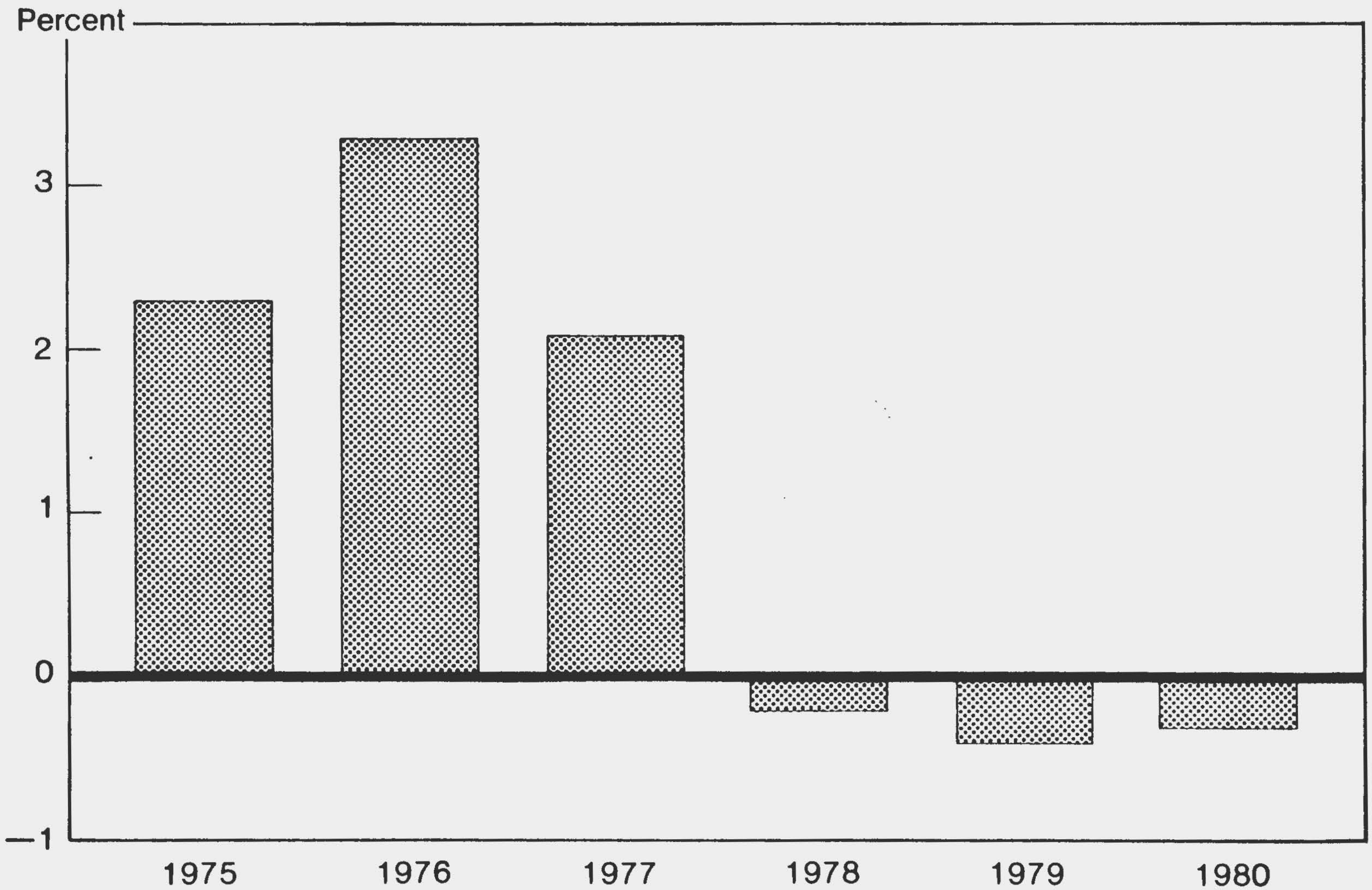
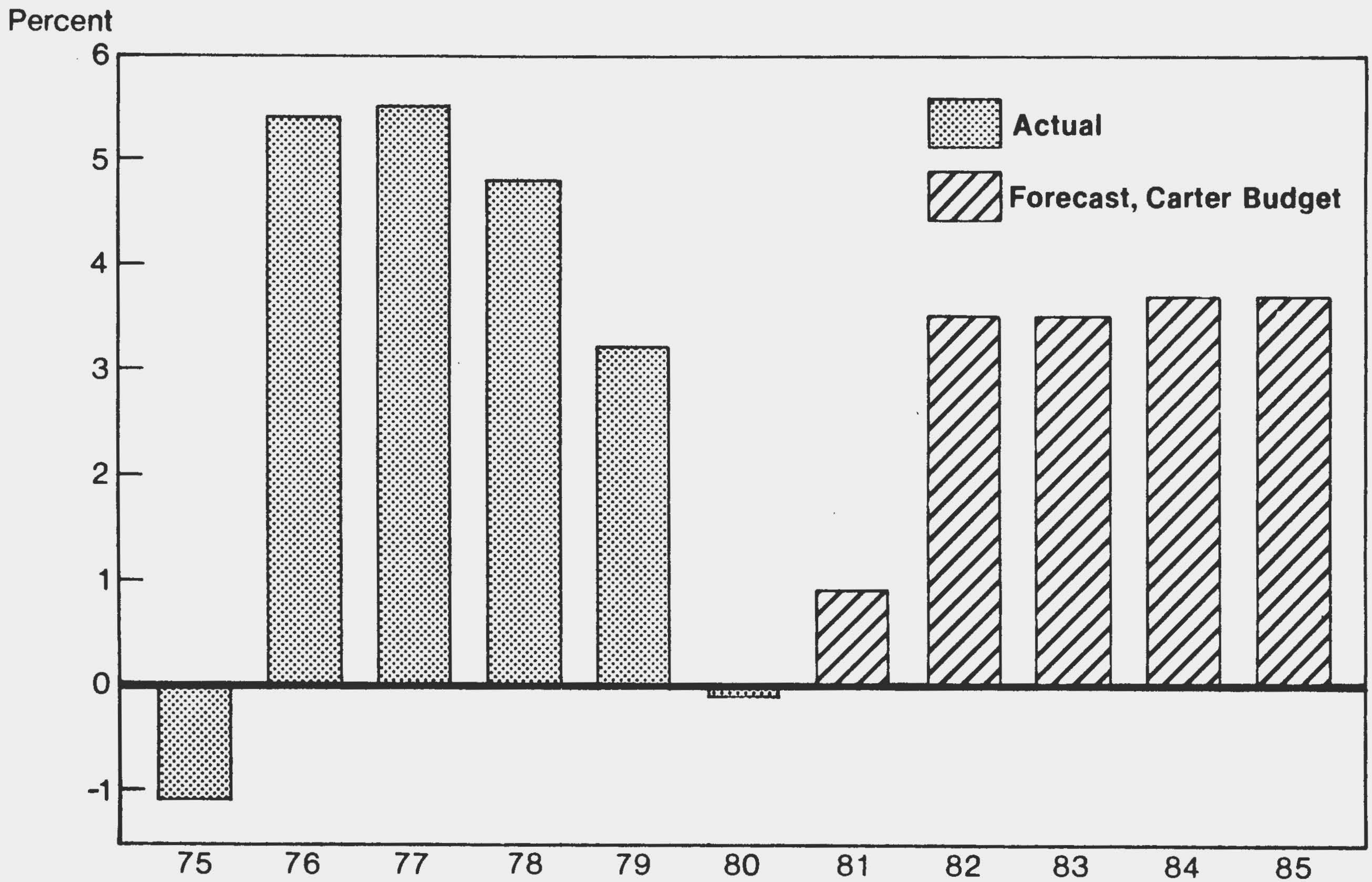


Chart 6

REAL GNP GROWTH



TAB 2

SUMMARY OF PRESIDENT'S ECONOMIC SCENARIO

	------------Calendar Year---------------					
	1981	1982	1983	1984	1985	1986
Real GNP Growth	1.0%	4.2%	5.0%	4.5%	4.2%	4.2%
CPI Change	11.0	8.2	6.2	5.4	4.7	4.2
GNP Deflator	9.9	8.2	7.0	6.0	5.4	4.9
Govt. % of GNP	23.0	21.6	20.1	19.2	19.2	19.3
Monetary Base Growth	8.0	6.4	5.4	4.4	4.0	3.4
Unemployment Rate	7.8	7.2	6.6	6.4	6.0	5.6
Interest Rate (T Bill)	12.0	9.3	8.0	7.2	6.2	5.7
Productivity Growth Rate	0.6	1.8	2.3	2.2	2.0	2.0

Chart 1

UNEMPLOYMENT RATE

(annual average)

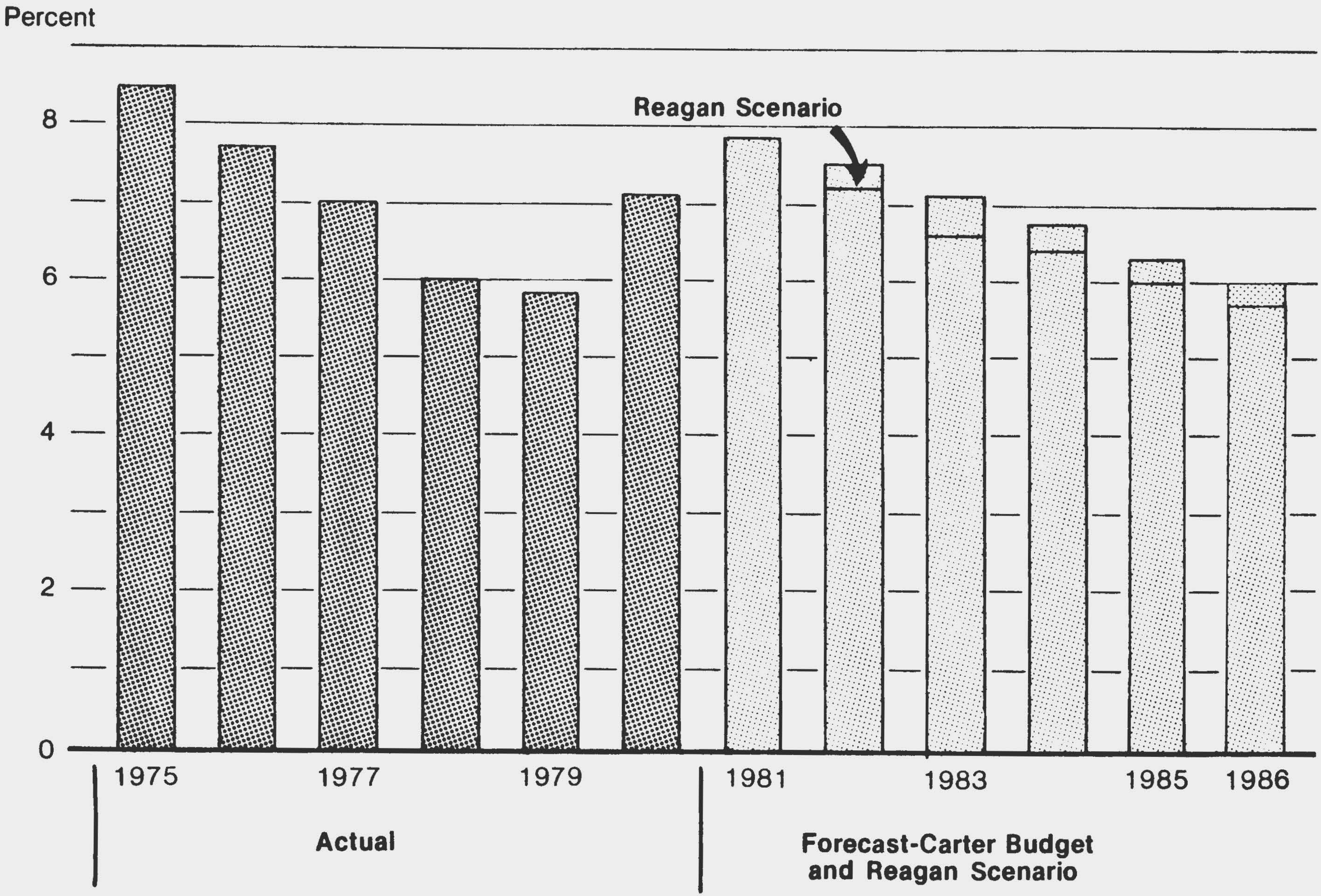


Chart 2

INFLATION RATE (CPI)

(annual average change)

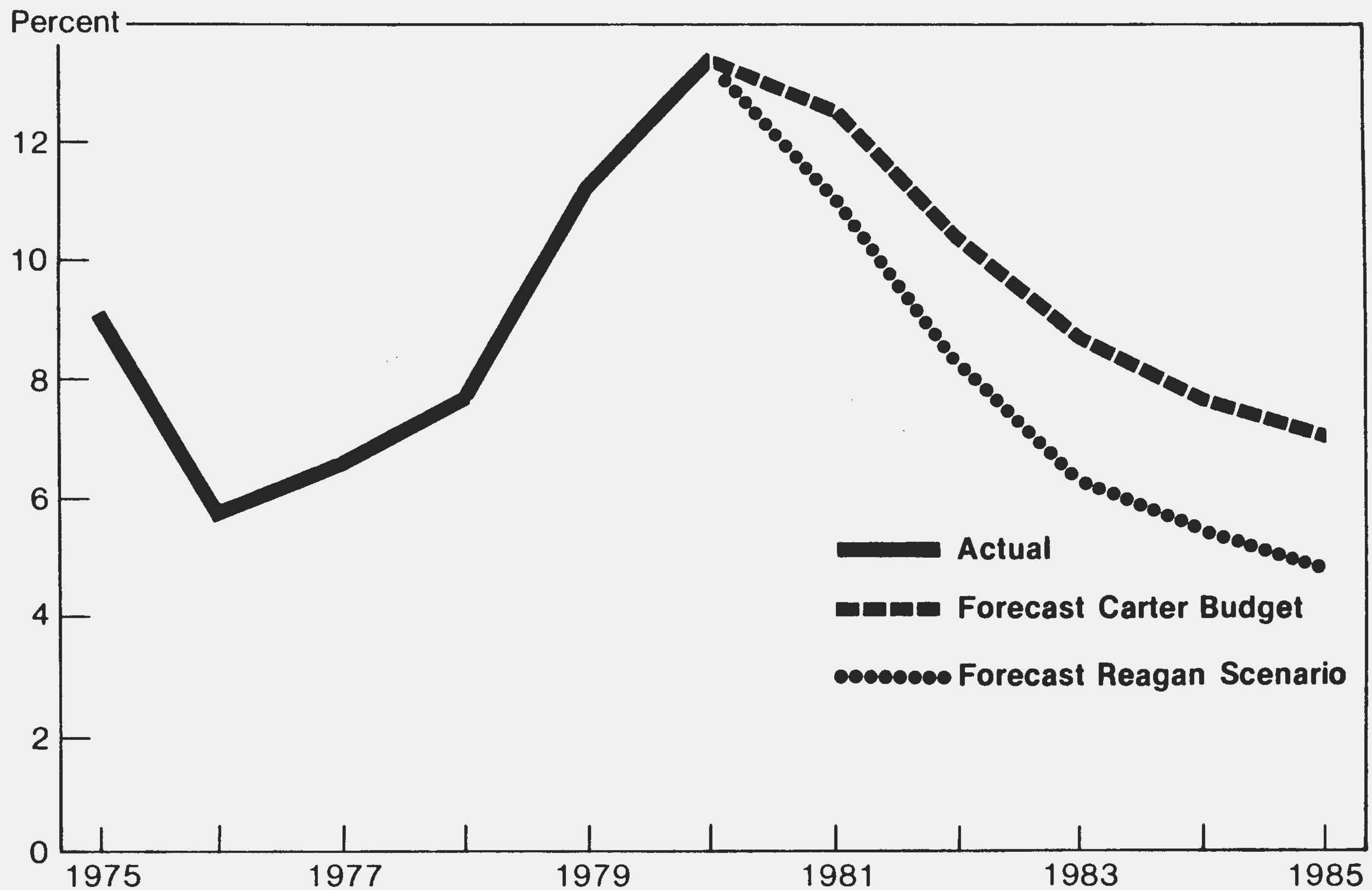


Chart 3

REAL GNP GROWTH