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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 18, 1981

ADDRESS BY THE PRESIDENT
TO A JOINT SESSION OF CONGRESS
ON A PROGRAM FOR ECONOMIC RECOVERY

The U.S. Capitol

9:00 P.M. EST

THE PRESIDENT: Thank you very much. Thank you all very much. Mr. Speaker, Mr. President, distinguished Members of Congress, honored guests, and fellow citizens: Only a month ago I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this nation that we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the last, best hope of man on earth.

All of us are aware of the punishing inflation which has for the first time in 60 years held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by despair dominates their lives. The threats of layoff and unemployment hang over other millions and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: He said, "I'm bringing home more dollars than I ever believed I could possibly earn but I seem to be getting worse off." And he is. Not only have hourly earnings of the American worker, after adjusting for inflation, declined five percent over the past five years, but in these five years federal personal taxes for the average family have increased 67 percent.

We can no longer procrastinate and hope that things will get better. They will not. Unless we act forcefully and now the economy will get worse.

Can we who man the ship of state deny it is somewhat out of control? Our national debt is approaching one trillion dollars. A few weeks ago I called such a figure, a trillion dollars, incomprehensible. And I've been trying ever since to think of a way to illustrate how big a trillion really is. And the best I could come up with is that if you had a stack of thousand-dollar bills in your hand only four inches high, you'd be a millionaire. A trillion dollars would be a stack of thousand-dollar bills 67 miles high.

The interest on the public debt this year we know will be over $90 billion, and unless we change the proposed spending for the fiscal year beginning October 1st, we'll add another almost $80 billion to the debt.

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Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that is estimated to add $100 billion to the price of the things we buy and it reduces our ability to produce.

The rate of increase in American productivity,once one of the highest in the world, is among the lowest of all major industrial nations. Indeed, it has actually declined in the last three years. Now, I've painted a pretty grim picture, but I think I've painted it accurately. It is within our power to change this picture and we can act with hope. There's nothing wrong with our internal strengths. There has been no breakdown of the human, technological and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us, but which we have failed through a lack of confidence and sometimes through a belief that we could fine tune the economy and get it tuned to our liking, I am proposing a comprehensive four point program. Now, let me outline in detail some of the principle parts of this program. You'll each be provided with completely detailed copy of the entire program. This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and unproductive or counter-productive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, this program can help America create 13 million new jobs, nearly three million more than we would have without these measures. It will also help us to gain control of inflation. It's important to note that we're only reducing the risk of increase in taxing and spending. We're not attempting to cut either spending or taxing levels below that which we presently have.

This plan will get our economy moving again, (create) productivity growth, and thus create the jobs that our people must have. And I'm asking that you join me in reducing direct federal spending by 41.4 billion dollars in Fiscal Year 1982 along with another 7. -- (applause) -- and this goes along with another 7.7 billion in user fees and off budget savings for a total of $49.1 billion. And this will still allow an increase of $40.8 billion over 1981 spending.

Now, I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents, I know, afraid that Social Security checks, for example, were going to be taken away from them. Well, I regret the fear that these unfounded stories have caused and I welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those, who through no fault of their own, must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety of programs they depend on are exempt from any cuts.

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The full retirement benefits of the more than 31 million Social Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, the aged and the disabled.And funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs.

All in all, nearly $216 billion providing help for tens of millions of Americans -- will be fully funded. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. (Applause.) And while we will reduce some subsidies to regional and local governments, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local governments and states more flexibility and control. We call for an end to duplication to federal programs and reform of those which are not cost effective.

Now, already, some have protested that there must be no reduction in aid to schools. Well, let me point out that Federal aid to education amounts to only eight percent of the total educational funding. And for this eight percent, the Federal Government has insisted on tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that eight percent will amount to very little in the total cost of education. They will, however, restore more authority to states and local school districts. (Applause.)

Historically, the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe that Americans will continue their generosity. Therefore, I'm proposing a savings of $85 million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry that I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activities without a government subsidy. One such subsidy is the Department of Energy's synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save at least $3.2 billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

We're asking that another major industry, business subsidy I should say, the Export-Import Bank loan authority, be reduced by one-third in 1982. We're doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves -- most of them profitable corporations.

This brings me to a number of other lending programs in which government makes low-interest loans, some of them at an interest rate as low as two percent. What has not been very well understood is that the Treasury Department has no money of its own to lend. It has to go into the deep, the private capital market and borrow the money. So, in this time of excessive interest rates the government finds itself borrowing at an interest rate several times as high as the interest it gets back from those it lends the money to. And this difference, of course, is paid by your constituents -- the taxpayers. They get it again if they try to borrow because government borrowing contributes to raising all interest rates.

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We can save hundreds of millions of dollars in 1982 and billions more over the next few years. There's a lack of consistent and convincing evidence that EDA and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program. (Applause)

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save $1.8 billion in FY 1982 by removing from eligibility those who are not in real need or who are abusing the program. (Applause) Even with this reduction, the program will be budgeted for more than $10 billion.

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare that an individual is allowed. This plus strong and effective work requirements will save $520 million in the next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be $1.6 billion in FY 1982.

Now, let me just touch on a few other areas which are typical of the kind of reductions we've included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. There's nothing wrong with that, but because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must agree that this is unfair. Putting these two programs on the same footing will save $15 billion in just one year.

Earlier I made mention of changing categorical grants to States and local governments into block grants. Now, we know of course that the categorical grant programs burden local and state governments with a mass of federal regulations and federal paperwork.

Ineffective targeting, wasteful administrative overhead -- all can be eliminated by shifting the resources and decision-making authority to local and state government. This will also consolidate programs which are scattered throughout the federal bureaucracy, bringing government closer to the people and saving $23.9 billion over the next five years.

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Our program for economic renewal deals with a number of programs which at present are not cost effective. An example is Medicaid. Right now Washington provides the states with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the states are going to manage those programs. We want to put a cap on how much the federal government will contribute, but at the same time allow the states much more flexibility in managing and structuring the programs.

I know from our experience in California that such flexibility could have led to far more cost effective reforms.

Now, this will bring a savings of $1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, howevever, that a reordering of priorities to focus on the most important and cost effective NASA programs can result in a savings of a quarter of a million dollars.

Coming down from space to the mailbox, the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large federal subsidies. We propose reducing those subsidies by $632 million in 1982 to press the Postal Service into becoming more effective, and in subsequent years the savings will continue to add up.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It has the authority to administer a gas rationing plan and prior to decontrol it ran the oil price control program. With these and other regulations gone we can save several hundreds of millions of dollars over the next few years.

I'm sure there's one department you've been waiting for me to mention, the Department of Defense. It's the only department in our entire program that will actually be increased over the present budgeted figure. (Applause.) But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance. These measures will save $2.9 billion in 1982 outlays and by 1986 a total of $28.2 billion will have been saved. Or perhaps I should say will have been made available for the necessary things that we must do. The aim will be to provide the most effective defense for the lowest possible cost.

I believe that my duty as President requires that I recommend increases in defense spending over the coming years. (Applause.)

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I know that you're all aware, but I think it bears saying again: That since 1970 the Soviet Union has invested $300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets have made a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and having to attempt a crash program several years from now.

We remain committed to the goal of arms limitation through negotiation. I hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. (Applause) But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Now, let me say a word here about the general problem of waste and fraud in the federal government. One government estimate indicated that fraud alone may account for anywhere from one to ten percent -- as much as $25 billion of federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud. We're also planning to appoint as Inspectors General highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: Waste and fraud in the federal government is exactly what I called it before -- an unrelenting national scandal -- a scandal we're bound and determined to do something about. (Applause)

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we're to have economic recovery. It's time to create new jobs, to build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Our proposal is for a 10-percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total cut in tax cut rates of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

Now, I would have hoped that we could be retroactive with this. But as it stands, the effective starting date for these 10 percent personal income tax rate reductions will call for as of July 1st of this year.

Again, let me remind you that while this 30 percent reduction will leave the taxpayers with $500 billion more in their pockets over the next five years, it's actually only a reduction in the tax increase already built into the system.

Unlike some past tax "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that reducing tax rates now will be inflationary. A solid body of economic experts does not agree. And tax cuts adopted over the past 3/4 of a century indicate these economic experts are right. They will not be inflationary.

I've had advice that in 1985 our real production in goods and services will grow by 20 percent and be $300 billion higher than it is today. The average worker's wage will rise in real purchasing power 8 percent, and this is in after tax dollars. And this, of course, is predicated on a complete of tax cuts and spending reductions being implemented. The other part of the tax package is aimed directly at providing business and industry with the capital to modernize and engage in more research and development.

This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st. The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant machinery and vehicles and tools on their original cost, with no recognition of how inflation has increased their replacement cost.

We're proposing a much shorter write-off time than is presently allowed -- a five-year write-off for machinery, 3 years for vehicles and trucks, and 10-year write-off for plant. In Fiscal Year 1982 under this plan, business would acquire nearly $10 billion for investment. By 1985, the figure would be nearly 45 billion.

These changes are essential to provide the new investment which is needed to create millions of new jobs and 1985, and to make America competitive once again in the world market. (Applause.) These won't be make-work jobs. They are productive jobs, jobs with a future. I'm well aware that there are many other desirable and needed tax changes, such as indexing the income tax brackets to protect taxpayers against inflation, the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax, especially to the family-owned farm and the family-owned business, and a number of others.

But our program for economic recovery is so urgently needed to begin to bring down inflation that I'm asking you to act on this plan first and with great urgency. And then, I pledge that I will join with you in seeking these additional tax changes at the earliest date possible. (Applause.)

American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled. The number of pages published annually in the Federal Register nearly tripled, and the number of pages in the Code of Federal Regulations increased by nearly two-thirds.

The result has been higher prices, higher unemployment, and lower productivity growth. Overregulation causes small and independent businessmen and women, as well as large businesses,to defer or terminate plans for expansion. And since they're responsible for most of the new jobs, those new jobs just aren't created.

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We have no intention of dismantling the regulatory agencies, especially those necessary to protect the environment and insure the public health and safety. However, we must come to grips with inefficient and burdensome regulations, eliminate those we can and reform the others.

I have asked Vice President Bush to head a Cabinet-level task force on regulatory relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of new regulations which have not yet been implemented. Third, in coordination with the task force, many of the agency heads have already taken prompt action to review and rescind existing burdensome regulations.

And finally, just yesterday I signed an Executive Order that for the first time provides for effective and coordinated management of the regulatory process.

Much has been accomplished but it's only a beginning. We will eliminate those regulations that are unproductive and unnecessary by Executive Order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation we need to slow the growth in our money supply. Now, we fully recognize the independence of the Federal Reserve System and will do nothing to interfere with or undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets. This, then, is our proposal, America's new beginning, a program for economic recovery.

I don't want it to be simply the plan of my administration. I'm here tonight to ask you to join me in making it our plan. Together we can embark on this road. (Applause.)

I should have arranged to quit right there. (Laughter. Applause.) Well, together we can embark on this road not to make things easy but to make things better.

Our social, political and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades. Can we do the job? The answer is yes. But we must begin now.

We're in control here. There's nothing wrong with America that together we can't fix. I'm sure there'll be some who raise the familiar old cry, "Don't touch my program; cut somewhere else." I hope I've made it plain that our approach has been even-handed, that only the programs for the truly deserving needy remain untouched. The question is are we simply going to go down the same path we've gone down before, carving out one special program here, another special program there. I don't think that's what the American people expect of us. More important, I don't think that's what they want. They're ready to return to the source of our strength.

The substance and prosperity of our nation is built by wages brought home from the factories and the mills, the farms, and the shops. They are the services provided in 10,000 corners of America; the interest on the thrift of our people and the returns for their risk-taking. The production of America is the possession of those who build, serve, create and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We've strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. (Applause.) We've tried that and surely we must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

Next year we can reduce the budget by $41.4 billion, without harm to government's legitimate purposes or to our responsibility to all who need our benevolence. This, plus the reduction in tax rates will help bring an end to inflation.

In the health and social services area alone the plan we're proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations, 5000 federal employees who presently administer 7,600 separate grants in about 25,000 separate locations. (Applause.) Over seven million men and women hours of work by state and local officials are required to fill out government forms.

I would direct a question to those who have indicated already an unwillingness to accept such a plan: have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning? (Applause.)

If we don't do this, inflation and the growing tax burden will put an end to everything we belive in and our dreams for the future. We don't have an option of living with inflation and its attendant tragedy, millions of productive people willing and able to work but unable to find a buyer for their work in the job market.

We have an alternative and that is the program for economic recovery. True, it'll take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles. They do expect us to act. Let us act together.

Thank you and good night.

END (9:30 P.M. EST)

NR corrections
on press release

THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR WIRE TRANSMISSION UNTIL
4:00 pm - February 18, 1981

FEBRUARY 18, 1981

EMBARGOED FOR RELEASE UNTIL 9:00 pm

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TO A JOINT SESSION OF CONGRESS"
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I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the last, best hope of man on earth.

All of us are aware of the punishing inflation which has, for the first time in some 60 years, held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

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One worker in a Midwest city put it to me this way: He said, "I'm bringing home more dollars than I thought I could ever earn but I seem to be getting worse off." Well, he is. Hourly earnings of the American worker, after adjusting for inflation, have declined ~~five~~ 5 percent over the past five years. And, furthermore, in the last five years, Federal personal taxes for the average family increased 67 percent.

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Can we who man the ship of state deny it is out of control? Our national debt is approaching $1 trillion. A few weeks ago I called such a figure -- a trillion dollars -- incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of $1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of $1,000 bills 67 miles high.

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Based on this confidence in a system which has never failed us -- but which we have failed through a lack of confidence, and sometimes through a belief that we could fine tune the economy and get a tune more to our liking -- I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

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By terminating the Economic Development Administration we can save hundreds of millions of dollars in 1982 and billions more over the next few years. There is a lack of consistent and convincing evidence that E.D.A. and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program.

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Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the States with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the States will manage the program. We want to put a cap on how much the Federal Government will contribute but at the same time allow the States much more flexibility in managing and structuring their programs. I know from our experience in California that such flexibility could have led to far more cost-effective reforms. This will bring a savings of $1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost-effective NASA programs can result in a savings of a quarter of a billion dollars.

Coming down from space to the mailbox -- the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large Federal subsidies. We propose reducing those subsidies by $632 million in 1982 to press the Postal Service into becoming more effective. In subsequent years, the savings will continue to add up.

The Economic Regulatory Administration in the Department of Energy has programs to force companies to convert to specific fuels. It has the authority to administer a gas rationing plan, and prior to decontrol it ran the oil price control program. With these and other regulations gone we can save several hundreds of millions of dollars over the next few years.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance. These measures will save $2.9 billion in 1982 outlays and by 1986 a total of $28.2 billion will have been saved. The aim will be to provide the most effective defense for the lowest possible cost.

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I believe my duty as President requires that I recommend increases in defense spending over the coming years. Since 1970 the Soviet Union has invested $300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and attempting a crash program several years from now.

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Let me say a word here about the general problem of waste and fraud in the Federal Government. One government estimate indicated that fraud alone may account for anywehre from 1 to 10 percent -- as much as $25 billion -- of Federal expenditures for social programs. If the tax dollars that are wasted or mismanged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

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The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud. We are also planning to appoint as Inspectors General highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as Government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before -- an unrelenting national scandal -- a scandal we are bound and determined to do something about.

Marchingin lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we are to have economic recovery. It is time to create new jobs, build and rebuild industry, and give the Americcan people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Our proposal is for a 10-percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total tax cut of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

The effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction in marginal rates, while it will leave the taxpayers with $500 billion more in their pockets over the next five years, is actually only a reduction in the tax increase already built into the system.

Unlike some past tax "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that reducing tax rates now will be inflationary. A solid body of economic experts does not agree. And certainly tax cuts adopted over the past three-fourths of a century indicate these economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be $300 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by eight percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented.

The other part of the tax package is aimed directly at providing business and industry with the capital needed to modernize and engage in more research and development. This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st.

The present depreciation system is obsolete, needlessly complex, and econonmically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles, and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a five-year write-off for machinery; three years for vehicles and trucks; and a ten-year write-off for plants.

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In Fiscal Year 1982 under this plan business would acquire nearly $10 billion for investment and by 1985 the figure would be nearly $45 billion. These changes are essential to provide the new investment which is needed to create millions of new jobs between now and 1986 and to make America competitive once again in world markets. These are not make-work jobs, they are productive jobs with a future.

I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax especially to the family-owned farm and the family-owned business and a number of others. But our program for economic recovery is so urgently needed to begin to bring down inflation that I would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

American society experienced a virtual explosion in Government regulation during the past decade~~s~~. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled, the number of pages published annually in the *Federal Register* nearly tripled, and the number of pages in the *Code of Federal Regulations* increased by nearly two-thirds.

The result has been higher prices, higher unemployment, and lower productivity growth. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion and, since they are responsible for most of our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies -- especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations -- eliminate those we can and reform those we must keep.

I have asked Vice President Bush to head a Cabinet-level Task Force on Regulatory Relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an Executive Order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is only a beginning. We will eliminate those regulations that are unproductive and unnecessary by Executive Order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation, we need to slow the growth in our money supply.

We fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets.

This, then, is our proposal. "America's New Beginning: A Program for Economic Recovery." I do not want it to be simply the plan of my Administration -- I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

Can we do the job? The answer is yes. But we must begin now. Our social, political and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end -- that we will find those reservoirs of national will to once again do the right thing.

I'm sure there will be some who will raise the familiar old cry, "don't touch my program -- cut somewhere else."

I hope I've made it plain that our approach has been even-handed; that only the programs for the truly deserving needy remain untouched.

The question is, are we simply going to go down the same path we've gone down before -- carving out one special program here and another special program there. I don't think that is what the American people expect of us. More important, I don't think that is what they want. They are ready to return to the source of our strength.

The substance and prosperity of our Nation is built by wages brought home from the factories and the mills, the farms and the ships. shops. They are the services provided in 10,000 corners of America; the interest on the thrift of our people and the returns from their risk-taking. The production of America is the possession of those who build, serve, create and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We have strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. We've tried that and surely must be able to see it doesn't work.

Spending by Government must be limited to those functions which are the proper province of Government. We can no longer afford things simply because we think of them.

Next year we can reduce the budget by $41.4 billion, without harm to Government's legitimate purposes and to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will help bring an end to inflation.

In the health and social services area alone the plan we are proposing will substantially reduce the need for 465 pages of law, 1,400 pages of regulations, and 5,000 Federal employees who presently administer 7,600 separate grants at about 25,000 locations. Over 7 million man and woman hours of work by State and local officials are required to fill our Federal forms.

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May I direct a question to those who have indicated unwillingness to accept this plan for a new beginning: an economic recovery? Have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning in the very near future?

If we don't do this, inflation and a growing tax burden will put an end to everying we believe in and to our dreams for the future. We do not hve an option of living with inflation and its attendant tragedy, of millions of productive people willing and able to work but unable to find buyers in the job market.

We have an alternative to that, a program for economic recovery, a program that will balance the budget, put us well on the road to our ultimate objective of eliminating inflation entirely, increasing productivity and creating millions of new jobs.

True, it will take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

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THE WHITE HOUSE

Office of the Press Secretary

THIS TRANSCRIPT IS NOT FOR RELEASE FEBRUARY 18, 1981

NOTE: The contents of this briefing are embargoed for release until 9:00 p.m. February 18, 1981

B A C K G R O U N D   B R I E F I N G
BY ADMINISTRATION OFFICIALS
ON THE PRESIDENT'S ECONOMIC PROGRAM

Dean Acheson Room - State Department
February 18, 1981

11:05 A.M. EST

MR. BRADY: I think we'll go ahead and get started. I'm Jim Brady. I'm your referee today, and let me go over the groundrules. This briefing will be a background only briefing, not for attribution, not for broadcast. The materials are embargoed for release until 9:00 P.M. EDT (EST) tonight. I think all of these documents are clearly marked. The speech will be available between 3:00 and 4:00 o'clock, probably closer to 4:00 o'clock, from the White House Press Office.

The briefing today is going to be divided into three parts. Dr. Murray Weidenbaum, the Chairman of the Council of Economic Advisers, is here. He's going to cover the overall economic program. Following him will be Treasury Secretary Donald Regan on the tax and the revenue part of it and then we'll have OMB Director Dave Stockman bat clean-up hitter on the budget reduction part.

What I'm going to do is ask you to hold all your questions until the three have finished and we might as well get started with Murray, if you'd like to.

MR. WEIDENBAUM: Never stand when you can sit.

Ladies and gentlemen, I call your attention to the first major item immediately following the President's two-page transmittal message in the big book. This is our so-called "white paper". It's our effort to explain in English the President's economic program. I'd like to run through just a few of the highlights with you. This is the page that starts Roman I, "A Program for Economic Recovery."

The third paragraph presents the key results that we anticipate, the key benefits from the program, that is, cutting the rate of inflation from double-digit today to half of that by 1986, producing 3 million more jobs than if the status quo in economic policy were to prevail, moving from a very low rate of real growth, one percent in 1981, to four to five percent annual range 1982 through 1986, and to do that while tax burdens are being substantially reduced.

On page two we have the four key parts of the President's program. One we call the leading edge, the comprehensive reduction in federal spending, the largest program of budget cuts ever presented by any president.

The second element, the tax program, 10 percent a year reduction for three years in every rate in the personal income tax rate table, plus a variation of 10-5-3 capital recovery incentives.

The third element is a very ambitious regulatory reform element effort and the Vice President presented our new Executive Order on regulation yesterday.

The fourth key element of the program is a consistent monetary policy to help achieve the lower inflation and higher growth rate, and I have some specific language on that. But clearly a predictable, steady growth in the money supply at more modest levels than we've experienced often in the past is vital to achieving the economic goals and the relationship between monetary and fiscal policies is a two-way street. Reducing and eliminating the deficit by 1984 is the Executive Branch's and the Congress' vital contribution to the work of the independent Federal Reserve System.

Chapter two, which I will skip over, is an explanation of the difficult economic problem. That "misery index" I referred to a few days ago is on page eight.

Chapter three presents the program for budget restraint. And we emphasize that this is not a meat axe approach. Very carefully developed principles guided our budget restraint effort, and we enunciate them, that all members of our society -- this is the middle of the page -- first, most importantly, all members of our society except the truly needy will be asked to contribute to the program for spending control. Secondly, we will strengthen our national defense, and third, we set up nine specific guidelines from that social safety net through the consolidation of block grants, and Dave Stockman will provide details of that.

You can see, on page 11, the results. The second part of the first table gives you the changing priorities. Defense rises from 24 percent of the budget this year to over 32 percent, still substantially below, however, the 1962 figure. The safety net programs, social security, cash benefits to the truly needy, continue to be a rising share, continue to be the single largest portion of the budget, over 40 percent in 1984. With the decline of interest rates, of course, interest is a declining share of the budget, but all other programs, of course, bear the brunt, although no program escapes. The military, as Dave Stockman will point out, bears a major share of the savings, that is, in the base of the military budget, but the "all other" category of programs bears the brunt.

You can see the results of this effort in the bottom table on page 11, the steady and significant decline in the federal portion of the GNP. The inverse of that, of course, is the rising reliance on the private sector.

Chapter four, of course, presents the tax program, reducing the tax burdens, and we've got, as I say, the 10-10-10 as well as the modified 10-5-3. There's an example on the bottom of page 14 of how the 10-10-10 will work for a four-person family earning $25,000 in 1980. They'd get a $153 tax reduction this year. Assuming no increase in income, they'd get an $809 tax reduction in 1984, but if you assume, as our scenario does, the average family gets an increase in income, their tax reduction by 1984 would be $1,112.

You also see on the following pages very substantial reductions in -- very substantial liberalization of depreciation allowances.

The fifth part of the program, the fifth chapter, refers to the third part of the program, that is, regulatory relief. Let me call your attention to just one item on page 20, the second paragraph under "The Executive Order on Federal Regulation". This describes briefly the teeth that we've put into the regulatory reform effort. That is, regulations will be reviewed to insure that their benefits outweigh their cost to the country and that the most cost effective way is chosen.

The fourth element of our program is monetary policy. That's page 22. We expect that the rate of growth of money and credit will be brought down to levels consistent with non-inflationary expansion. We do point out the close interrelationship between monetary and fiscal policy. We state that the administration will confer regularly with the Federal Reserve Board on all aspects of our economic program, and that our program will help the Federal Reserve advance its effort to achieve greater economic stability, a lower rate of inflation, and our part of this vital effort is the achievement of a balanced budget in 1984, 1985, 1986. To that end, our economic scenario assumes that the growth rates of money and credit are reduced by 1/2 from the 1980 levels to the 1986 levels.

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We point out that since interest rates mirror price expectations, reduction in price expectations, which is basic to our program, will reduce the overall level of interest rates.

Finally, on page 25, we have our wrap-up. We point out that this plan for national recovery is a substantial break with the past. Central to our policy is the view that expectations play an important role in determining economic activity, inflation and interest rates. Decisions to work, save, spend and invest in the private sector depend crucially on expectations regarding future government policies and it's our expectation that this program will dramatically reduce those expectations of future inflation.

Finally, on page 25, we have our economic scenario and you can see year-by-year the very substantial expansion in real economic growth -- that's the second category of numbers -- real GNP. That's economic growth after you boil out the inflation roughly one percent this year rising to a healthy 4.2 percent next year and staying over four percent through 1986. This is the clearest evidence that we can present of the results of the supply side oriented tax policy that we are recommending -- that is, the very substantial increases in capital investment are in the productivity and then, of course, ultimately in work savings investment and real economic growth.

And currently, you see the significant steady reduction in interest rates. When I said we won't use jargon, we'll speak English, I have to make one amendment -- the implicit price deflator -- that's, as you know, our jargon for the general rate of inflation. But that goes down from just about double-digit to a shade under five percent by 1986. The CPI you see is cut more than half -- from 11 percent to a shade over 4 percent by 1986. And at the same time, the unemployment rate comes down steadily.

In contrast to the inflationary demand-led booms of the 70's, in this scenario the most significant growth occurs in the supply side of the economy. This is fundamentally different than the stop-and-go policies that have characterized the past. This is a comprehensive program designed to literally turn around the economy, to stimulate growth, productivity, and employment simultaneous with the most substantial reduction of inflation. Thank you.

MR. BRADY: I'd like to call on Secretary of Treasury, Donald Regan, now for the tax and the revenue portion.

SECRETARY REGAN: Well, as you know, our portion of this is in the back of the hand-out that you have there. In brief, what the tax program is is a two-pronged attack on the increasing rate of increases that we've been having in the past few years in taxes.

What we are proposing is that there be a 10 percent tax cut each year for the next three years effective July 1st, 1981. Now, in effect, what this then means is that you come up with a five percent effective cut in tax rate this year. The tax tables change on January 1st -- I mean, on July 1st. Ten percent for six months gives you the five percent tax decrease this year.

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Starting January 1st, 1982, another 10 percent and another change in the tax tables. That will net you out again 15 percent for 1982. Another 10 percent, tables change again, January 1st, 1983, you're at 25 percent and January 1st, 1984, a further change of again 5 percent and that brings you to the total of 30 over the three-year period.

I'll repeat that again. It goes: The 10 percent tax cut effective July 1st, 1981, 1982, 1983, results in changes in the tax tables that gives you, in effect, five percent in calendar '81, 15 percent calendar '82, 25 percent calendar '83, 30 percent calendar '84.

What does this mean in revenue? That's in your book.

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that's out for individuals somewhere in the neighborhood of around 44 billion dollars in fiscal '82.

Q -- page number.

SECRETARY REGAN: Page number? Just a moment. I'll find my page number here. I haven't seen this book. So, I don't know where it is in here.

Q Here it is, sir, on the fact sheet.

SECRETARY REGAN: Yes, I know it's on there. I have it on the -- Yes, I know I have it on the -- Do they have the fact sheet?

Q Yes, they have it.

Q Page eight of the summary sheet.

SECRETARY REGAN: : All right, page eight of the summary sheet has it -- page eight of the summary sheet. You can see it's -- the individual tax reductions there under C. 6.4 and the remainder of calendar -- remainder of fiscal '81, 44.2 '82, going on out to 1985, 141.5 billion.

Now you can also see in that same table what we're doing as a share of GNP. Look at the bottom line. After the tax reduction program, you'll see how taxes as a share of GNP will be declining from '81 right out through into '85.

Now, the second part of the tax package is the accelerated capital cost recovery. This is the business tax. This is a modified 10-5-3. What it in effect means is that the automobiles, light trucks, research and development expenditures can now be expended over a three year period with a 6% tax credit. That's much more generous than it is today. And comparisons are in your book.

In addition, at five years for capital recovery will be all types of machinery including computers, office equipment, machinery, and so forth for the service sector. And that will have a full 10% investment tax credit. Buildings that are owner occupied -- that would be factories, warehouses, stores, such as department stores, chain stores, things of that nature. They'll be depreciated over a 10 year period. Other buildings, other factories leased, things of that nature, commercial buildings, and low-income housing will be depreciated now over a 15 year period. Currently, that ranges anywhere from 25 to 35 years.

Residential buildings will be depreciated over an 18 year period. And again that compares with 35 under the present code. In addition, we're simplifying many of the complicated rules for depreciation. These are explained again in the text. I won't go into them now unless you're really interested.

Now, again, you'll want to know the cost of that. And, again, let me try to find the correct page in here for that.

Q It's the same page, sir.

SECRETARY REGAN: It's on the same page on line 3. It starts at 2.5 billion, goes to 9.7 billion on out to 44 billion in '85 and 59 billion in '86.

All of those numbers, by the way, are static losses. We think they probably can be improved upon within the economy. Because as you can see, it's going to be a real stimulus to business to modernize, to build new plants, add equipment, do more research and development. It's this stimulative effect on investment that we're counting on to get this economy in its recovery stage.

Now, putting the two together, we think that we're going to have ample room to finance any of these deficits through personal savings

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rather than having it financed through a monetary policy. You take a look at some of our major trading partners today, such as Germany and Japan. They have huge deficits, but they don't have the same amount of inflation that we do. Why? They have a much higher rate of savings than we do and they're able to finance their debts out of savings, rather than out of creating money.

That's exactly what we're intending to do. If you consider that we now have a GNP that's over two trillion and if you consider that our rate of savings, now, is 5-6 percent which is much lower than most industrialized countries. Our rate of savings used to be between 7-8 percent -- a two percent increase in our rate of savings on a two trillion dollar economy is over 44 billion -- will range from 44 billion to 60 billion in savings. There's ample money there to finance the debts, which as Murray told you, are deficits which are on the way down in this country over the next three years provided that this program is adopted.

So, we think that the rate of inflation will come down through our stimulus to savings. Now, it doesn't really matter whether an individual who gets a $200 tax cut saves all or consumes all. What we're looking at are the aggregates. And when you look at the aggregates over the fact that we're building a much larger economy, and taking just a slight increase in the savings rate, brings the total savings down to where it's much greater than it is at present. That's what we're betting on. That's what we think will happen. I'll pause here on the tax side. Let's take --

MR. BRADY: All right. David Stockman, OMB Director, if you'd like to bat clean-up hitter on the spending reduction side, go ahead.

MR. STOCKMAN: I guess my first half this morning is to announce the surprises, the items in terms of budget cuts that you haven't recorded yet. So, I will do that.On page 57 you will find the National Institute for Museum Services. That's the only one that you haven't found out about as of this day. Don't look on page 57. It's not there. It's a $10 million program and it really doesn't add too much or detract either way.

What I would like to do, rather than get bogged down in all of these 83 different expenditure savings measures that we're proposing -- many of them very significant and very large in terms of entitlement changes -- reducing substantially the federal role in certain areas like Synfuels development and so forth -- is to try to start out this morning by just giving you some of the basic highlights of what this whole budget plan looks like and how it fits into the general economic program.

I think the first and most important point is that tonight, in his speech, the President will propose $41.4 billion worth of expenditure reductions in the Fiscal Year '82 budget relative to what's programmed into the base that we inherited -- what we're calling the current policy base.

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In addition to that, he will call for $2 billion in new user taxes that would be levied on certain users of government services who benefit primarily from those services and should pay most of the fray. Those would include barge operators to pay the cost of maintaining the inland waterway system. It would include airplane passengers and users to pay the cost of the air traffic control system about $1 billion a year that now comes out of general revenue and should be financed, in our view, with the user fee with ticket taxes and then to be staged in over a number of years -- a fee on beneficiaries of various Coastguard services, navigation aids, search and rescue activities and so forth. We're calling that the yacht fee, but really it would apply to a lot of other vessels and recreational boats as well.

In addition to the $2 billion in user fees and the $41.4 billion in direct expenditure reductions, he will also propose about $5-1/2 billion worth of reductions in off-budget outlays or the off-budget deficit. These, together, add to a total of nearly $50 billion -- $49.1 billion in total budget savings for Fiscal Year 1982.

The second thing, in terms of overview, in terms of high point that I think is relevant about this budget plan is that it calls for a very dramatic and sharp downward shift in the annual growth rate of federal spending. For the last five years, federal spending has increased at about a 12 percent annual rate. During the last two budget years, it's grown at a 16 percent annual rate. We believe that it has been this very rapid, double-digit increase year after year of federal spending growth that has contributed to the inflationary momentum in the economy and particularly to the inflationary expectations for the future that are embedded in financial markets and throughout our economy.

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We don't believe that you can get inflation down. We don't believe that we'll be successful in the effort to steadily reduce the rate of inflation unless you can change expectations, unless you can change the psychology of actors in the financial markets and throughout our economy.

We believe that one way that you can accomplish that in a very tangible and effective way is to bring the rate of federal spending growth to a much lower path and that's what we're proposing here.

The increase for FY'82, if this budget reduction package is accepted and adopted by the Congress, would be six percent rather than the 16 percent rates that we've had in the last several years and the 12 percent rate that we've had for nearly a half a decade.

We would then hope to maintain that much-reduced rate of future spending growth for '83 and '84 and to achieve that we would have to secure reductions, budget savings, of about $78 billion in Fiscal Year '83 and $100 billion in Fiscal Year '84 relative to what's built in to the budget today.

In a moment I want to go through the major criteria, the major principles that were used in determining where to cut, how much to cut, and what programs ought to be eliminated entirely. But before I get to those individual items, I would like to point out that if this entire fiscal reform plan, the budget reductions for '82, the restrained rates of growth in government spending and outlays in future years would be adopted by the Congress and become the policy of this country, you would then see a very major shift in terms of the internal priorities of the budget.

One of the arguments that's going to be made time after time as we get into this whole budget control exercise and as we seek to move these large reductions through the Congress is that they're coming entirely at the expense of social programs or that the budget is being balanced on the back of the poor and the other arguments that you've heard made time after time after time. We think that we can demonstrate that those arguments are entirely unfounded, they're entirely fallacious, and that the budget reductions that we're proposing are distributed evenly and generally across our entire society, among income groups, among regions, among types of programs, among personal benefits versus economic and business benefits, and that in the process essential programs, essential safety net programs to protect the elderly, the disadvantaged, will be fully funded and will be protected in this rather massive and unprecedented budget-reduction exercise that we're proposing.

I would like to give you a couple of indications of that and if you would look on page 12 -- or page 10 -- of the document on the fiscal reform plan, which is the second document in this big book, and look at those pie charts that we've provided, I think you can see a very clear indication of the way the internal budget priorities would shift if the plan that we're proposing is implemented.

If you look at 1981 in that pie chart, that's the status quo. That's the distribution of funding within the budget today, the $655 billion-odd budget that we have for '81. Defense takes about 24 percent of that. Interest is about 10 percent. The social safety net programs that in our budget-reduction effort will be largely protected account for 37 percent. Those social safety net programs include Social Security for the retired, Medicare, veterans' benefits, basic unemployment benefits, not extended, but basic unemployment benefits, and cash assistance for the elderly, the disabled, and dependent households.

The rest of the budget at the present time, the status quo budget, accounts for 29 percent of total expenditures and, of course, that would include everything from the National Institutes of Health to education grants, to synfuels subsidies, to Export-Import Bank operations, to the Economic Development Administration programs, to Amtrak and so forth.

If you look at the third pie chart, then, you will see what the budget would look like internally by 1984 if our plan is entirely implemented. The Defense share will increase, from 24 to 32 percent, because given world conditions that we face today, given the inadequate level of funding that we've had for more than a decade for our national defense, that will have to increase from 24 to 32 percent. But I would point out that as a share of the total budget it would still be substantially less than the Defense share of the national budget in the early sixties, and you can see that by way of comparision with 1962 in which defense expenditures were 44 percent.

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So, there is some increase for defense because that's a high priority, a necessary priority in light of the world today. The second point, though, is that in this changed budget program that we're proposing, the share of total federal spending accounted for by the social safety net programs will increase not decrease as some will charge time and time again. The fact is the social safety net expenditures will rise as you can see from 37 percent to 41 percent indicating that we mean to fully protect these basic benefits, this basic social safety net that was created really in the 1930's in this country during our first great economic crisis and has since been institutionalized and supported on a bipartisan basis by all Americans.

That means that the huge budget reductions that we're looking for in '82, in future years will come primarily out of this fourth sector of the budget that we've called "all other". That will drop dramatically from 30 percent of the budget today to about 18 percent of the budget by 1984.

Now, in concluding, I would just like to quickly go through the principles, and we have them up on the chart there that we used in order to determine which programs to reduce or eliminate or consolidate in this "all other" sector of the budget.

The first principle I've gone through and doesn't need further elaboration , preservation of the social safety net. We have proposed very minor changes in these basic programs that I've enumerated that account for less than 1% of total spending for Social Security Basic Unemployment Benefits, Veterans, and the others.

The second principle we called "revise entitlements to eliminate unintended benefits." There we are dealing with proposals to make substantial savings in the Food Stamp Program, the Trade Adjustment Assistance Program, the Extended Unemployment Benefits Program, and a number of other programs of that type.

I will use the Food Stamp example just to illustrate what we're proposing. In the case of Food Stamps, it was originally intended to provide a minimum level of nutrition support for all families. However, the eligibility criteria have become so relaxed and have become so loophole-ridden over the years that today relatively high income families are eligible. We propose to re-target, re-focus the program to its original clientele or constituency by putting a cap on eligibility at 130 percent of the poverty line, which for a family of four would be about $11,000 in gross income.

A third principle that we use was that in light of the large tax reductions that this economic plan entails, in light of the improved inflation performance that we expect and believe will occur, then we cannot justify continuation of large benefits or subsidies to better off families, middle and upper-income Americans. And so we're proposing to cut out the school lunch subsidy for families above $16,000 a year and we're proposing to reduce sharply the elegibility for guaranteed student loans and for higher education grants for upper-income students.

Both of those programs we would re-focus to a financial needs based criteria so that those who had family means or their own means available would not be eligible for these programs. Over the next fiscal year and in the fiscal years beyond, these efforts would save billions of dollars as a result of re-focusing.

The third principle we've used is that in the case of certain government activities that benefit only a very narrow set of users, we ought to apply user fees to recover the cost of those activities and thereby reduce the pressure on general revenues and reduce budget expenditures as a result. So, we're proposing, as I indicated earlier, those three new user fees to recover costs for the Coast Guard, for the Army Corps of Engineers,and for the air-traffic control system.

A fourth criteria that we used in this process said "apply sound economic criteria to the various economic subsidy programs of the federal government." The effect of that is recommendations for a major cutback in subsidies to AMTRAK, to mass transit operating subsidies, to new mass transit systems that are a fixed -- rail sort of system, to reduce subsidies substantially, about 30 percent for large corporations through the Export-Import Bank, and to eliminate entirely direct federal expenditures for syn-fuel plant construction. There are a lot of other items in this whole area including rather substantial reductions in the dairy subsidy and others. But those are illustrations of this essential principle.

Another principle that we used in the process was simply to say that there are a whole variety of federal activities today that provide important benefits for the national economy or local communities, but those benefits are of a long-term nature.

MORE

And there are capital improvement-type investments or projects, the highway program, the airport construction program, the local waste treatment plant construction program and so forth.

We are proposing that under present conditions, given the rather urgent crisis that we face in our economy, given the fiscal stabilization effort that we're attempting to develop and achieve here, that these basic public sector investment programs should be deferred, stretched out, and funded at a reduced rate or a reduced level of expenditure for the next three or four years until we can get the budget under control and the economy stabilized.

Therefore, we will recommend a 20 percent reduction in the rate of highway spending, a 33 percent reduction in the rate of new airport construction, about a 10 percent reduction in the level of activity in the various water projects run by three or four federal agencies, and a rather substantial cutback in funding for waste treatment plant construction.

Another principle we used was to say that there are a lot of activities that are funded in the federal government today that are perhaps desirable if you have the financing available. We don't at the present time and many of these lesser priority programs will receive rather substantial cutbacks.

The National Endowment for the Arts and the Humanities, for instance, would be cut 50 percent. The Corporation for Public Broadcasting, 25 percent. There would be a rather severe hold-down on agencies like NASA, the National Science Foundation, the National Institutes of Health and so forth.

Finally, a principle was that in the case of many of the grant and aid programs that go to states or local units of government or non-profit organizations, we will propose some major, major consolidations into large block grants that would go to the states on a formula basis so that the states could use them for a variety of purposes.

In the education area we would consolidate 59 different education programs into two block grants to the states.

In the area of health services, social services, low-income energy assistance, legal services, the services provided today by the Community Services Administration, all of these would be consolidated into one block grant and those funds could be used for any of the purposes under which the pre-existing programs, 40 of them, are directed at the present time.

I might say that the advantage of doing this is to eliminate rather substantially the enormous federal overhead and personnel that we have in these programs today. The 40 programs that would be consolidated into one social and human services block grant today involve over 400 pages of statute, 1,400 pages of regulations, 7,500 different grants, 5,000 federal employees to process the grants, 25,000 grant sites around the country where each of these programs or projects are run on an uncoordinated basis, and worst of all, 7 million man-hours or person-hours per year on the part of grant recipients or grant recipient agencies filling out forms and reports to demonstrate that they're complying with the federal conditions. We believe that we could fund this block of programs at 75 percent of the existing level, save about $2 billion a year, and still deliver more real services, more benefits at the local level, by eliminating all this overhead that I've described.

So that is the basic indication of the magnitude of the aggregates that are in this budget, of the priorities that would shift as a result of this program, and then the areas and the criteria that were used in attempting to come up with what is the first serious effort to substantially reduce the budget and cut the rate of growth in government spending in a good, long while.

MR. BRADY: Thank you very much, Dave. Now, since this is a press briefing I'd ask that the working press have the shot at the questions. Attornies with the fee meter running or trade associations will be invited to each department that they have an interest in by the Cabinet officers for a subsequent briefing and probably for more detailed answers to your questions. So, working press only and direct the questions to whichever panelist you'd like.

Q Mr. Stockman, can you give us a more precise definition of the social safety nets? Is that the seven programs that were labelled exempt from cuts?

MR. STOCKMAN: If you will turn to page 14 I think I can give you about as precise a definition as you could ask for.

Q Fourteen of what?

MR. STOCKMAN: On page 14 of the fiscal reform plan, which begins a little ways into the document.

MR. BRADY: I think it's page 13, Dave.

MR. STOCKMAN: Pardon?

MR. BRADY: I believe it's page 13, isn't it?

MR. STOCKMAN: Well, it's on page 14. You will see an indication of the programs and the amounts. Unless you have a different book than I do, Jim.

MR. BRADY: Of the big book. The big book.

MR. STOCKMAN: Of the big book it's on page 14. Maybe you're using the summary. But if you look at that you will see the precise programs. Social insurance is number one and that's, of course, OASI and Medicare and you see there the amount of funds that would be projected each fiscal year for that area. Basic unemployment benefits are the 26 weeks that unemployed workers are eligible for today. The third element is cash benefits for dependent families. That's AFDC as well as the elderly and disabled. That's SSI. And the fourth, of course, is pension compensation and health benefits to the veterans and that's found on the fourth line.

In addition, we have indicated that for the Fiscal Year '82 budget, there are certain other high priority programs that primarily benefit the disadvantaged, that we are not proposing any reductions in at the present time. Those are the seven that were announced last week. They include Headstart, the Summer Job Program, and a couple of others.

Q Secretary Regan, you say you can't make, really, an assumption on how much an individual will save of his tax cut money, but what basic assumptions can you make about what kinds of savings are you counting on from various classes of wage earners?

SECRETARY REGAN: Well, if you turn to the back of the book, this thick book, in Roman numeral IV, we have in there various tables that will indicate that to you. I think the most dramatic one is the chart, this chart here, which is on -- that's page 6-7 -- gives a clear indication of how an individual's tax cuts will look. Then following that there are various tables which show the effects on a single individual in 1981. That's table eight and nine on pages 18 and 19. Then on pages 20 and 21, the effect on the four-person family. That actually shows you there the changes, suggested changes, in the tax liability.

Q Mr. Regan, why isn't there an immediate cut from 70 percent to 50 percent to make all income equal? There are those who pay up to 70 percent tax on earnings from dividends and interests and this was originally promised. . Why isn't that in this package?

SECRETARY REGAN: That's a thing taken down in three stages. The first stage in 1982, '83, and '84. As you take those down, the so-called "unearned income" goes from 70 to 50 percent. That takes along with it the capital gains tax.

As you know, 60 percent of all gains are exempt from income tax. Forty percent is taxable. If you tax the 40 at the maximum rate now, which is 70 percent, you come out with a 28 percent effective capital gains tax rate. Next year, that will be down to about 24 percent. The following year to 21 percent and in 1984, the maximum capital gains tax rate will be at 20 percent. But for most Americans the capital gains tax rate will be less than that because in order to get to the maximum tax rate in 1984 on a joint return, you would have to have income in excess of $215,000. So for most people the capital gains tax rate will be between 15 and 20 percent.

Q Director Stockman, what is the total net reduction in the Department of Energy's budget and why is there no particular mention of DOE's nuclear program and defense program?

MR. STOCKMAN: Let me answer that both specifically in light of this question and generally because I'm sure that people are going to ask the same kind of question regarding other areas and departments.

What we have here is simply the first installment of the budget recommendations that we would normally put into a revised budget for Fiscal Year '82. But given the urgency of acting, of getting a process started in Congress to act on these, we have decided to come forth at this time with the first '83 and then the remainder of our proposed budget changes from the FY'82 budget that was left by the previous administration will be sent to the Hill on March 10th.

Now, the reason that we have the '83 in here and not the remaining 300 or 400, is simply a matter of logistics and time. What we essentially did during the last 3-1/2 weeks was surface the big ticket items, where we knew major policy changes needed to be proposed, where large budget savings would occur, moved those through our economic policy process, and surfaced them into this document and the President's message tonight.

We, at this very time, are in the process of doing the remainder of the budget, finishing some of the smaller programs, smaller categories, other items that weren't on the agenda for this first round. Those will all be presented to you and to the Congress on March 10th and in that process we will have another $6 billion worth of direct outlay reductions to specify. We've included them in our overall budget posture right now. The exact details on rescissions and deferrals and on reduced or increased authority levels for FY'82 will be published in that document on March 10.

Therefore, in terms of your Energy Department questions, we dealt only this time on the fossil fuel, synthetic fuel, solar and conservation side. There are reductions ranging from 30 to 50 percent in those accounts as well as the complete elimination of federal subsidies for a half dozen synthetic fuel plants, SRC-2 , SRC-1, the Memphis medium BTU gassification plant for TVA.

In the next round our proposals regarding the defense and nuclear side of the Defense Department will be made public to the Congress.

Q What's the overall strategy for getting this through Congress? Are you going to demand a 30 percent tax cut package? Is this a one-year or two-year bill? Is the President going to demand the total spending cuts before he goes ahead with the tax reduction.

SECRETARY REGAN: What the President is going to propose tonight in his talk is that he will ask that his economic package be enacted promptly and "the package" meaning both budgetary cuts and reductions in taxes. The tax reduction will be as I suggested, just the two items, the individual cuts, 10-10-10 over three years, and also the accelerated capital recovery. He will mention in his talk that there are certain other structural changes that should be made in the Tax Code. There are other things that he mentioned when he was campaigning that he thought desirable as changes. For example, a change in the marital tax, an increase in the Individual Retirement Accounts, maybe some relief for Americans working abroad, things of that nature. And he will promise, pledge, to the Congress that as soon as his economic package is enacted he will be back up there with another package of proposed tax cuts.

Q Mr. Stockman, on page 6-33 --

MR. STOCKMAN: 6-33. Okay.

MORE

Q If at first the administration will propose a 26% reduction in the 1982 budget and it says "The programs affected include payments to the United Nations," does that mean that you're cutting our support of the United Nations by 26% or more?

MR. STOCKMAN: No, it doesn't mean that at all. What that refers to is the whole category of international organizations that we belong to. That would include obviously the United Nations, but a whole variety of other organizations -- the Organization of American States, the World Bank, and so forth.

In that there will be some reduction in that category as between the voluntary payments that we make to some organizations and the assessed payments that we make to others.

Q How much cut in the United Nations are you proposing and are you proposing any cuts in the State Department budget?

MR. STOCKMAN: Let me answer that with two points. One, you don't have simply an appropriations with the United Nations. There are more than a dozen agencies in the United Nations that we belong to and we provide various level of payments or fees or assistance to those organizations.

Some of them will be reduced, others will not. In terms of the State Department as an agency, that is in the process of review right now,as are all the other agencies. And those numbers will come out on March 10th.

In other words, in this first installment of the budget savings that we're presenting tonight, we dealt primarily with programs, program reductions, entitlement reductions. In the second installment, we're going to be dealing with agency operating cost, personnel, and so forth. But all of those details will be out very shortly.

Q Sir, could I ask you to amplify your concept of the safety net? Considering that some of the programs that aren't in your safety net, -- like veterans' benefits, Social Security, are entitlements,not necessarily related to need, whereas some of the programs which seem to be much more in need, like food stamps and Medicaid, are all outside the safety net? Would you clarify that?

MR. STOCKMAN: Yes, I'll try to clarify that. The question is, "What is the definition of the safety net? Is it based purely on a needs test, or how did we come up with the concept?".

The basic problem is, frankly, you can define the categories of the federal budget any way you would like. Some people look at the income security function and they say that it's well over half the budget. Others look at human resources function and they include everything in that from dairy price supports to UDAG grants to the cities and say it's an even larger proportion.

I felt we needed a more disciplined notion of what were the essential programs in the budget that there is a long-standing commitment on the part of this country to uphold and to fund and to maintain for certain people that we've made promises to,by way of social insurances, insurance or for certain groups that need income transfer support. And so in order to come up with a more disciplined and consistent set of definitions, basically what I did was to say, "What was created during the 1930's, in the first great economic crisis and trauma that this country faced?". And the answer is the state unemployment insurance system that flows through the federal budget to protect the unemployed, the social insurance system, the earned benefits from social security,and then Medicare that was added later, the veterans' benefits which has been a long-standing feature of our society in terms of obligations that we have to those who risked their lives on our behalf, and then the basic cash assistance programs for the disadvantaged which were created during the 1930's and have been expanded and elaborated ever since.

Now SSI, as you know, simply replaced assistance for the old, for the aged, blind, and disabled. It's become a national floor for a more efficient and rational system. Those are the programs that we say are in the essential safety net. It doesn't mean that everything else gets cut or that there can never be any change in the social safety net. But we are trying to make a basic distinction. The other so-called income transfer programs are of relatively recent vintage. And many of them are inefficient. Many of them duplicate benefits and in many cases benefits go to the vendors of the service involved rather than the beneficiaries themselves.

If you would look, as a matter of fact, a couple of pages in after those pie charts that I showed you before, I think you will see what I'm talking about. The other so-called entitlement programs, the newer ones, Food Stamps, black lung, extended unemployment benefits, the WICC food supplement program, trade adjustment assistance and so forth. That set of programs has grown at explosive rates since 1970. And that set of programs cost 5 billion or 5.6 billion in 1970. In 1981 it will cost 57 billion, a ten-fold increase in one decade. I don't believe the need has increased ten-fold in one decade. The nutrition need or the number of cases of black lung, or the number of cases of workers who are genuinely permanently unemployed due to trade impacts. And what we're proposing in this set of programs is simply to sharpen, tighten, and revise the entitlements so that benefits can be targeted back towards those who were intended when these programs were originally established.

Q That's a very good explanation. I just want to add one point. Have you taken into account that as you sharpen your criteria for the entitlements to these programs and you get some of the persons marginally above it that you provide them with a disincentive to stay above the poverty line and increase the number who come below the poverty line because they think it's economically desirable to do so?

MR. STOCKMAN: Yes, the question is that as you try to tighten up these means tested programs, Food Stamps would be one example. Assisted housing would be another. But you run the danger of creating work disincentives, incentives to keep people in poverty permanently.

We have tried to be very careful in the revisions, that we have proposed not to increase the disincentives that are already built in to many of these programs. Food Stamps would be a very good indication. One of the proposals that we had or considered was to increase the benefit/loss rate to 35 percent rather than 30. But since many Food Stamp households also receive AFDC, that has a much higher benefit/loss rate, the combined effect would have been to create a very sharp disincentive for self support and for attempting to gain outside income. So we didn't recommend that change.

Instead, we recommended the gross income test because people at that level are only getting rather modest amounts of benefits in limited cases at the present time.

Q Mr. Stockman, what happens in the FY'81 budget cut for 2 percent of $13 billion. You're way below that. And also, do you feel comfortable by posting substantially larger deficits for '82 and '83 than President Carter did?

MR. STOCKMAN: Well, let me say regarding the FY'81 budget, that we now are four or five months into the budget, and as all of you know, there's enormous inertia. If you turn the dials today on budget authority, you might get some outlay savings, eight or nine or 10 months down the road.

I think the only appropriate measure as to how well we've succeeded in FY'81 is to look at our reduction in budget authority. That's what we're proposing to change right now if the Congress is willing to act on these proposals. That reduction is about $11 billion. On March 10th we'll have a little more. We'll have some additional proposals on the FY'81, on the budget authority side. So I think we'll come reasonably close to reducing budget authority by two percent in 1981.

The problem is a lot of the savings, dollar savings to the Treasury, from those changes, will be realized in October or December or January and would fall into FY'82 on an accounting basis. But on a policy basis I think we're pretty close to at least recommending a sufficient level of cuts for this year that would conform to that target.

Q What about the 8-1/2 billion reduction in budget authority for subsidies for housing?

MR. STOCKMAN: Pardon?

Q There appears in the summary table to be an 8-1/2 billion reduction in subsidized housing in appropriate levels of rent contribution. I can't find in the brief document what that's going --

MR. STOCKMAN: Well, that one can mislead you very easily, except remember that on section eight, when you contract for a new unit of subsidized housing, Congress appropriates enough authority to pay that subsidy for the entire 30 years, or the theoretical 30 years of that project or that unit. So last year the level was about $30 billion in new budget authority. Now, we didn't spend $30 billion last year to build additional units of subsidized housing. Congress appropriated that and that money will be carried forward over the next 30 years to meet the contract commitment.

We're proposing to reduce the rate of new starts from about 260,000 a year to 245,000 this year and to about 220,000 in future years. That causes a large reduction in budget authority, but the savings from that will be realized by governments and by OMBs over the next 30 years and not next year or the year after.

Q Does the President now think the budget cannot be balanced until 1984?

MR. WEIDENBAUM: The best estimate of the administration is that the budget will be in balance in 1984 should Congress adopt the program recommended here. Quite clearly, we'd be very pleased if we can obtain budget balance prior to 1984. Let me remind all that in the summer of 1980 the estimates of the previous administration as to the deficit for the current fiscal year, 1981, were approximately 1/2 of the later estimate of the deficit, which was made in January of this year as they left office. When you're looking at a $30 billion deficit for Fiscal '81 your expectation as to how quickly you can balance the budget is a bit different than when you inherit a $60 billion deficit and it's the $60 billion that we had to work off of and our expectation is that 1984 is the most reasonable target but we'd be delighted if we can achieve it a year earlier.

Q On converting many of these local programs such as block grants, you say the state and local governments are not alien organizations inimical to the

interests of local people. Yet many groups have
found that in fact state and local governments have been inimical to their interests and therefore they have invited the federal government to come in to help protect their interests.

Now, how do you deal with that problem? How do you deal with the question of accountability to state and local governments to make sure that federal funds, whether they are block grants or otherwise, aren't spent in the ways that they are spent and that the money is distributed fairly so that the real needs of people are met?

MR. STOCKMAN: Well, if you could define for me the terms "accountability", the terms "fairness", the terms "unmet needs", and all the other concepts that justify or are behind all these categorical programs today, then I might take a second look at it.

My basic view is, though, that we're no wiser, we're no more compassionate, we're no more insightful at the federal level than are duly constituted units of government at the state or local level and rather than try to make all those calls and judgments here in a system that is absolutely overloaded with responsibilities that it can't handle, at least for these community-based social services, why not provide the resources from the federal level and the decision-making priorities of the administration of these programs from the local level? I think it's a reasonable concept.

MR. BRADY: We'll take the last two questions. You had your hands up there.

Q This question is for Mr. Regan. Historically, Congress has been reluctant to commit itself in advance to
Now, suppose they go ahead with the first year of the tax and the spending cuts. How much of an effect would that have on your projections for the economy and savings and so forth and so on?

SECRETARY REGAN: Well, we're going for the three years.

MORE

So far I've heard very little, if any, objection on the Hill to this particular aspect of it. You've got to remember that in the past most tax bills have been aggregate tax cuts. We're cutting here at the marginal rates, and doing it in a different fashion than previously. It's not a similar tax cut to other bills that have been proposed in previous administrations. Therefore, I think that the Congress may not be as reluctant to do this as they have been in the past.

Q But is it vital to your whole economic program? Wouldn't one year at a time do the same thing?

MR. WEIDENBAUM: Yes, but I think that we probably have a great chance of success at this. We know that this is what the President campaigned on. We know he was elected on this basis and therefore the majority of the electorate wants this. When the majority of the electorate wants something, usually they get it through their Congressman.

MR. BRADY: Last question.

Q Mr. Stockman, there've been a lot of reports that there was going to be a $32 billion increase in defense spending in the coming fiscal year and yet your summary fact sheet only shows 7.2.

MR. STOCKMAN: Well, again, you get into this difference of budget authority and cash outlays. The budget summary that we show is the expected additional cash outlays. We are not dealing with budget authority. Our whole defense posture will be announced on March 10th after the five-year defense plan is developed, after decisions are finished regarding a whole variety of readiness and new programs with new systems. But the number that you have been hearing and that's been discussed in the press is not a spending number; it's a future authority number, and that money, in many cases, especially of long lead-time procurement items, would be spent out over a number of years.

MR. BRADY: Thank you very much.

END 12:21 P.M. EST

TO: Ken Khachigian

FROM: Richard B. Wirthlin

RE: Comments on Second Draft Dated February 17, 1981

DATE: 17 February 1981

Ken, generally I feel that the tone and thrust of this speech is very much on target.

I have only five suggestions:

First: In my opinion we have little to gain and much to loose by forcasting the Economic, Recovery Programs specific impacts by dates and amounts---"12 million new jobs to be created and cutting inflation by half by 198_" (Page 3, paragraph 4.) Also I would carefully review how critical it is to include specific promises on the program's impact on page 13, first paragraph and on page 14, first paragraph.

Economic forcasting is at best a most inexact science. I doubt if we can with any degree of certainty be as precise as some of the language in the speech might imply.

To succeed we only need to show improvement in the economic environment--a reduction in inflation and an increase in employment. People do not expect more than this. As a matter of fact they are highly cynical about any President cutting or stopping inflation. Carter made the same promise---"I will cut inflation by half" and Americans remember the promise and his performance.

Lastly, our opponents (and they will be many) will hold our feet to the fire on the specific promises we have made while simultaneously they will immasculate the program.

Why give them this much of an opportunity when it's not needed?

Second: I believe that we might stress more the beneficial economic impact of the tax cut on individuals and workers as well as on businesses and corporations. For example, on page 13, first paragraph, we might add something like the following after..."are after-tax dollars...and give them more individual control over how the monies they have earned are spent."

Third: Is it really necessary in this speech to get into the bramble bush of taxes on "earned" and "unearned" income? (Page 12, paragraph 1.)

Fourth: Small items:

- "indicate these economic experts" (Page 13, paragraph 1, line 4.)
- "Social safety net"---does it add anything? (Page 12.)

Five: I know inserts at this point are difficult, but one worthy of consideration might read something like this:

(Page 3, change paragraphs 4 and 5)

All americans can contribute to increasing productivity in this country. As President, my first responsibility with the help of this Congress is to bring the federal government's budget under control by reducing the rate of increase in spending. What we are proposing is the result of the first major attempt to control the federal budget. This is a long process and there will be other budget cuts to follow. This plan will get our economy moving again, increase productivity, and thus create the jobs our people must have.

5. Steady reduction in deficit, balanced budget by 1984:

	FY '81	FY '82	FY '83	FY '84	FY '85	FY '86
Outlays	654.7	695.5	733.1	771.6	844.0	912.1
Receipts	600.2	650.5	710.1	772.1	851.0	942.1
Deficit (-) or Surplus (+)	-54.5	-45.0	-23.0	+0.5	+7.0	+30.0

6. First comprehensive revision in more than a decade of the Nation's entitlements program system:

   o Entitlements programs now cost $350 billion per year for federal subsidies. Some, while clearly merited, are overgrown. Others have fallen from their intended purposes.

   o Under the Budget Reform Plan, proposed revisions of the food stamp, extended unemployment benefits, trade adjustment assistance, student loan, secondary social security, medicaid and other entitlement programs will save $9.4 billion in FY '82.

   o Such savings will grow to $18.8 billion by FY '86.

7. Elimination and consolidation of many agency programs:

   o Over 100 narrow categorical grants to be converted to three major block grants programs, in education, health and social services. This will enormously increase State and local discretion over standards, expenditures and priorities, and will correspondingly reduce federal regulations and the need for federal employees.

   o In the health and social services area alone, the President's block grant proposal will substantially reduce the need for 465 pages of law, 1,400 pages of regulations and 5,000 federal employees who presently administer 7,600 separate grants at approximately 25,000 grant sites, and require over 7 million person hours on the part of State, local and community officials to fill out federal forms.

   o In the education area, 57 categorical grant programs to be consolidated into two grant: one to the States and another to local education agencies.

   o Net savings of 25% will be achieved by this approach, amounting to more than $4 billion by FY '83.

   o 29 additional wasteful and non-priority programs are to be terminated.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO KEN KHACHIGIAN

From: Misty L. Church MC

Date: 2/16/81

Subject: TAX FREEDOM DAY

The attached article may shed some light on the question that came up in the State of the Economy speech regarding Tax Freedom Day. I came across it while unpacking boxes and going through the clipping files.

According to the article, Tax Freedom Day was February 13th in 1930, which could indeed back-up the President's statement, "Prior to World War II, taxes were such that on the average we only had to work between 5 or 6 weeks each year to pay out total Federal, state, and local tax bill." because February 13th is almost six weeks into the new year.

The article states that in 1980 Tax Freedom Day was May 11th. This is 4½ months into the new year, while the speech originally stated 5 or 6 months. (I think it was stated that way because May is the 5th month and June is the 6th month and it was in between the two. But it is actually only 4 whole months and one half month into the new year.)

I am going to call the Tax Foundation to see if they've made a new prediction for 1981 to update our files.

Also, you will note they make several other estimates, such as: "the average American spends 2 hours and 52 minutes out of an 8-hour workday earning enough money to pay taxes." These estimates may be useful in subsequent speeches.

Maybe a Memorandum to the President is in order bringing his attention to the article and the Tax Foundation estimates since he was sure he'd seen it somewhere and since we couldn't verify it. It might help alleviate questions along this line in the future.

Chicago Tr. Mon 3/24/80 Sec 1 p2

To pay your taxes, you'll work to May

WASHINGTON [UPI]—The average American worker will have to work three days longer this year, until May 11, to pay off combined federal, state, and local taxes, a citizens' group said Sunday.

Each year, economists from the Tax Foundation, Inc., calculate when Tax Freedom Day will fall—the date the average worker's taxes would be paid if all earnings from Jan. 1 went directly to satisfying obligations to federal, state, and local governments.

Last year the group estimated May 8 as Tax Freedom Day, compared to May 6 in 1978.

This year, it says, Tax Freedom Day will fall on May 11.

THE Tax FOUNDATION said total taxes are estimated at $820 billion this year, up from $738 billion in 1979. The share of the average paycheck claimed by taxes will rise from 34.7 per cent to 35.8 per cent, the foundation said.

"Over the years, tax payments have gradually increased more than incomes, and Tax Freedom Day has come later each year," the foundation said.

"From 1930 to 1970, for example, Tax Freedom Day advanced from Feb. 13 to April 30. In the first half of the 1970s, however, taxes generally rose proportionately to earnings with the result that, by 1975, Tax Freedom Day was still computed as April 30. That lull has faded in the last five years, with the extension of the day to May 11 for 1980."

On a daily basis, the foundation estimated that the average American spends 2 hours and 52 minutes of an 8-hour workday earning enough money to pay taxes.

"NO OTHER MAJOR item in the family budget takes as much," the foundation said. "Earning money for food and beverages takes 1 hour and 1 minute; housing and household operation, 1 hour, 29 minutes; clothing, 22 minutes; transportation, 41 minutes; medical care, 29 minutes; and recreation, 19 minutes."

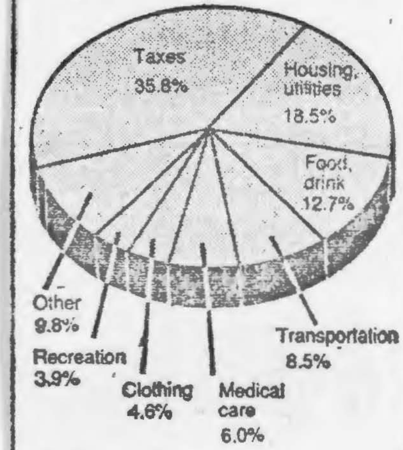
The remaining 47 minutes go for such items as personal care, personal business, and private education.

The Tax Foundation, Inc., describes itself as a nonprofit research and public education organization founded in 1937 to monitor tax and fiscal policies of all levels of government.

condense to table

Average American family's budget

In per cent of 8-hour workday, 1980



Figures do not add to 100% due to rounding.

Source: Tax Foundation, Inc.

Tribune Chart

A 112

328
4500

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR KEN KHACHIGIAN

FROM: John Roberts/Misty Church MC

DATE: 2/13/81

SUBJECT: CONTACTS FOR THIS WEEKEND

Attached is our list of contacts for the agencies and departments we'll be dealing with on the economic package the next few days.

Pursuant to your request, it would be helpful to have the following people here tomorrow (and perhaps Sunday):

Treasury

Norman Ture	(Saturday, on call Sunday and Monday)
John Chapaton	(Saturday and Sunday)
Craig Roberts	(in town and available all weekend)

We've talked with David Chew in the Secretary's Office at Treasury, and he provided us with the information indicated as to when those people would be in their office. Chew also indicated they would have plenty of support staff for all areas over the weekend to handle the load. Steve Entin is out of town.

CEA

Steve Brooks
Susan Nelson

These two people have their finger on the pulse of all information up in CEA. They should be more than capable of verifying or locating any fact or figure we need. (Also, any other people Murray Weidenbaum suggests should be on hand.)

OMB (all should be present anyhow this weekend)

Domestic Policy

Doug and/or Kevin both days this weekend.

CONTACTS FOR ECONOMIC PACKAGE

Treasury		Office	Home
David Chew	(Executive Asst. to Secy.)	566-5901	
George Cross	(Secretary's office)	566-7166	
Norman Ture	(Undersecy for Tax & Economy)	566-5847	751-8930
John "Buck" Chapaton	(Asst. Secy. for Tax Policy)	566-5561	362-5194
Craig Roberts	(Asst. Secy. for Economy)	566-2551	548-8809
Steve Entin	(Asst. to Asst. Secy./Economy)	566-2768	527-2450

Council of Economic Advisers

Nick Portapopo	(Deputy)	X5084
Jim Burnham	(Special Asst. to Chairman)	X5084
Steve Brooks	(Statistician/Economist)	X5012
Susan Nelson	(Statistician/Economist)	X5096
Kitty Furlong	(Statistician)	X5062
David Munroe	(Inflation Projections)	X4666

OMB

David Stockman	(Director)	X4840
Edwin Harper	(Deputy)	X4742
Glenn Schleede	(Executive Associate Director)	x3184
David Gersen	(Executive Asst. to Director)	X3060
Annelise Anderson	(Assoc Director/Economics &Govt.)	X3120
Bill Schneider	(Assoc Director/Nat'l Secy.)	X6190
Don Moran	(Assoc Director/Human Resources, Veterans, Labor)	X5044
Fred Khedouri	(Assoc Director/Natural Resources, Energy, Sciences)	X4844
Larry Kudlow	(Assoc Director/Economic Policy)	X5873

Domestic Policy

Kevin Hopkins	6556
Doug Bandow	2132

Feb. 16, 1981

To: Martin Anderson
From: Doug Bandow
Re: The economic speech

A few observations:

1) P. 5, first full paragraph. I would strike "and who are abusing the program" from the second sentence. We're removing them because they are not in real need--there is no reason to impugn their integrity/motives/whatever.

2) P. 6, continued paragraph. I would add after the first full sentence something like: "However, in a period of potential economic crisis, such spending must be a lower priority than controlling federal spending." The paragraph seems incomplete without it.

3) P. 13, first full paragraph. I would like to see a couple of reasons given as to why the tax cut is not inflationary, e.g., "The point is that my tax cut is part of an overall program to control the growth of federal spending, reduce the regulatory burden, and exercise monetary restraint. Moreover, it is a reduction in rates, which will increase the incentive to save and produce, not a rebate, which would simply hand money out."

4) P. 18, last paragraph. I would suggest that another example be included, along with schools (perhaps a particularly egregious subsidy program, such as dairy price supports, or syn-fuels subsidies). I think the subsidies have a powerful emotional appea

Overall, I think it's a good speech--its makes the points that must be made.

Immediate
PRECEDENCE

Unclas
CLASSIFICATION

FROM: DR Richard Wirthlin

TO: Ken Khachigain and Dave Gerigen

INFO:

RELEASED BY:

FOR COMMCENTER USE ONLY

DEX Ø2

DAC ______ GPS ______

LDX ______ PAGES 2

TTY ______ CITE ______

DTG: 16Ø220Z Feb 81

TOR: 160252Z Feb 81

SPECIAL INSTRUCTIONS:

Best Copy Availiable

Call at O.O.B

AN 15 P9:53

Y7873
WHC

WHCA FORM 8, 22 FEB 74

Feb. 16, 1981

To: Martin Anderson
From: Doug Bandow
Re: The economic speech

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THE WHITE HOUSE
WASHINGTON

Ken:

John Chapaton (Asst. Secretary for Tax Policy) checked with his Depreciation man and was corrected about the write-off for tools.

The tools they are referring to are tools in the auto industry. They are now depreciated in 3 years. It is being changed to 5 years with a 10 percent investment tax credit.

They suggest leaving it out since the auto industry will not be too pleased with it. The (auto industry) have resigned themselves to the change (because of the other depreciation changes), but there is really no need to leave it in the speech.

mlc
2/16
8:30pm

February 14, 1981

MEMORANDUM FOR: Ken Khachigian

FROM: Kevin Hopkins

SUBJECT: Reagan Economic Speech

Basically, an excellent job. Just these few comments:

1. I think the front end of the spending section might be stronger if you made a specific appeal that we have to change the philosophy of federal spending. You touch upon this in the end when you say that spending should be undertaken because it's essential and not merely convenient, but I think a couple of paragraphs up front would better set the tone that this is a revolution in spending policy, rather than just a change in degree.

2. You should mention a couple of specifics on block grants.

3. I'd like the listing of the spending items a bit better if there were a greater emotional appeal, following on the theme noted in point one. In discussing TAA, you note that "it's not fair" to pay twice for the same thing. I think this kind of rhetoric would work well for arts and humanities (don't say we're going to resume funding when the economy improves -- this is one of the least justifiable elements of federal spending) and synfuels (hit hard at government duplicity at condemning the oil companies, then subsidizing them through the synfuel program).

4. I like your defense of profits. Might expand just slightly to emphasize the point that there won't be enough real jobs until the economy is growing more and more investments are made.

5. The defense section is excellent.

6. The first part of the speech is too much like the earlier speech. Make it crisper.

In sum, I think the speech needs to be somewhat more forceful and blunt. "We want to work with Congress, but there is no alternative." And, I think it needs some more emotion in it on fairness. Why is it fair to pay for subsidies to the wealthy and to business when seven million Americans are out of work? Take the liberal argument of equity and turn it back on them. But you also have to move to blunt liberal criticism of such things as cuts in food stamps, which is why I suggest more explication of the principle that the federal assistance programs cannot become mere income-additions for all who want them. Though that would be helpful, we simply cannot afford it.

Decision/Making/Information

TO: Khachigian / Gergen

FROM: RBW

DATE: 2/15/81

SUBJECT: Speech materials p. 2

INTER-OFFICE COMMUNICATION

COPIES TO:

P15 - Good statement on why no cuts in national defense
16 Critical to keep in the speech that Defense will also be more efficient and less wasteful

p 16 2nd paragraph - "Make American more productive by providing individuals and businesses with more incentive to save and invest. / Last paragraph - .. produces ~~and [illegible]~~ workers and businessmen

p 17 I would be very wary of forecasting specific impacts of the tax cut (ELIMINATE SECOND PARAGRAPH)

p 18 The profits defense is not needed to make the argument should make the defense much later in the term if ever .. Please cut 2nd paragraph... Good to keep tax program simple and unencumbered - should not get entangled with these other programs

Good section

P19 - 4th paragraph - Don't need to damn regulations with such a broad brush - Suggest .. "While some regulations improved air health and safety - - - many - - caused higher prices etc

P21-22 Right on target. These are the critical appeals. Please don't short circuit them in the re-drafts. Like Ken the fundamental principle sections .. This is more important for us than anything else.

P23 - P24 Really like the close .. Important not to set specific inflation targets = CASH BONUS link to CUTS in Inflation will be a good media pick up -

I'll be in Washington tomorrow at 5 PM & call then!

If you need me prior - call at home prior to 10 AM your time (213) 947-5035

Decision/Making/Information

(1)

TO: Ken Khachigian and Dave Gergen

FROM: Richard Wirthlin

DATE: Feb 15, 81

SUBJECT: Top of Mind Response to Speech Materials

INTER-OFFICE COMMUNICATION

COPIES TO: P.I. [illegible]

General Comments: ① 24 pages too long - Should cut so we won't lose the TV audience ② Don't forecast impacts by date specific or amount specific - Economics isn't that exact - and we only need to announce and then show by results that there is a move toward economic improvement. ③ Don't over stress the "Do it together" th[illegible]

Specifics

P. 1 Intro - good focus on problem & its history - but this must be repeated again & again... Shld have some line on people impact of inflation... "Inflation is now not so gentle a thief that robs all of us, but takes most from those who can afford the least -- the young, the sick, and the aged..."

P. 2 - Check - US productivity among the lowest of all industrial nations - What period?

P_3 - Need to stress HOPE

P_4 "Second ...... " and to give Americans more individual control over how the monies they earn are spent -!"

"Third - - - "without endangering our health or safety..."

P_5 Budget Savings Plan Too cute and not needed. My plan to (simply) CUT GOVERNMENT SPENDING.. People understand & strongly support this. B.S.P. simply confuses & doesn't clarify

P6 First "CUTS" - should be REDUCTIONS

Is it a social or an economic safety net? Like section on what won't be cut and why

P_7/P_8 (Waste, Abuse, Fraud might be stated as a principle - First target: Food stamp - Cited primarily "ABUSE"

P_9 (Last paragraph) Good spot to talk about voluntarism - Ask America's big corporations and private individuals to be even more generous with their support of the arts etc.. Cut(?) Philanthropic reference - Should we really promise to restore program funding in this speech at all?

P_{10} Note/if speech shortened - don't please shorten section on BUSINESS CUTS

Second paragraph last line might add - "TO INCREASE our energy independence from foreign oil.."

P_{11}-P_{13} - Important that the rationale for [illegible] be made very clear - as you've drafted it [illegible]

Feb. 14, 1981

To: Ken Khachigian
From: Doug Bandow
Re: Speech Materials, Feb. 14, 1981

1. On page 2, it should be productivity growth, not productivity. Our overall productivity is still among the highest, but it has been falling or growing slowly over the past few years.

2. On page 3, first full paragraph. I don't believe that what follows are "false economic policies," so much as false premises/assumptions/beliefs regarding the American economy/American people/national economic policies/or whatever.

3. On this same point, I would suggest an additional false assumption--that tax and transfer payments should be used to subsidize the wealthy and specific businesses, and so on, despite the fundamental unfairness to the taxpayers, and the limited amount of resources available to help meet America's essential needs. One of the strongest points in the program is its frontal assault on so many special interest subsidies.

4. On page 4, I would suggest that the 2nd full paragraph be reworked to more strongly emphasize the "clean departure." I think it should say something like "We must rethink our view of what government should do and what it can afford to do. We must establish a new set of assumptions, which are .... that government should not be the problem solver of first resort, but of last resort; individuals working together are the problem solvers of first resort...that taxes must be reasonable and fair, and should not be used enrich those who are not needy...etc.

5. On page 7, use OMB's general estimate as to how many people are protected through these exemptions (the last I saw was 35-40 million).

6. On page 9, don't commit us to restoring funding to the arts/humanities/CPB. Even with a robust economy, they may be considered to be an unfair use of the taxpayers' dollars.

7. On page 16--make sure the bit on defense department waste stays in; it's crucial.

8. On page 18, expand the first full paragraph a bit more. That is, explain why there is a relationship between profits and jobs (even maybe quote Samuel Gompers on the worst thing that a company can to do the workers is to not make a profit).

9. On page 23, 3rd paragraph. I suggest this be reworked: the cut in 1982 is not enough to "bring our economic nightmare to an end." Rather, it's going to be a multi-year program, because it's taken so many years to get into this mess. I'm afraid this could help unreasonably build expectations.

Overall, I believe that it is excellent. But I would like to see a greater emphasis on the need to discard the faulty assumptions of the past and to turn to a new set based on freedom, limited federal government, fairness to taxpayers (versus special interest subsidies). And I think that to fight the special interests who are losing under the plan, the speech should

THE WHITE HOUSE

WASHINGTON

February 14, 1981

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD G. DARMAN

SUBJECT: Speech Materials

As you know, the Ken Khachigian draft speech materials were completed this afternoon at 3:00 p.m. In the interest of getting them to you as soon as possible, we are forwarding them without the benefit of full staff review.

At 3:15 p.m., Jim Baker convened a White House Senior Staff meeting -- with representation also from Treasury, OMB, CEA (and Alan Greenspan). The group quickly read the speech and provided the following general reactions:

(1) It is basically a good draft.

(2) The speech ought not to be tied to the eight principles (although the back-up documents will be tied to variants of these). There is thought to be a risk of being accused of inconsistency in the application of the principles. The consensus is that there should be only a few general guiding principles -- worked in thematically.

(3) There should be greater emphasis on the fact that this comprehensive program must be undertaken -- there are no responsible alternatives. The U.S. does not have the option of "living with inflation." Further, it must be emphasized that the program will take time to have its favorable effect, and action on it must begin now. Further still, the speech must demonstrate that if nothing is done, we will proceed "off the edge of a cliff." "Under existing circumstances, without policy change, the system will not hold together" (Greenspan). There is a need for a clarion call, not the sense of business as usual.

(4) Points re structure/emphasis. (a) The laundry list of cuts should be shortened. (b) There should be greater emphasis on reducing inflation. (c) The benefits of the program should be articulated at the end of the speech and contrasted with the alternative of continuing on the old course.

The staff continues to meet on particular points of fact and emphasis -- and will address further points in the next stage of revision.

THE WHITE HOUSE

WASHINGTON

SCHEDULE OF THE PRESIDENT

FOR

WEDNESDAY, FEBRUARY 18, 1981

ADDRESS TO THE JOINT SESSION OF CONGRESS

THE PRESIDENT's Participation
Remarks

Weather
Mid 40's
20% Chance of Precipitation

Dress
Men's Dark Business Suit
Women's Afternoon Dress

Contact: Stephen M. Studdert
202/456-7565

Additional Contacts
Lead: Stephen M. Studdert
Press: Dan W. Morris
U.S.S.S.: Roland Maye
W.H.C.A.: Ed Barger

STAFF/PRESS INSTRUCTIONS
Board motorcade at 8:30 p.m.

8:30 p.m. THE PRESIDENT and Mrs. Reagan depart The Residence and proceed to the Diplomatic Entrance to board motorcade.

NOTE: See Tab A for motorcade assignments.

8:35 p.m. THE PRESIDENT and Mrs. Reagan depart enroute the U.S. Capitol.

8:40 p.m. THE PRESIDENT and Mrs. Reagan arrive U.S. Capitol (East Door).

NOTE: Motorcade splits; only limo proceeds to East Door. All others enter through House Carriage Entrance. Press pool is escorted inside.

MET BY: Ben Guthrie, House Sergeant-at-Arms;
(inside door) George White, Architect of the Capitol

OFFICIAL PHOTOGRAPHER ONLY

Effective 2/17/81 12:00 p.m.

THE PRESIDENT is escorted by Mr. Guthrie and Mr. White to the elevator and up to the second floor to the office of Speaker of the House Tip O'Neill (Room H-210).

Mrs. Reagan is met inside the hallway by Mr. James Rohan, Chief Doorman, who escorts her to a second elevator and up to the third floor to a holding room (H-323).

NOTE: Mr. Rohan will remain with Mrs. Reagan in the holding room.

8:42 p.m. THE PRESIDENT arrives Office of the Speaker (entering through H-209).

OFFICIAL PHOTOGRAPHER ONLY

NOTE: Already in the room are the following:
Speaker of the House Tip O'Neill
The Cabinet
The Joint Chiefs of Staff
The Joint Congressional Escort Committee
(8 Senators and 8 Representatives)
* See Tab B for names
James A. Baker, III
Michael K. Deaver

The Joint Chiefs will meet THE PRESIDENT and depart immediately to their seats in the House Chamber.

The Cabinet will greet THE PRESIDENT and after a short interim, the Cabinet (including Mr. Meese, Mr. Baker, and Mr. Deaver) will be escorted to their seats in the Chamber.

The Speaker will then depart to take his seat alongside The Vice President in the Chamber.

8:50 p.m. Mrs. Reagan is escorted from the holding room to the House Gallery (one level above the House floor, podium left) where she is seated on the front row.

NOTE: Seated in the Gallery Box are included the wives of the Supreme Court Justices.

NOTE: See Tab C for Gallery Box seating chart.

8:58 p.m. THE PRESIDENT is escorted from the Speaker's Office to the House Chamber entrance.

NOTE: THE PRESIDENT is escorted by: Ben Guthrie, House Sergeant-at-Arms; Howard Liebengood, Senate Sergeant-at-Arms; The Joint Congressional Escort Committee

LIVE NETWORK COVERAGE OF WALK

STAFF INSTRUCTIONS
Those staff accompanying THE PRESIDENT remain in Speaker's Lobby.

9:00 p.m. THE PRESIDENT arrives entranceway of House Chamber, and holds in outer doorway.

THE PRESIDENT is announced by the House Doorkeeper, James Malloy.

THE PRESIDENT and the escorts enter the House Chamber via the center aisle and proceed to the podium, proceeding to the podium via podium right.

THE PRESIDENT makes remarks.

NOTE: Remarks--30 minutes.

PRESS POOL COVERAGE
LIVE NETWORK TELEVISION & RADIO

9:30 p.m. THE PRESIDENT concludes remarks.

THE PRESIDENT exits podium via podium right and exits the Chamber via the center aisle (same as on entry).

9:30 p.m. Mrs. Reagan is escorted from the Gallery Box by Mr. Rohan to the House East Door where she will rejoin THE PRESIDENT.

STAFF/PRESS INSTRUCTIONS
Staff proceed from Speaker's lobby to arrival site.
Press pool is escorted from Chamber to departure area.

9:35 p.m. THE PRESIDENT and Mrs. Reagan exit the House (East Door) and proceed to motorcade for boarding.

9:37 p.m. THE PRESIDENT and Mrs. Reagan depart enroute The White House.

9:45 p.m. THE PRESIDENT and Mrs. Reagan arrive Diplomatic Receiving Entrance, The White House.

TAB A

STANDARD MOTORCADE ASSIGNMENTS

Lead

Spare
Medical Officer

Limo
THE PRESIDENT
Mrs. Reagan

Follow-up

Control
J. Canzeri
D. Fischer
S. Studdert

Staff Vehicle
Military Aide
Press Official
Official Photographer

Press Van I

Press Van II

Effective 2/17/81 12:00 p.m.

TAB B

JOINT CONGRESSIONAL ESCORT COMMITTEE

Senate Side

Sen. Howard H. Baker, Jr. (R-CO)
Sen. Robert C. Byrd (D-WV)
Sen. Alan Cranston (D-CA)
Sen. Samuel I. Hayakawa (R-CA)
Sen. Daniel K. Inouye (D-HI)
Sen. John C. Stennis (D-MS)
Sen. Ted Stevens (R-AK)
Sen. Strom Thurmond (R-SC)

House Side

Rep. Don H. Clausen (R-CA)
Rep. Don Edwards (D-CA)
Rep. Thomas S. Foley (D-WA)
Rep. Jack F. Kemp (R-NY)
Rep. Gillis W. Long (D-LA)
Rep. Trent Lott (R-MS)
Rep. Robert H. Michel (R-IL)
Rep. James C. Wright (D-TX)

Effective 2/17/81 12:00 p.m.

EXECUTIVE GALLERY - UNITED STATES HOUSE OF REPRESENTATIVES

[redacted]

COURT D-14	COURT D-12	COURT D-10	COURT D-8	COURT D-6	D-4	FOLDING D-2 R. Williamson			FOLDING D-1 P. James
COURT C-14	COURT C-12	COURT C-10	COURT C-8	Mrs. Freidersdorf C-6	Dave Gergen C-4	Helene von Damm C-2	Ed Harper STEP C-2	Marv. Bush STEP C-1	Dorothy Bush C-1
Mrs. Deaver B-14	Eliz. Dole B-12	Mrs. Domenici B-10	Mrs. Hatfield B-8	Mrs. T. Evans B-6	Mrs. Conable B-4	R. V. Allen B-2	USSS STEP B-2	Lyn Nofziger STEP B-1	Jim Brady B-1
Mrs. J. Kemp A-14	Mrs. P. Laxalt A-12	Mrs. T. Lott A-10	Mrs. T. Stevens A-8	Mrs. B. Michel A-6	Mrs. H. Baker A-4	Mrs. R. Reagan A-2	Max Freidersdorf STEP A-2	A. Anderson STEP A-1	Mrs. Bush V.P.'s WIFE

CC: Max Friedersdorf
E. Meese
M. Deaver
J. Baker

HOUSE FLOOR

N

TAB C

in place by 8:40 pm

Mrs. Switzen

National Association of Ombudspersons, Advocates, and Inspectors General

Use in the economic speech:

"Ombudsman 82 - Synergistic budget-cutting"

is creative budget-cutting to increase productivity and get more services for less money.

more community services for less money

RR will be the greatest President in history <u>if</u> he understands this principle.

she'll be sending materials over on Monday for RR's review.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

February 4, 1981

TO: KEN KHACHIGIAN

FROM: CRAIG FULLER CF

SUBJECT: State of the Union Message

A suggestion from the Department of Transportation was phoned in to our office today for the State of the Union message.

They suggest the following theme: "Buy American."

THE WHITE HOUSE
WASHINGTON

January 28, 1981

FOR: KEN KHACHIGIAN

FROM: CRAIG FULLER

Attached are remarks from DOT for developing the State of the Union address.

THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

January 28, 1981

MEMORANDUM TO: Craig Fuller
The White House

SUBJECT : State of the Union Address

Here are some thoughts on the State of the Union Address. You probably won't be able to include all of them but I wanted to give you my input.

Thanks.

Drew
Drew Lewis

Attachment

Suggested Input on Transportation
for the State-of-the-Union Message

In transportation, we will depend more on free-market principles and private-sector solutions and less on the centrailized, regulation-laden government approach to problems.

The health of our nation's automotive and motor vehicle related industries remains one of the most pressing problems in transportation. We will seek on the one hand to free the industry from overly-restrictive regulations, while -- on the other hand -- we will work with the industry to relieve the economic and international pressures affecting its performance. Our intent is to restore the U.S. auto industry to a competitive position both domestically and worldwide, so that it functions effectively under normal market conditions.

We must reexamine the programs which provide Federal support for passenger and freight rail services such as Amtrak and Conrail. Our goals include reducing the need for Federal subsidy by improving the efficiency of rail services and by supporting program alternatives which lead to greater private investment and initiative.

The Interstate highway program is now 25 years old. It is time to redefine the system to ensure the completion of those segments still needed and the elimination of those that should not or cannot be built. At the same time we must define and implement a program to protect and preserve the vital mobility our Interstate highway system provides.

Public transit affords the people of our cities and communities an alternative to the automobile, improved mobility and enhanced economic and commercial opportunities. Better use of existing facilities and equipment and

- more -

improved maintenance are vital to developing efficient public transportation. We must place greater emphasis on the private sector and on more flexible solutions, including a variety of innovative alternatives.

In aviation, safety will be our paramount consideration. Among the first items of business to be addressed are issues related to safety and the capacity of the air traffic system. We will move as expeditiously as possible to define the costs and timetable for the next generation air traffic control system.

To assist the U.S. Coast Guard in carrying out its growing responsibilities, we will recommend adequate funding to continue the replacement and updating of that service's fleets of vessels and aircraft.

On other transportation issues, we shall look closely at the relationship between Federal regulations and auto safety and we will act to further assure the safety of hazardous materials in transit.

# # # # # #

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

January 28, 1981

MEMORANDUM FOR KEN KHACHIGIAN

FROM: CRAIG FULLER C/K

Attached are the remarks returned to me by Cabinet members for your use in developing the State of the Union address.

Attachments: Material from Energy
-Treasury
-Agriculture

THE WHITE HOUSE
WASHINGTON

Colonel Beer (DOD) 697-8389

Sec. Weinberger is concerned that not enough information was sent on DOD for State of the Union. Let him know.

1/30/81 KK has message.

RECOMMENDATIONS FOR AGRICULTURE STATE OF UNION ADDRESS

In the area of agriculture, this administration will be working hard to return profitability to the farmers of this nation.

Our agriculture is the most efficient food-producing machine in the world. It feeds billions of people both here and abroad, and provides more than $40 billion in farm exports that increases not only our balance of payments--but our effectiveness in dealing with other friendly nations.

Our crops and forests are renewable resources that will continue to provide food and fiber--and fuel--to a world with ever increasing needs.

JOHN R. BLOCK
Secretary of Agriculture

SOTU

OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

January 28, 1981

MEMORANDUM FOR Mr. Craig Fuller
Deputy Assistant to the President and
Director of the Office of Cabinet Administration

SUBJECT: News Conference and State of the Union Materials

Attached are responses to questions for the President's use in his news conference and suggested text for his State of the Union message.

Carl N. Beer

Carl N. Beer
Colonel, USAF
Military Assistant to
The Special Assistant

Attachments

January 28, 1981

The return of our 52 fellow citizens has reminded us once again of the real meaning of freedom and of the sacrifices we must make to secure it. The most solemn obligation of every President is to preserve this nation's security.

For a superpower with global interests, security has many dimensions--economic, diplomatic, agricultural, technological, moral, and military. But in the volatile and dangerous world of the 1980s, military strength is the bedrock of American security.

Last fall, the voice of the people was heard, and one of this Administration's first priorities is a comprehensive, thorough, and objective review of American military capabilities.

We must have--and we will have--military forces that are dedicated and well-trained, are outfitted with the best weapons and equipment, and are ready to go to war--if necessary--and to carry the battle through to victory.

Building the military strength we will need in the 1980s will not be easy; it will not be inexpensive. It will be a long-term effort, but one that I am pledged to begin right now.

In the weeks and months ahead, I will be turning to the Congress and to the American people to ask for your support and for the resources we need in this critical effort. We will work together--as a nation--to ensure that America has the military strength it needs and deserves--now and in the future.

Though united in this endeavor, we cannot--and we will not--be alone. The threats we face confront our allies as well. We are in this together. We will strive on behalf of our allies every bit as hard as they are willing to strive on behalf of themselves and of us.

Meeting the security challenge of the 1980s calls for a mature partnership among old comrades. We Americans bring to this partnership a remarkable industrial potential, a technological genius, and a temporarily troubled but essentially potent economy. Let there be no doubt that America is willing and able to join hands.

(DOD)

THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As suggested during the Cabinet meeting last week, I am enclosing material regarding our National energy situation for suggested use in the preparation of your first State of the Union Message. I stand ready, of course, to assist you or your staff in connection with preparation of the Message.

Respectfully,

James B. Edwards

SUMMARY OF SUGGESTED THEMES
FOR STATE OF THE UNION MESSAGE

- America's economic well-being and national security depend upon a reliable supply of energy at reasonable prices, and today we are dangerously dependent upon insecure oil imports.

- The reasons for our current predicament include:

  - price and allocation controls on oil,
  - restrictive Federal leasing policy for both Federal lands and the OCS,
  - ~~excessive reliance on~~ conservation,
  - unnecessary regulations regarding coal production, transportation and use,
  - avoidance of politically tough nuclear issues, and
  - the regulatory morass on siting and construction of new energy facilities.

- The Reagan Administration will emphasize energy production and energy security by:

  - decontrolling oil,
  - filling the Strategic Petroleum Reserve,
  - reviewing natural gas pricing with a view to accelerating deregulation,
  - reforming leasing policy,
  - relying increasingly on the private sector to commercialize new technologies, in light of the reintroduction of market pricing of fuels,
  - giving high priority to restoring financial health to the utility sector,
  - eliminating unnecessary regulatory constraints on coal production, transportation and use,
  - supporting exports of U.S. steam coal to those nations seeking to reduce their dependence on oil through greater use of coal,
  - restoring the nuclear option by legislative reform of licensing and siting laws and implementation of a vigorous near-term nuclear waste management program,
  - emphasizing, in the nuclear research and development program, the development of nuclear fuel reprocessing and the nuclear breeder reactor demonstration at Clinch River,
  - working closely with other nations to reduce world demand on oil, and cooperating on responsible approaches to energy security, nuclear non-proliferation issues, and expensive high-risk technology development efforts where both costs and benefits can be shared internationally.

SUGGESTED ENERGY THEMES FOR

STATE OF THE UNION

- o America's economic well-being and national security depend upon reliable supplies of energy at reasonable prices.

  - Despite the warnings of the oil embargo of 1973/74 and the Iranian revolution of 1979, the Nation today remains dangerously dependent upon imported oil.

  - The United States and the rest of the free world economy could be damaged severely by another massive oil shock.

- o Why are we in this position? Most of the answers involve government.

  - Untoward reliance upon counterproductive oil price and allocation controls as a substitute for market forces which have seriously hampered domestic exploration and production and provided misleading signals to consumers about future prices.

  - Federal leasing policy which has prevented exploration and production from our rich oil, gas and coal reserves on Federal lands and the Outer Continental Shelf.

- Excessive reliance on conservation as the central element of a national energy policy. Conservation can make an important contribution, but it is not a panacea for our energy ills.

- Unnecessary substantive and procedural restrictions on the development and burning of our most abundant fossil resource, coal.

- Refusal to take on the politically tough issues that must be addressed to assure a safe supply of nuclear energy.

- An overall regulatory and institutional morass which, frequently for no apparent useful purpose, imposes intolerable delays in the siting and construction of all sorts of new energy facilities even though they meet all necessary substantive health and safety requirements.

o What is this Administration going to do? The watchwords of my Administration's energy policy will be energy production and energy security:

  - Production of our large domestic reserve of oil, gas and coal and restoration of nuclear power as a viable component of our domestic energy supply.

  - Security made possible by a willingness to make tough decisions and a balanced approach to fuel mix and consumption, together with continued cooperation with friendly producing and consuming countries that share our broad economic and security interests.

- To enhance production of domestic crude oil immediately, I (have) (will) remove the price and allocation controls which have artificially constrained the domestic production of crude oil and encouraged inappropriate consumption of petroleum products for the past eight years.

- To reduce our vulnerability to supply interruptions, I will give highest priority to filling the Strategic Petroleum Reserve.

- I have instructed the Secretary of Energy immediately to undertake a review of the Natural Gas Policy Act with a view towards accelerating the deregulation of natural gas in an orderly manner. Pending the outcome of this review and legislative changes which may be necessary, I will request the Federal Energy Regulatory Commission to utilize fully its flexibility under the existing law to provide production incentives for domestic natural gas.

- Federal leasing policy with regard both to Federal lands and to the Outer Continental Shelf has placed an effective moratorium on exploration and production of many of our domestic energy reserves. I have directed the Secretaries of Interior and Energy promptly to review Federal leasing legislation and regulations and to develop a vigorous implementation plan, including identifying necessary legislative amendments, to permit this Nation to tap these rich resources.

- The unnecessary intervention of government in attempting to keep the prices of oil and gas artifically low has brought with it increasing and costly government subsidization of commercial demonstrations of new technologies. In an environment where energy prices are determined by market forces most of these projects should either be financed by the private sector or not pursued because they are uneconomic. By permitting market pricing of energy supplies, my Administration will lessen the necessity for Federal support of these projects, thereby reducing Federal outlays. I am committed to a vigorous program of federally-supported research and development for technologies with high risk but potentially high pay-off to the Nation's welfare over the longer term. However, Federal financing of energy commercialization activities is in for a period of careful scrutiny.

- In the utility sector, large amounts of oil are being burned under utility boilers. Much of this needs to be displaced over the next decade. In the past, excessive reliance has been placed on Federal regulation as the means for achieving this. My Administration will emphasize the restoration of industry viability and economic efficiency in the electric utility sector so that needed capital investments for current and future needs can be undertaken by the industry leading to a primary and balanced reliance upon coal and nuclear power for electricity production.

- Federal regulations regarding the production, transportation and burning of coal are crippling the use of this abundant domestic resource. While many of these rules are necessary for health, safety or environmental reasons, some serve no legitimate social purpose. My Administration will immediately begin a thoroughgoing process to eliminate these unnecessary regulations, seeking legislative changes where necessary. I will also support exports of U.S. steam coal to nations seeking to reduce their dependence on oil through greater use of coal.

- The last four years have been years of government inaction and, in some instances, retrogression, in nuclear energy. My Administration will be committed to advance nuclear energy while insuring that health and safety considerations are given a high priority. In the near future, I will propose legislation dealing with two areas that have been the subjects of temporizing and procrastination:

  - Reform of the laws governing the siting and licensing of civilian nuclear power plants, and

  - Implementation of a vigorous near-term program for the safe management and disposal of radioactive nuclear wastes.

In its nuclear research and development program, my Administration will emphasize development of the nuclear breeder reactor demonstration at Clinch River and nuclear fuel reprocessing.

- My Administration will work closely with other nations to reduce world demand on oil and will cooperate on responsible approaches to energy security, nuclear non-proliferation issues, and expensive high-risk technology development where both costs and benefits can be shared internationally.

o As I've made clear, we intend to marshal the strength of the private sector in meeting our goal of energy security. The market-place will be the site of decisions, not Washington.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 27, 1981

MEMORANDUM FOR THE HONORABLE CRAIG FULLER

Subject: State of the Union Message

Per your request, attached is a summary of thoughts from the Treasury Department for possible inclusion in the State of the Union Message.

I notice no mention of law enforcement in the summary. If you deem it important, there is law enforcement information in the background material.

DTR

Donald T. Regan

Attachment

The state of the economy and its present prospects require a bold and vigorous program to promote economic growth and gains in employment, output, and real income. The key elements in the program are a sound budget policy and a less restrictive and more realistic tax policy, slower and steadier growth in the stock of money, and reduction in the burden of regulations.

° Prodded by inflation, tax rates have soared, sapping incentives for working, saving, and investing.

° Business profits have been eroded by inadequate recovery allowances, resulting in rates of capital formation lagging far behind those needed to maintain trend rates of growth in productivity and real wage rates.

° The resulting inadequate performance of the economy has lead to ballooning and misguided growth in Federal spending which in turn has diverted resources from more productive uses in the private sector and weakened incentives for meaningful employment.

° The budget deficits have excerted pressure on the monetary authorities for excessive and uneven increases in the supply of money which have in turn generated surging inflation, higher interest rates, and repressed economic activity.

° At the same time, inflation has swollen budget outlays, directly and indirectly, in a vicious cycle of spending increases, deficits, and monetary expansion.

Business tax changes are required to encourage modernization and expansion of America's factories in order to increase productivity and real wage rates, to produce more goods and services at lower costs, and to protect the jobs of American workers in a competitive world market. Individual tax rate cuts are needed to reduce present and growing bias against work, saving, and investing. Regulations, forms, and procedures must be streamlined and simplified. There must be substantial cutbacks in the volume of government regulations and paperwork confronting business establishments and taxpayers, in the costs imposed by regulations on producers and consumers, in the delays in construction and job creation generated by countless Federal agencies. The growth in the money stock must be slowed to reduce inflation expectations and interest rates. Federal spending must be brought under strict control, requiring extraordinary efforts by both the Administration and the Congress.

Strengthening the domestic U.S. economy will strengthen the dollar and the international economy.

ACTION

Date: January 27, 1981

MEMORANDUM FOR: SECRETARY REGAN

From: E. George Cross, III EGC III

Subject: State of the Union Message

Attached is a memorandum from you to Craig Fuller enclosing Treasury's submission for the State of the Union Message.

Norman Ture and Craig Roberts prepared the items with consideration of comments given by Messrs. Sprinkel, Nachmanoff, Davis, Simpson, Nipp, Heimann and Taylor.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	E.G.Cross					
Initials / Date	/	/	/	/	/	/

OS F 10-01.11 (2-80) which replaces OS 3129 which may be used until stock is depleted

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

JAN 27 1981

MEMORANDUM FOR THE HONORABLE CRAIG FULLER

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Strengthening the domestic U.S. economy will strengthen the dollar and the international economy.

Date: January 26, 1981

MEMORANDUM FOR: SECRETARY REGAN

From: Beryl Sprinkel

Subject: Thoughts for President Reagan's State of the Union Address

The nation's economic health is in bad shape, if not in a critical emergency.

1. Inflation continues at a torrid, double-digit rate and interest rates remain near all time high levels.

2. Productivity has ceased rising and living standards are deteriorating.

3. Millions of Americans can't find jobs.

This sorry state of economic affairs was brought on by inappropriate economic policies which must and will be reversed. My Administration will move to correct these ills by launching a coordinated four pronged program.

1. Monetary growth must become stable, moderate and predictable so that inflation can be subdued and we can develop renewed confidence in the future. We will work closely with the Federal Reserve in achieving these aims.

2. Government spending as a percent of our economy must be reduced even though defense outlays must rise. Furthermore we plan to curtail both budget and off-budget outlays.

3. Growth in Government regulation of our enterprise system must be stopped and reversed. This nation can no longer afford the cost of excessive regulation which is stifling our ability to grow.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
ials / Date	/	/	/	/	/	/

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artment of Treasury

4. Taxes must be cut in order to stimulate saving, investing and working.

The incentives which allowed Americans to build this great nation must be restored. The economic malaise of stagflation was created by policies which strengthened Government at the expense of the people. My Administration will reverse that process.

We do not promise miracles but we do promise incentive oriented actions and eventual success. The short run effects of our actions will inevitably be painful but the restoration of growth and less inflation makes the temporary sacrifice worthwhile. I need your support for my efforts to reduce the size of Government even though your favorite Government program may be pared or even eliminated. There is no painless way of restoring prosperity. My focus must be on what is good for the nation as a whole, not what is politically attractive for me or for each special interest group.

I have described the sorry state of our nation's health and what I intend to do about it. I have emphasized the sacrifice we must all make to assure longer range benefits.

I want to end with my reaffirmation of confidence in the American people and a vision of our future together. We are a free, confident, and productive people. I am certain we will respond positively to improved incentives for saving, investing and working. My vision of our future is my goal for this Administration. We expect to restore economic stability and growth so that each of us may enjoy increased opportunities and well being. Well paying jobs will become more readily available. The young will face greater opportunities for useful work. Inflation will recede and the retired and retiring need not fear the future. Our allies will come todepend upon a confident and strong America and a firm dollar.

I promise you that I and my Administration will constantly strive to make my vision a reality. I solicit your support and I pledge my fidelity.

Other points to be made by other areas:

1. The importance of a strong defense for both our allies and ourselves.

2. Emphasize the loss of potentially useful resources by:

   a. Discouraging jobs for the young.

   b. Discouraging work and encouraging leisure by:

      (1) Unemployed.

      (2) Young.

      (3) Retired, etc.

3. Perhaps touch on plans for entitlement programs. Indicate desire to be fair, but decisive.

4. Emphasize we are not a pro business or pro labor administration, but rather a pro freer market administration with the ever riding intent to provide incentives so affected groups can plan their own solutions.

cc: Craig Roberts

Date: January 26, 1981

MEMORANDUM FOR: Secretary Regan

From: Acting Assistant Secretary Nachmanoff

Subject: State of the Union Message

In response to your memo of January 23 following are 3 suggestions for possible international themes for inclusion in the President's State of the Union Message.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname						
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epartment of Treasury

Possible International Themes for Inclusion in State of the Union Message

U.S. Role in the World Economy and Monetary System: By restoring strength and stability to the U.S. economy, the U.S. will also be making an essential contribution to the health of the world economy. As the largest and wealthiest economy on earth, we have a special responsibility to make sure that our own economy functions well and inspires confidence abroad. We also recognize that we have a strong mutuality of interest in economic affairs with other countries, and we intend to maintain an open and cooperative approach to international economic relations. We will need to face with other countries a host of difficulties, including ensuring that the international monetary system is able to accommodate the large current and prospective world financing needs and adjustment requirements. The role of the International Monetary Fund in assuring monetary stability will be especially important.

Barriers to U.S. Exports: A statement including the following steps in support of U.S. exports would be useful: (1) a commitment to introduce legislation to modify or eliminate existing export disincentives (such as the laws on taxation, boycotts, and bribery) after their review, (2) a rejection of protectionism because of its negative effects on U.S. exporters and U.S. competitiveness, (3) a policy statement that, in general, trade would not be held hostage to policy in other areas that are not essential to U.S. security, and (4) support for export trading company legislation.

1/26/81

Date: JAN 26 1981

MEMORANDUM FOR: SECRETARY REGAN

From: Acting Commissioner of Internal Revenue Joseph T. Davis

Subject: Suggested Theme for the President's State of the Union Message

In response to your January 23, 1981, request, our suggestion for a theme to be considered for the President's State of the Union message is the need for each individual taxpayer to be responsible for complying with the legal requirements of the tax laws.

Accordingly, attached is a position paper which outlines the general theme of this subject for your use.

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	Lantonio					
Initials / Date	DW / 1/26/81	/	/	/	/	/

Form OS-3129
Department of Treasury

INTERNAL REVENUE SERVICE
POSITION PAPER
PRESIDENT'S STATE OF THE UNION MESSAGE

In the face of budget deficits, it is particularly clear that the Government should collect all taxes due under our voluntary compliance system. The Internal Revenue Service has the often difficult role of administering the revenue system so that taxpayers pay their fair share under the law. Taxpayers complying with the law should not have to bear the revenue loss caused by the noncompliance of others. If we are to directly relieve the tax burden on the public, it becomes even more important that voluntary compliance with tax laws be maintained at the highest levels.

Recent studies have indicated that there is a significant revenue loss through increasing noncompliance with the federal tax laws. As a result, those citizens who do comply, carry a heavier share of our tax burden.

The Service is responsible to deal with this problem by efficiently managing the resources made available for compliance programs. While we audit only about 2 percent of individual income tax returns, those examinations do produce an estimated $5 of assessments for each $1 of cost. We do have a cost beneficial program to detect nonfilers and to match information documents reporting payments of interest, dividends and certain other types of income against the tax returns of the recipients of these payments. We spread our budget dollars to have a balanced presence in all areas of noncompliance.

We also recognize the necessity to treat taxpayers as individual human beings entitled to be served with courtesy and respect. The Service's Taxpayer Service Program, as well as its Problem Resolution Program, headed by a Taxpayer Ombudsman who works directly for the Commissioner, are essential parts of the voluntary compliance system. We recognize the sensitivity of collecting taxes from financially pressed small businesses and other taxpayers and have developed policies and procedures to protect taxpayers' rights.

While we think our voluntary compliance system is basically sound, its continued vitality depends to a significant extent on the perception and reality that taxpayers generally are complying with the law. Fair and balanced tax administration is essential. But also vital is that taxpayers recognize their own responsibilities to comply voluntarily with the laws of a free society as a civic obligation.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

JAN 26 1981

MEMORANDUM FOR: The Secretary

FROM: John P. Simpson
Deputy Assistant Secretary
(Operations)

SUBJECT: State of the Union Message

For the Enforcement and Operations area, including the Customs Service; the Bureau of Alcohol, Tobacco and Firearms; the Secret Service; the Federal Law Enforcement Training Center; and the Office of Foreign Assets Control, the following two items might be considered for inclusion in the State of the Union Message.

-- Drug Enforcement - The President may want to say that he intends to order a review of current impediments to more effective enforcement of drug laws, including the need for legislation and organizational changes to strengthen the efforts of federal law enforcement agencies in interdicting the flow of drugs into the United States.

-- Review of Federal Regulations - The President may want to say that among other steps he will take to relax government regulation of industry is a review of restrictions imposed on advertising and marketing in the alcoholic beverage industry. Because of the stringent prohibitions contained in the Federal Alcohol Administration Act of 1935, efforts at relaxing these restrictions have been limited. The alcoholic beverage industry is cautiously interested in legistlation to amend the 1935 Act.

Neither of these items may be considered of sufficient significance for inclusion in the President's State of the Union Message, but if further information on them is desired, please let me know.

UNITED STATES GOVERNMENT
Memorandum

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

DATE: January 26, 1981

FILE: C

TO : Donald T. Regan
Secretary of the Treasury

FROM : Acting Commissioner of Customs

SUBJECT: President's State of the Union Message

Per your request of January 23, 1981, attached is an item for possible inclusion in the President's State of the Union Message.

I am available to discuss the attached in detail with members of your staff.

William T. Archey
William T. Archey

Attachment

INCREASED EMPHASIS ON ENFORCEMENT OF DRUG SMUGGLING AND CURRENCY LAWS

In 1980, despite the intense efforts of Federal enforcement agencies, particularly the U.S. Customs Service and the Drug Enforcement Administration the nation is still experiencing a massive drug problem. In addition to the large amounts of illicit drugs crossing our borders there is also an enormous flow of illegal currency across these borders which is financing international drug trafficking. Today it is estimated that drug sales and trafficking amounts to a $50 billion domestic industry. I want to emphasize that this Administration will be placing a major emphasis in combating both the flow of illegal drugs and the illegal currency crossing our borders. While we will continue to exhort other drug producing nations to refrain from growing or producing drugs used illegally in this country we shall mount an especially intensive effort to interdict drugs and currency at the borders and prior to their entering into the illegal commerce of the United States.

We shall strictly enforce not just the traditional Customs laws against contraband smuggling. We also will enhance the efforts of the U.S. Customs Service and the Internal Revenue Service in enforcing the Bank Secrecy Act. This Act is targetted to discovering and impeding the illegal flow of currency which is used to subsidize further illegal acts or conspiracies, particularly drug trafficking. Such a renewed emphasis (one sorely lacking in the past 4 years) will also reduce the huge profits from the illegal drug traffic. These profits are then channeled into the legitimate enterprises owned by organized crime figures.

OFFICE OF
THE DIRECTOR

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, D.C. 20226
January 26, 1981

MEMORANDUM TO: Secretary Regan

THRU: Acting Assistant Secretary John Simpson (Enforcement and Operations)

SUBJECT: State of the Union Message

This is in response to your memorandum of January 23, 1981, in which you asked for possible items for inclusion in the State of the Union Message.

I believe that President Reagan in his State of the Union Message should make reference to the fact that the Administration is aware of the seriousness of violent and organized crime in the U. S. today and its impact on the lives of many of our normal citizens. We believe that violent crime is the type of criminal activity of most concern to the public and the one type against which immediate action is required. He should (pledge) (assert) the intention of the Administration to reviewing the effectiveness of our Federal law enforcement agencies to insure they are focusing on this problem and assisting State and local law enforcement agencies in the fight against this type of crime.

G. R. Dickerson

G. R. Dickerson
Director

Date: January 26, 1981

MEMORANDUM FOR: SECRETARY REGAN

From: Robert E. Nipp Ron

Subject: State of the Union Message

John Kelly and I collaborated and suggest the following items for consideration:

1. Declare that the health of the nation is significantly poorer than many people in the nation actually realize. We should emphasize that the problems are deep rooted and evolved over the past 15 years or more and that while the cure is clear and available, the medicine may be bitter to some, but absolutely necessary for all.

2. That the Kemp-Roth business and individual tax cuts are the centerpiece of the economic program. However, federal expenditure cuts are also an exceedingly important part of the program.

3. To outline an achievable and believable program to reduce the size of government expenditures as a percentage of GNP over the next few years, we suggest that the reductions be spelled out in broad terms and perhaps illustrated with one or more specific items.

4. Would be to emphasize that the Administration is prepared to move quickly and forcefully on these programs, but is also aware that progress often comes grudgingly.

5. Declare war on the psychology of inflation and perhaps also on the inefficiencies in both government and in the private sector. Also that over the years productivity have been steadily falling.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	NIPP					
Initials / Date	Ron 1/26/81	/	/	/	/	/

Form OS-3129
Department of Treasury

Cross

MEMORANDUM

Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

January 26, 1981

TO: Donald T. Regan
Secretary of the Treasury

FROM: John G. Heimann
Comptroller of the Currency

SUBJECT: State of the Union Message

Thank you for the opportunity to provide suggestions regarding President Reagan's State of the Union message. As you know, the responsibilities of the Office of the Comptroller of the Currency are essentially similar to those of the other four federal financial institution regulators. While these responsibilities directly impact the national interests, there is no specific issue which would be appropriate for inclusion in the State of the Union message. However, we wish to endorse, for inclusion in the President's message three themes which have been articulated in the past months.

1. Enhancement of competition in the marketplace for financial institutions - In the relatively recent past, the first important steps have been taken, by the Congress and the federal regulators, to achieve greater marketplace competition. Yet after fifty years of government protections, certain providers of financial services are experiencing difficulty in making the transition to a more competitive environment. We believe that these difficulties should not be allowed to limit or delay the phased progress to greater competition, such as payment of competitive rates on consumer savings.

2. Deregulation of financial institutions - To a large extent, deregulation within the limits of existing statutes is underway and substantial progress is being made by the financial regulators. In our view, further deregulation through statutory change is not only possible but necessary to enhance the continuing viability of the U.S. financial system. Such deregulation would take the form of: experimentation with interstate expansion by financial institutions; consolidation of all of the federal financial supervisory regulators; modification of the historic limitations of Glass-Steagal.

3. Encouragement of private sector participation in the resolution of public policy issues - To a limited extent, national banks and other financial institutions have engaged in partnership with local government and business communities to resolve the problems of commercial/industrial revitalisation and urban rehabilitation. While initially modest in number, these partnerships have generally achieved significant success. We believe that this trend should be encouraged.

6. Address interest rates and impact on economy.

   - High interest rates are almost singularly being used to try to stem inflation. Other inflationary restraints should also be brought into play.

   - High interest rates, by themselves, have a harsh offset on the auto, home and building construction industry, agriculture and small businesses. High interest rates hold back auto and home sales, push up food costs because agriculture is a money-intensive industry and place extreme hardships on small businesses carrying inventories that are financed on credit.

7. Address priorities in tax changes.

   - First priority is an across-the-board tax cut as the President declared in his campaign.

   - Second priority is addressing the inequities in the current tax structure, e.g., marriage penalty, U.S. citizens working overseas.

   - Third priority is addressing tax changes that may be made to boost the economy, e.g., special tax credits for moving U.S. produced autos and houses out of inventory.

Cross

Date:

MEMORANDUM FOR: Secretary Regan

JAN 2 7 1981

From: Paul H. Taylor
Fiscal Assistant Secretary

Subject: Suggested Items for the State of the Union Message

Attached herewith is a suggested item to be included in the President's State of the Union Message.

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	Morris	Faunce	Douglas	Murphy		
Initials / Date	JM / 1/26/81	F. / 1/26/81	WED / 1/26	/ 1/26	/	/

Form OS-3129
Department of Treasury

MODERN TECHNIQUES FOR FEDERAL CASH MANAGEMENT

Issue: Despite many improvements in recent years, conservative estimates of the potential savings available are in the hundreds of millions of dollars. In this period of rapidly evolving technology, the Government, like the private sector, must take advantage of the modern tools available to manage its cash. This area offers real opportunity for reducing the cost of Government. Federal agencies must fully recognize their cash management responsibilities when carrying out Government programs. The Treasury Department and other agencies must intensify their efforts to utilize electronic technology for Government collections and payments.

Background: The United States Government has a cash flow that averages over 2.5 billion dollars (in and out) each business day, involving millions of transactions. The manner in which we manage these flows and these transactions affect not only the cost of interest on the public debt but also the burden involved for individuals, financial institutions and other firms in doing business with or receiving payments from the Federal Government.

EFT also has the potential for significantly improving Federal cash management. Examples of applications include the use of EFT to control grant and loan disbursements to assure Federal payments are not made prior to need; requirements that large payments due the Federal Government be made by EFT to eliminate check collection float; and the use of EFT to collect loan repayments. Under the Treasury Financial Communications System, payments totaling $56 billion and collections totaling $70 billion were made in FY 1980 as part of these cash management initiatives.

Use of electronic funds transfer systems will yield long-range productivity improvements. Of the 45 million monthly payments currently eligible for EFT, only 12.5 million (28%) are being made electronically. Goals are to have 55 percent of total payments by EFT in 1985 and 80 percent by 1990.

DIRECTOR
OFFICE OF REVENUE SHARING

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20226

January 26, 1981

MEMORANDUM FOR: SECRETARY REGAN

FROM: Jose Pepe Lucero, Director
Office of Revenue Sharing
J Lucero

SUBJECT: Suggestion for Inclusion in President's State of the Union Message

From the Inaugural Address:

"It is rather to make it (government) work - work with us, not over us; to stand by our side, not ride on our back."

The President may want to emphasize the recent reauthorization of Revenue Sharing which provides federal funds with few limitations and allows local governments to more effectively meet their own diverse needs and priorities.

It is a case of the federal government working with and not over local governments. It is a way of strengthening the federal system.

Table 1

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

	1982	1983	1984	1985	19[illegible]
1. Current policy outlays (before defense add-on)	729.7	792.2	849.0	911.4	972.[illegible]
2. Defense add-on	7.2	26.4	37.0	48.0	59.[illegible]
3. Total outlays before budget savings program	736.9	818.7	886.0	959.5	1031.[illegible]
4. Receipts with July effective date	648.5	707.6	769.1	847.5	938.[illegible]
5. Deficit before budget savings plan	88.4	111.1	116.9	112.0	93.[illegible]
6. Maximum allowable margin	-45.0	-23.0	0.5	7.0	30.[illegible]
7. Outlays with allowable margin	693.5	730.6	768.6	840.5	908.[illegible]
8. Budget savings required to achieve 6.	43.4	88.1	117.4	119.0	123.[illegible]
9. Approved savings - Budget Working Group (BWG)	36.7	53.6	65.0	74.1	81.9
10. Pending savings (BWG)	---	---	---	---	---
11. Expected additional savings from small programs and accounts - FY82 Budget revision	1.3	0.4	5.3	-1.8	10.5
12. Total budget savings expected to date	38.0	54.0	70.3	72.3	92.4
13. Remaining savings to be identified	5.4	34.1	47.1	46.7	31.4
14. Status of budget savings goal:					
a. share of required savings approved (BWG)	84.6	60.8	55.4	62.3	66.[illegible]
b. share of required savings pending (BWG)	---	---	---	---	---
c. share of required savings expected on FY82 revision	3.0	0.5	4.5	-1.5	8.5
d. share of required savings yet to be identified	12.4	38.7	40.1	39.2	25.4
15. <u>Consequences of Plan</u>					
a. Current policy tax share of GNP	22.0	22.4	22.9	23.5	24.1
b. Proposed tax plan share of GNP	20.3	19.7	19.2	19.3	19.5
c. Current policy share of GNP	22.9	22.0	21.2	20.7	20.[illegible]
d. Proposed share of GNP with full achievement of spending savings plan	21.7	20.3	19.2	19.1	18.9
16. Difference between current policy and Administration Plan:					
a. Spending (line 7 minus line 1)	-36.2	-61.6	-80.4	-70.9	-64.7
b. Taxes	-53.9	-100.0	-148.1	-185.7	-221.7

February 15, 1981
st-option 1:51

1:30 pm

Includes Ture's comments

FACT SHEET

30 PERCENT PHASED RATE REDUCTION

Rate Reduction

The proposal would reduce, in stages, the individual income tax rates by 30 percent -- 5 percent reduction in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984. When fully phased in, rates would be reduced from a range of 14 to 70 percent to a range of 10 to 50 percent.

Effective Date

Withholding rates will be reduced by 10 percent beginning July 1, 1981, permitting the 5 percent reduction in liabilities for the year to be reflected in withholding during the last half of the year. Subsequent withholding reductions will occur at the beginning of 1982, 1983, and 1984, matching the additional rate reductions.

Revenue Effect

At the much higher levels of income which will result from the President's economic program, the direct revenue effect of the 30 percent phased rate reduction will be approximately $6 billion in fiscal year 1981. By 1986 the revenue loss will rise to $162 billion.

Direct Revenue Effects of Individual Rate Reductions

($ Billions)

Fiscal Years					
1981	1982	1983	1984	1985	1986
-6.4	-44.2	-81.4	-118.1	-141.5	-162.4

5:00 pm
Includes Ture's comments

30 PERCENT PHASED RATE REDUCTION

Present Law

Under each of the four rate schedules -- joint, single, married filing separately, and head of household -- individuals pay tax at marginal rates ranging between 14 and 70 percent. For instance, for married individuals, tax rates range from 14 percent for taxable income between $3,400 and $5,500 to 70 percent for taxable income in excess of $215,400. Although bracket widths vary according to type of return, all schedules use the same basic tax rates of 14 to 70 percent.

For earned income, there is a separate provision in the law that provides for a "maximum tax" rate of 50 percent. */ This provision benefits single individuals with earned taxable income in excess of $41,500 and married couples with earned taxable income in excess of $60,000. Unearned income is taxed at much higher rates, ranging up to 70 percent.

*/ Because of the particular way in which the maximum tax is calculated, the effective rate on additional earned income may actually be above 50 percent. For purpose of computing the tax liability under the maximum tax on earned income, earned income is "stacked" first -- that is, it is considered to be the income taxed at the lowest rates -- and other income is considered "stacked" on top of the earned income and is subject to the higher rates. As a result of this stacking rule, an additional dollar of earned income can increase taxes on unearned income. Other interactions caused by the treatment of tax preferences and the allocation of deductions between earned and unearned income can cause an additional dollar of earned income to be taxed at an effective rate above 50 percent.

Reasons for Change

Individual tax burdens have been increasing steadily over the past few years. Inflation has pushed individuals into higher and higher marginal rate brackets. Social security tax increases have been substantial as well. **/ (See Charts 1 and 2.)

High marginal tax rates act as a disincentive both to work and to save. Lowering these marginal rates will help eliminate these disincentives.

Increasing the after-tax rewards from work will encourage individuals to work more and generate more output. Encouraging saving will help spur the economy to generate more investment and a larger capital stock. This increase in capital will also enhance the growth in productivity. With an increase in the rate of real growth in the economy, incomes will rise because of increased productivity rather than because of inflation.

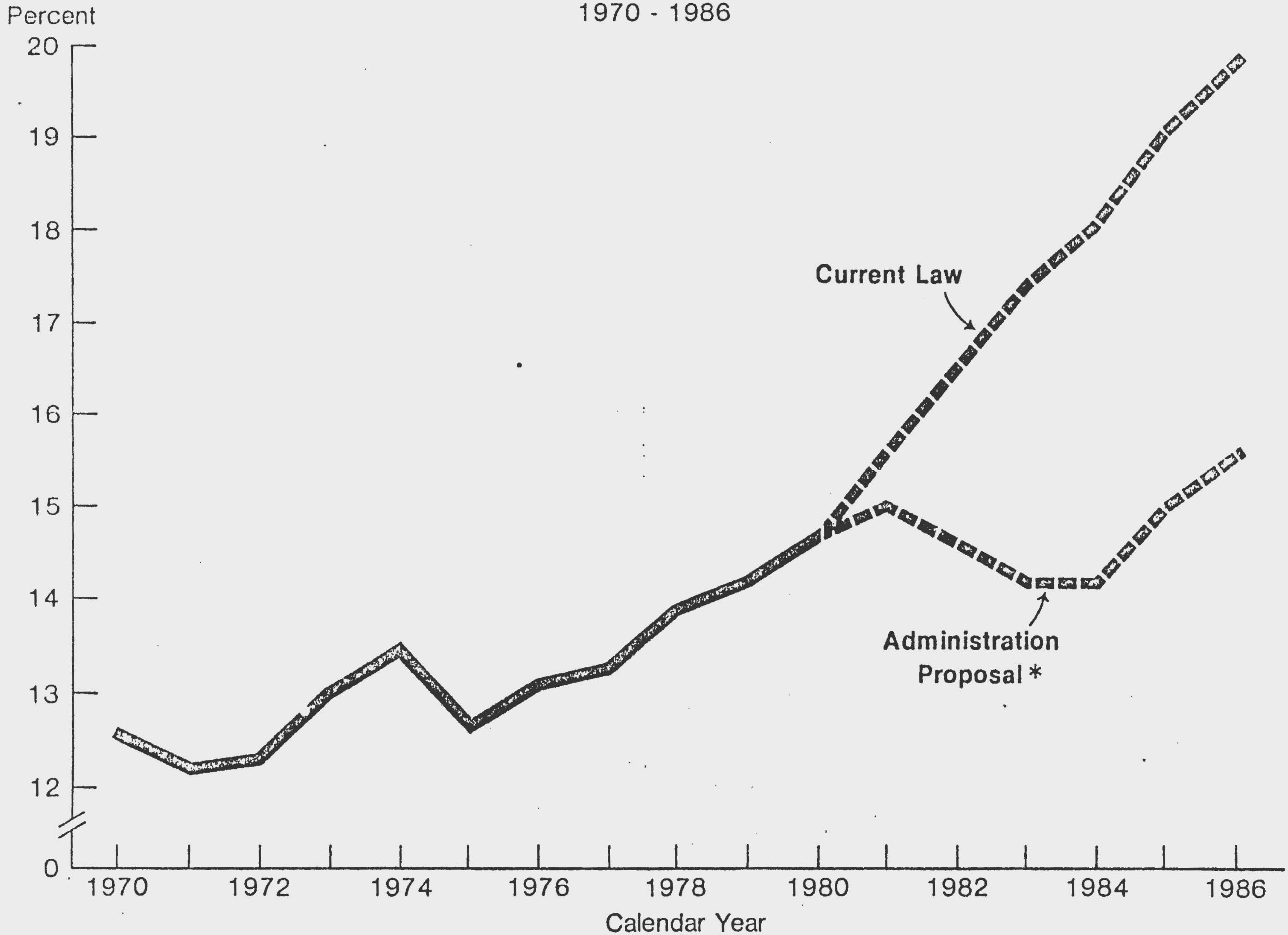
Higher output in the economy also leads to increased revenues to the government, thus offsetting part of the direct revenue loss that would occur if there were no change in individual behavior.

**/ In 1981 the social security tax rate for employees and employers increased from 6.13 percent to 6.65 percent, and the tax base will increase from $25,900 to $29,700.

CHART 2

INDIVIDUAL INCOME TAX PLUS EMPLOYEE SOCIAL SECURITY CONTRIBUTIONS AS PERCENT OF PERSONAL INCOME

1970 - 1986



* 10% - 20% - 30% rate reductions effective July 1 each of next three years.

Reduced tax rates will make tax shelters relatively less attractive, and will encourage investment to move to those activities that are most productive. Under current law, individuals are often forced to concentrate more upon the tax consequences of a particular type of investment than upon the value (or pre-tax profitability) of the investment itself. This leads to distortions in investment patterns and a loss of output to the economy.

Moreover, revenues to the government are lower when individuals invest in tax shelters that are less productive than other investments or when individuals simply avoid taxation legally by avoiding realization of income, e.g., by not selling an asset that has appreciated in value. Because lower marginal rates of tax will encourage more productive investment and will lead to an increase in recognition of income, revenue losses from the rate reduction will be reduced further. This induced revenue effect is in addition to any increase in revenues which would result from an increase in productivity and in the aggregate amount of individual work or savings.

Taxing unearned income at rates between 50 percent and 70 percent raises little revenue for the government. Moreover, differentiating between earned income and unearned income creates additional complexity in the calculation of taxes. By reducing the top marginal rate to 50 percent, the maximum tax for earned income no longer will be necessary because there will be no income subject to a rate above 50 percent. Earned and unearned income will be taxed the same, both subject to the new rate schedule that will have a top marginal rate of 50 percent.

General Explanation

The basic design of the proposal is simple: all rates of tax listed in the tax rate schedules will be reduced in four stages by approximately 30 percent. Rates will be reduced from their present range of 14 to 70 percent to a new range of 10 to 50 percent. Compared with present law, tax rates will be reduced by 5 percent for calendar 1981, 15 percent for calendar 1982, 25 percent for calendar 1983 and 30 percent for calendar 1984. See Tables 1, 2, and 3.

Withholding will be adjusted on July 1, 1981. For 1981, the percentage reduction in withholding rates will be 10 percent, or twice the percentage reduction in the tax rates that will apply for the entire calendar year. In effect, rather than receive a large refund at the beginning year. For all years after 1981, the percentage reduction in both withholding rates and tax schedule rates will be the same.

By 1984 the top marginal rate of 70 percent will be reduced to 50 percent. This will allow the tax laws to be simplified through elimination of the maximum tax on earned income. Additionally, since 60 percent of net long-term capital gains are deducted from income under current law, leaving 40 percent of such gains included in adjusted gross income, the top tax rate on capital gains will be lowered from 28 to 20 percent (20 percent = .4 x 50 percent).

Taxpayers currently eligible for the maximum tax on earned income will benefit from the across-the-board rate reductions. The taxable income level at which the 50 percent rate begins to apply will be increased from $41,500 to $108,300 for single individuals and from $60,000 to $215,400 for married couples.

Analysis of Impact

The reduction in marginal tax rates will reduce individual income tax liabilities by 5.1 percent for calendar 1981,

Table 1

The Administration's Proposed Tax Rate Schedules for 1981, 1982, 1983, and 1984

Joint Returns

Taxable income bracket	Present law		Administration Proposal							
			1981		1982		1983		1984 and subsequent years	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
(..... dollars .....)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)
$ 0 - 3,400	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%
3,400 - 5,500	0	14	0	13	0	12	0	11	0	10
5,500 - 7,600	294	16	273	15	252	14	231	12	210	11
7,600 - 11,900	630	18	588	17	546	15	483	14	441	13
11,900 - 16,000	1,404	21	1,319	20	1,191	18	1,085	16	1,000	15
16,000 - 20,200	2,265	24	2,139	23	1,929	21	1,741	19	1,615	18
20,200 - 24,600	3,273	28	3,105	27	2,811	24	2,539	22	2,371	21
24,600 - 29,900	4,505	32	4,293	30	3,867	27	3,507	24	3,295	23
29,900 - 35,200	6,201	37	5,883	35	5,298	31	4,779	28	4,514	27
35,200 - 45,800	8,162	43	7,738	41	6,941	37	6,263	33	5,945	32
45,800 - 60,000	12,720	49	12,084	47	10,863	42	9,761	38	9,337	36
60,000 - 85,600	19,678	54	18,758	51	16,827	47	15,157	42	14,449	40
85,600 - 109,400	33,502	59	31,814	56	28,859	50	25,909	45	24,689	43
109,400 - 162,400	47,544	64	45,142	61	40,759	55	36,619	49	34,923	47
162,400 - 215,400	81,464	68	77,472	65	69,909	58	62,589	52	59,833	49
215,400 and over	117,504	70	111,922	66	100,649	60	90,149	53	85,803	50

Office of the Secretary of the Treasury, Office of Tax Analysis — February 13, 1981

1/ Compared with present law, tax rates are reduced approximately 5 percent in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984.

Table 2

The Administration's Proposed Tax Rate Schedules for 1981, 1982, 1983, and 1984

Single Returns

Taxable income bracket	Present law		Administration Proposal							
			1981		1982		1983		1984 and subsequent years	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
(..... dollars .....)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)
$ 0 - 2,300	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%
2,300 - 3,400	0	14	0	13	0	12	0	11	0	10
3,400 - 4,400	154	16	143	15	132	14	121	12	110	11
4,400 - 6,500	314	18	293	17	272	15	241	13	220	12
6,500 - 8,500	692	19	650	18	587	16	514	14	472	13
8,500 - 10,800	1,072	21	1,010	20	907	18	794	16	732	16
10,800 - 12,900	1,555	24	1,470	23	1,321	20	1,162	18	1,100	18
12,900 - 15,000	2,059	26	1,953	25	1,741	22	1,540	20	1,478	19
15,000 - 18,200	2,605	30	2,478	28	2,203	26	1,960	22	1,877	21
18,200 - 23,500	3,565	34	3,374	32	3,035	29	2,664	26	2,549	25
23,500 - 28,800	5,367	39	5,070	37	4,572	33	4,042	29	3,874	28
28,800 - 34,100	7,434	44	7,031	42	6,321	37	5,579	34	5,358	32
34,100 - 41,500	9,766	49	9,257	47	8,282	42	7,381	38	7,054	36
41,500 - 55,300	13,392	55	12,735	52	11,390	47	10,193	42	9,718	40
55,300 - 81,800	20,982	63	19,911	60	17,876	54	15,989	48	15,238	46
81,800 - 108,300	37,677	68	35,811	65	32,186	58	28,709	52	27,428	49
108,300 and over	55,697	70	53,036	66	47,556	60	42,489	53	40,413	50

Office of the Secretary of the Treasury, Office of Tax Analysis — February 13, 1981

1/ Compared with present law, tax rates are reduced approximately 5 percent in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984.

Table 3

The Administration's Proposed Tax Rate Schedules for 1981, 1982, 1983, and 1984

Head-of-Household Returns

Taxable income bracket	Present law		Administration Proposal							
			1981		1982		1983		1984 and subsequent years	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
(..... dollars .....)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)
$ 0 - 2,300	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%
2,300 - 4,400	0	14	0	13	0	12	0	11	0	10
4,400 - 6,500	294	16	273	15	252	14	231	12	210	11
6,500 - 8,700	630	18	588	17	546	15	483	14	441	13
8,700 - 11,800	1,026	22	962	21	876	19	791	17	727	16
11,800 - 15,000	1,708	24	1,613	23	1,465	20	1,318	18	1,223	17
15,000 - 18,200	2,476	26	2,349	25	2,105	22	1,894	20	1,767	19
18,200 - 23,500	3,308	31	3,149	29	2,809	26	2,534	24	2,375	23
23,500 - 28,800	4,951	36	4,686	34	4,187	31	3,806	27	3,594	26
28,800 - 34,100	6,859	42	6,488	40	5,830	36	5,237	32	4,972	31
34,100 - 44,700	9,085	46	8,608	44	7,738	39	6,933	35	6,615	34
44,700 - 60,600	13,961	54	13,272	51	11,872	46	10,643	41	10,219	39
60,600 - 81,800	22,547	59	21,381	56	19,186	51	17,162	45	16,420	43
81,800 - 108,300	35,055	63	33,253	60	29,998	54	26,702	48	25,536	46
108,300 - 161,300	51,750	68	49,153	65	44,308	58	39,422	52	37,726	49
161,300 and over	87,790	70	83,603	66	75,048	60	66,982	63	63,696	50

Office of the Secretary of the Treasury, Office of Tax Analysis — February 13, 1981

1/ Compared with present law, tax rates are reduced approximately 5 percent in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984.

rising to 27.3 percent for 1984. As shown in Tables 4-15 and Charts 3-4, the percentage reduction for most income classes is approximately the same. Thus the distribution of the reduction is spread in proportion to taxes paid in all income classes.

Deviations from a flat percentage reduction at all levels are explained primarily by interaction with the earned income tax credit and the current law maximum tax on earned income. Under the proposal the rate reductions will reduce the amount of taxes before credits. The amount of the earned income credit is not changed, and as a result the percentage reduction in tax after credits can be greater than 30 percent. For example, under current law a couple with one dependent earning $9,000 would have tax before credits of $374, an earned income credit of $125 and a tax liability after credits of $256. Under the proposal, in 1984 this couple's tax before credit would be reduced 29.1 percent, to $265. Since the earned income credit would remain unchanged, their tax liability after credits would be reduced to $140 -- a 45.3 percent reduction.

At higher levels of income, there is an interaction with the maximum tax on earned income. Whereas returns with property income receive approximately the same percentage reduction as all returns, the percentage reduction in tax

Table 4

Effect of the Administration's Proposed
Tax Rate Reductions for 1981
Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/	
			Amount	Percentage
($000)	(. thousands ...)	(.......... $ millions	..........)	(.. percent ....)
Less than 3.0	10,933	-48	-1	3/
3.0- 5.0	7,363	27	-35	-129.6
5.0- 6.0	3,406	381	-48	-12.6
6.0- 8.0	6,623	2,073	-166	-8.0
8.0- 10.0	6,210	3,988	-256	-6.4
10.0- 12.5	7,164	7,425	-438	-5.9
12.5- 15.0	6,303	9,117	-514	-5.6
15.0- 17.5	5,602	10,570	-579	-5.5
17.5- 20.0	5,281	12,610	-692	-5.5
20.0- 25.0	9,377	28,615	-1,544	-5.4
25.0- 30.0	7,683	30,767	-1,590	-5.2
30.0- 35.0	5,592	28,229	-1,453	-5.1
35.0- 40.0	3,772	23,697	-1,232	-5.2
40.0- 50.0	4,185	34,758	-1,801	-5.2
50.0- 60.0	1,696	19,426	-987	-5.1
60.0- 70.0	813	12,267	-606	-4.9
70.0- 80.0	443	8,407	-411	-4.9
80.0- 90.0	289	6,735	-336	-5.0
90.0- 100.0	198	5,333	-263	-4.9
100.0- 200.0	546	23,765	-964	-4.1
200 and over	121	18,520	-682	-3.4
Total	93,599	$286,659	$-14,598	-5.1%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.

2/ Tax rates are reduced approximately 5 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 5 percent under thi, bill. Also, deviation from a flat 5 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.

3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 5

Effect of the Administration's Proposed
Tax Rate Reductions for 1982
Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/	
			Amount	Percentage
($000)	(. thousands ...)	(.......... $ millions	...........)	(.. percent ....)
Less than 3.0	10,933	-48	-1	3/
3.0- 5.0	7,363	27	-70	-259.3
5.0- 6.0	3,406	381	-99	-26.0
6.0- 8.0	6,623	2,073	-386	-18.6
8.0- 10.0	6,210	3,988	-629	-15.8
10.0- 12.5	7,164	7,425	-1,115	-15.0
12.5- 15.0	6,303	9,117	-1,390	-15.2
15.0- 17.5	5,602	10,570	-1,627	-15.4
17.5- 20.0	5,281	12,610	-1,908	-15.1
20.0- 25.0	9,377	28,615	-4,243	-14.8
25.0- 30.0	7,683	30,767	-4,515	-14.7
30.0- 35.0	5,592	28,229	-4,169	-14.8
35.0- 40.0	3,772	23,697	-3,541	-14.9
40.0- 50.0	4,185	34,758	-5,209	-15.0
50.0- 60.0	1,696	19,426	-2,894	-14.9
60.0- 70.0	813	12,267	-1,817	-14.8
70.0- 80.0	443	8,407	-1,227	-14.6
80.0- 90.0	289	6,735	-977	-14.5
90.0- 100.0	198	5,333	-752	-14.1
100.0- 200.0	546	23,765	-2,902	-12.2
200 and over	121	18,520	-1,884	-10.2
Total	93,599	$286,659	$-41,358	-14.4%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.
2/ Tax rates are reduced approximately 15 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 15 percent under this bill. Also, deviation from a flat 15 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.
3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 6

Effect of the Administration's Proposed
Tax Rate Reductions for 1983
Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/	
			Amount	Percentage
($000)	(. thousands ...)	(......... $ millions	..........)	(.. percent ....)
Less than 3.0	10,933	-48	-2	3/
3.0- 5.0	7,363	27	-109	-403.4
5.0- 6.0	3,406	381	-167	-43.8
6.0- 8.0	6,623	2,073	-649	-31.3
8.0- 10.0	6,210	3,985	-1,055	-26.5
10.0- 12.5	7,164	7,425	-1,854	-25.0
12.5- 15.0	6,303	9,117	-2,235	-24.5
15.0- 17.5	5,602	10,570	-2,579	-24.4
17.5- 20.0	5,281	12,610	-3,069	-24.3
20.0- 25.0	9,377	28,615	-6,805	-23.8
25.0- 30.0	7,683	30,767	-7,174	-23.3
30.0- 35.0	5,592	28,229	-6,589	-23.3
35.0- 40.0	3,772	23,697	-5,564	-23.5
40.0- 50.0	4,185	34,758	-8,191	-23.6
50.0- 60.0	1,696	19,426	-4,585	-23.6
60.0- 70.0	813	12,267	-2,885	-23.5
70.0- 80.0	443	8,407	-1,955	-23.3
80.0- 90.0	289	6,735	-1,574	-23.4
90.0- 100.0	198	5,333	-1,220	-22.9
100.0- 200.0	546	23,765	-4,945	-20.8
200 and over	121	18,520	-3,183	-17.2
Total	93,599	$286,659	$-66,389	-23.2%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.
2/ Tax rates are reduced approximately 25 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 25 percent under thi bill. Also, deviation from a flat 25 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.
3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 7

Effect of the Administration's Proposed
Tax Rate Reductions for 1984
Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/	
			Amount	Percentage
($000)	(. thousands ...)	(......... $ millions	.........)	(.. percent ....)
Less than 3.0	10,933	-48	-3	3/
3.0- 5.0	7,363	27	-144	-533.3
5.0- 6.0	3,406	381	-215	-56.4
6.0- 8.0	6,623	2,073	-814	-39.3
8.0- 10.0	6,210	3,988	-1,309	-32.8
10.0- 12.5	7,164	7,425	-2,237	-30.1
12.5- 15.0	6,303	9,117	-2,648	-29.0
15.0- 17.5	5,602	10,570	-3,056	-28.9
17.5- 20.0	5,281	12,610	-3,640	-28.9
20.0- 25.0	9,377	28,615	-8,122	-28.4
25.0- 30.0	7,683	30,767	-8,563	-27.8
30.0- 35.0	5,592	28,229	-7,826	-27.7
35.0- 40.0	3,772	23,697	-6,551	-27.6
40.0- 50.0	4,185	34,758	-9,524	-27.4
50.0- 60.0	1,696	19,426	-5,275	-27.2
60.0- 70.0	813	12,267	-3,320	-27.1
70.0- 80.0	443	8,407	-2,255	-26.8
80.0- 90.0	289	6,735	-1,819	-27.0
90.0- 100.0	198	5,333	-1,412	-26.5
100.0- 200.0	546	23,765	-5,793	-24.4
200 and over	121	18,520	-3,762	-20.3
Total	93,599	$286,659	$-78,285	-27.3%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.
2/ Tax rates are reduced approximately 30 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 30 percent under his bill. Also, deviation from a flat 30 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.
3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 9

Effect of the Administration's Proposed
Tax Rate Reductions for 1981

Four-person Family

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
	(... dollars	...	...)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	348	-26	-7.0
15,000	1,233	1,158	-75	-6.1
20,000	2,013	1,899	-114	-5.7
25,000	2,901	2,748	-153	-5.3
30,000	3,917	3,726	-191	-4.9
40,000	6,312	5,988	-324	-5.1
50,000	9,323	8,845	-478	-5.1
100,000	27,878	26,958	-920	-3.3
200,000	66,378	65,458	-920	-1.4
Property income:				
100,000	28,318	26,918	-1,400	-4.9
200,000	75,448	71,738	-3,710	-4.9

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 5 percent.

Table 10

Effect of the Administration's Proposed
Tax Rate Reductions for 1982

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(........	.... dollars	....	........)	(.. percent ....)
$ 5,000	$ 250	$ 216	$ -34	-13.6%
10,000	1,177	997	-180	-15.3
15,000	2,047	1,731	-316	-15.4
20,000	3,115	2,645	-470	-15.1
25,000	4,364	3,716	-648	-14.8
30,000	5,718	4,869	-849	-14.8
40,000	8,886	7,542	-1,344	-15.1
50,000	12,559	10,676	-1,883	-15.0
100,000	31,792	29,376	-2,416	-7.6
200,000	70,292	67,876	-2,416	-3.4
Property income:				
100,000	35,346	30,188	-5,158	-14.6
200,000	88,457	75,636	-12,821	-14.5

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 15 percent.

Table 11

Effect of the Administration's Proposed
Tax Rate Reductions for 1982

Four-person Family

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(...	... dollars ...	...	...)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	322	-52	-13.9
15,000	1,233	1,048	-185	-15.0
20,000	2,013	1,713	-300	-14.9
25,000	2,901	2,486	-415	-14.3
30,000	3,917	3,363	-554	-14.1
40,000	6,312	5,391	-921	-14.6
50,000	9,323	7,940	-1,383	-14.8
100,000	27,878	24,535	-3,343	-12.0
200,000	66,378	62,759	-3,619	-5.5
Property income:				
100,000	28,318	24,347	-3,971	-14.0
200,000	75,448	64,739	-10,709	-14.2

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 15 percent.

Table 12

Effect of the Administration's Proposed
Tax Rate Reductions for 1983

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(.....	..... dollars	.....	.....)	(.. percent ....)
$ 5,000	$ 250	$ 193	$ -57	-22.8%
10,000	1,177	874	-303	-25.7
15,000	2,047	1,531	-516	-25.2
20,000	3,115	2,334	-781	-25.1
25,000	4,364	3,275	-1,089	-25.0
30,000	5,718	4,303	-1,415	-24.7
40,000	8,886	6,701	-2,185	-24.6
50,000	12,559	9,547	-3,012	-24.0
100,000	31,792	27,029	-4,763	-15.0
200,000	70,292	65,459	-4,833	-6.9
Property income:				
100,000	35,346	26,933	-8,413	-23.8
200,000	88,457	67,293	-21,164	-23.9

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 25 percent.

Table 13

Effect of the Administration's Proposed
Tax Rate Reductions for 1983

Four-person Family

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(........................... dollars			...............................)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	291	-83	-22.2
15,000	1,233	952	-281	-22.8
20,000	2,013	1,549	-464	-23.1
25,000	2,901	2,244	-657	-22.6
30,000	3,917	3,045	-872	-22.3
40,000	6,312	4,862	-1,450	-23.0
50,000	9,323	7,154	-2,169	-23.3
100,000	27,878	22,045	-5,833	-20.9
200,000	66,378	58,179	-8,199	-12.4
Property income:				
100,000	28,318	21,877	-6,441	-22.7
200,000	75,448	57,983	-17,465	-23.1

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 25 percent.

Table 14

Effect of the Administration's Proposed
Tax Rate Reductions for 1984

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(........	.... dollars	....	........)	(.. percent ....)
$ 5,000	$ 250	$ 176	$ -74	-29.6%
10,000	1,177	812	-365	-31.0
15,000	2,047	1,469	-578	-28.2
20,000	3,115	2,234	-881	-28.3
25,000	4,364	3,136	-1,228	-28.1
30,000	5,718	4,126	-1,592	-27.8
40,000	8,886	6,414	-2,472	-27.8
50,000	12,559	9,106	-3,453	-27.5
100,000	31,792	25,818	-5,974	-18.8
200,000	70,292	63,913	-6,379	-9.1
Property income:				
100,000	35,346	25,726	-9,620	-27.2
200,000	88,457	63,813	-24,644	-27.9

Office of the Secretary of the Treasury
Office of Tax Analysis

February 12, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 30 percent.

Table 15

Effect of the Administration's Proposed
Tax Rate Reductions for 1984

Four-person Family

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(........................	.... dollars	....	........................)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	265	-109	-29.1
15,000	1,233	876	-357	-28.9
20,000	2,013	1,435	-578	-28.7
25,000	2,901	2,092	-809	-27.9
30,000	3,917	2,854	-1,063	-27.1
40,000	6,312	4,595	-1,717	-27.2
50,000	9,323	6,809	-2,514	-27.0
100,000	27,878	21,009	-6,869	-24.6
200,000	66,378	55,603	-10,775	-16.2
Property income:				
100,000	28,318	20,849	-7,469	-26.4
200,000	75,448	55,415	-20,033	-26.6

Office of the Secretary of the Treasury
Office of Tax Analysis

February 12, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 30 percent.

Chart 3

Chart 4

for returns with $100,000 or $200,000 in wage income begins to fall below the percentage reduction for other returns. This is because earned income, which currently is subject to a maximum tax of 50 percent, will still be subject to a top marginal rate of 50 percent.

Revenue Effect

The direct revenue effect of the 30 percent phased rate reduction equals $-6.4 billion for fiscal 1981 and rises to $-162.4 billion by 1986. These estimated revenue losses are based on the levels of income which are projected with the adoption of the President's economic program, income levels which are much higher than those expected under present law.

Revenue Effect of Personal Tax Reductions

Fiscal Year					
1981	1982	1983	1984	1985	1986
-6.4	-44.2	-81.4	-118.1	-141.5	-162.4

DRAFT

THE WHITE HOUSE

OFFICE OF THE PRESS SECRETARY

For Immediate Release February , 1981

FACT SHEET

PRESIDENT REAGAN'S INITIATIVES TO REDUCE REGULATORY BURDENS

Summary:

President Reagan announced today the details of a far-reaching program to reduce the burden of Federal regulations and paperwork, and to reduce the intrusion of the Federal Government in our daily lives.

allcaps Background

- During the campaign, President Reagan promised swift action to ease the economic burden of government regulation.

- Previous administrations have instituted programs to manage the regulatory process. Presiden~~t Ford initiated requirements for agencies to prepare Economic and Inflation Impact Statements. President Carter established through Executive Order 12044 a more detailed process to insure that rules were developed with ample opportunity for public involvement and that they were based on thorough analysis~~.

- Despite these measures, regulations have continued to proliferate. Many appear to be based on inadequate analysis of costs and benefits. With deepening economic problems, the country can ill-afford a continuation of this level and type of regulatory activity.

- During the last month of the Carter Administration, regulatory agencies in the Executive Branch issued more than 150 final regulations. Of these so-called Midnight Regulations, over 100 were scheduled to become effective within the next 60 days. Many of these new regulations impose substantial new burdens on the economy.

- Often, the high expense of regulatory compliance is due to the cumulative effect on an industry of many agencies' rules, rather than to a single major rule. For example, the Regulatory Council recently noted that at least five federal agencies directly regulate the auto industry, and these five agencies are now considering more than 50 significant new auto rules. General Motors alone estimates that it spent over $2 billion in 1979 to comply with Federal rules.

- This year, the Federal government is forcing Americans to spend over a billion hours providing information to the government. Three quarters of that time is spent on complying with regulations.

- The President wants to free industry, wherever feasible, from the hidden tax of complying with unnecessary federal rules and paperwork requirements, and allow industry to devote those resources to more productive uses.

all caps Actions Taken Since January 20

1. TASK FORCE ON REGULATORY RELIEF lower case

- President Reagan announced the creation of a Presidential Task Force on Regulatory Relief on January 29, 1981. It is chaired by the Vice President. The other members are the Secretary of Treasury, the Attorney General, the Secretary of Commerce, the Secretary of Labor, the Director of
the Office of Management and Budget, the
Assistant to the President for Policy Development, and the Chairman of the Council of Economic Advisors.

- This Task Force has ongoing responsibilities which will be reinforced by the President's Executive Order on Federal Regulation.

  -- It will review ~~important~~ Major regulatory proposals involving broad-reaching policies, or those involving overlapping jurisdiction among agencies.

  -- It will assess existing regulations, especially those particularly burdensome to the national economy or to key industrial sectors.

  -- It will oversee the development of crosscutting legislative proposals designed to balance and coordinate overall national regulatory policies.

- The Task Force will review pending regulations as well as past regulations with the intent of making them as cost-effective as possible.

- o The Task Force will focus on the general issue of regulations and their impacts. It will also increase public awareness of regulatory expenditures that do not show up in the Federal budget.

- o The Task Force will make recommendations to the President about ways to reform the regulatory process through a combination of such actions as Executive Orders and legislative changes.

2. POSTPONEMENT OF PENDING REGULATIONS lower case

- o On January 29th, President Reagan sent a memorandum to eleven cabinet members and the head of the Environmental Protection Agency. This memorandum directs these regulatory agencies to:

  -- Postpone the effective dates of all Midnight Regulations that have not yet become effective for at least 60 days from January 29, 1981.

  -- Refrain from issuing any new final regulations for at least 60 days from January 29, 1981.

  -- Inform the Director of the Office of Management and Budget or his designee of situations where statutory or court mandates preclude either postponing the effective date or delaying the issuance of a new regulation.

- o The memorandum was sent to the heads of the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, Transportation and Treasury, and the Environmental Protection Agency.

- o The Director of the Office of Management and Budget or his designee can exempt from the freeze those regulations that lessen rather than increase the regulatory burden.

3. EARLY REGULATORY REVIEW AND ESTIMATED SAVINGS lower case

- o The Administration ~~OMB~~ has completed a comprehensive initial review of the regulations of 14 key regulatory agencies, and has prepared a list of ~~261~~ rules which are potential candidates for more intensive review.

106

- Agencies covered included: Departments of Treasury, Justice, Interior, Agriculture, Commerce, Labor, Health and Human Services, Housing and Urban Development, Transportation, Energy and Education, and the Environmental Protection Agency, the Equal Employment Opportunity Commission and The Office of Management and Budget.

- The agencies considering these ~~261~~ 106 rules have estimated the costs of some of the rules. In aggregate, these rules could cost ~~between nearly $40 billion~~ billions of dollars up to $35 billion annually. These estimates may be low since costs are not available for all rules and those affected by these rules generally agree that costs are understated.

- Of the ~~261~~ 106 rules identified for additional review, ~~144~~ 50 are now under development in the agencies and ~~117~~ 56 are existing rules which need thorough review and possible revision.

3, Insert 106 ~~Insert~~

- ~~109~~ of the rules have been tentatively identified as high-priority targets for early action by the new Administration.

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- The review also identified and recommended fifteen regulations for immediate review by respective cabinet members, and estimated total annual savings for these 15 regulations are expected to be at least $1-$2 billion.

4. IMPLEMENTATION OF THE PRESIDENT'S OVERSIGHT PROGRAM Lower case

- President Reagan has completed the creation of his management structure to oversee the review and development of regulatory programs by government agencies.

- The Paperwork Reduction Act of 1980 establishes certain regulatory oversight responsibilities in the Office of Management and Budget (OMB).

- This Act, combined with the upcoming Executive Order on Federal Regulation, will require agencies to submit regulatory proposals to OMB for review of burden, usefulness, duplication, and necessity.

- The Office of Information and Regulatory Affairs within OMB, headed by Dr. James C. Miller III, will perform staff functions for the Presidential Task Force on Regulatory Relief. It will utilize its statutory oversight authority under the Paperwork Act to support the policies and direction of the Task Force and the Director of the Office of Management and Budget.

A

3. Initial Regulatory Actions

The process of re-evaluating existing rules and proposals has already begun, as several cabinet departments and agencies -- on their own initiative and in coordination with the Presidential Task Force on Regulatory Relief -- have taken action on particularly controversial rules.

- The Secretary of Education withdrew the proposed bilingual education rules.

- The Secretary of Transportation proposed to reconsider the Department's controversial passive restraints regulation.

- The Secretary of Labor announced action on three major rules:

  -- He withdrew for reconsideration an OSHA rule requiring that chemicals in the workplace be labeled.

  -- He postponed indefinitely new rules which might have required that executives be paid overtime.

  -- He is reviewing new rules which would have extended Davis-Bacon "prevailing wage" principles to those timber sales, automatic data processing and research and development firms under contract with the Federal Government.

- The President rescinded the mandatory Federal controls on building temperatures which had been imposed by the previous Administration.

- The Secretary of Energy announced action on two major rules:

  -- He withdrew the proposed emergency energy conservation rules.

-- He also withdrew proposed rules which would have forced manufacturers of home appliances to build the appliances to meet Federal energy efficiency standards.

o The Director of OMB instructed the Secretary of Energy to stop collecting industrial energy consumption data from the manufacturing industry.

o President Reagan revoked Executive Order 12264, which established a cumbersome and burdensome regulatory policy regarding the export of some hazardous substances.

o The Director of OMB withdrew the policy memorandum on Federal Support for Hospital Construction issued by the previous Administration.

o The Acting Administrator of the Environmental Protection Agency asked the D.C. Court of Appeals to remand to it a rule setting noise emission standards for garbage trucks. EPA plans to review the rule and consider some alternatives recommended by the garbage truck industry.

- o Within this Office, Desk Officers are assigned the responsibility to oversee the regulatory activities of specific regulatory agencies. They act as the staff spokespersons to the respective agencies, assuring coordination of the various responsibilities assigned to the Office of Information and Regulatory Affairs..

- o This structure is designed to assure more consistent oversight of each particular agency, and to develop a framework for measuring and analyzing the burdens and other costs imposed on the private sector by government regulatory activities.

<u>Upcoming Actions</u> Upper case

1. EXECUTIVE ORDER ON FEDERAL REGULATIONS lower case

- o President Reagan ~~will announce soon~~ has signed a new Executive Order designed to manage the Federal Government's regulatory actions. The purpose of this order is to improve the quality of regulations and to reduce their burden on the American people.

- o The Order emphasizes that regulatory decisions ought to be guided by adequate information. In particular, the Order directs that:

  -- Actions should not be undertaken unless the potential benefits to society outweigh the potential costs, and a regulatory strategy ought to maximize the net benefits.

  -- Alternative strategies ought to be examined to determine the most cost-effective approach for meeting an objective.

  -- Factors such as the economic condition of the affected industry, the national economy and other regulations ought to be factored into agency actions.

- o These goals are to be achieved by requiring each agency to:

  -- Prepare a regulatory analysis for all major regulations. This analysis will consider potential benefits, costs, and evaluate this information in light of the regulatory objectives.

  -- Make a legal commitment that the rule is within legal authority and that it reflects the comments of all persons affected by the rule.

  -- Publish two times a year a regulatory agenda listing all regulations being considered.

- The Office of Management and Budget is given the authority to manage this process and to make substantive comments on Regulatory Analyses, determinations of major regulations, and the content of regulatory agendas.

~~2. REGULATORY POLICY LETTERS~~

- Over the next month, the Director of OMB will send a regulatory policy letter to the heads of 13 key regulatory agencies.

- The letter will:

  -- identify specific issues with proposed regulations and request the agency to report to OMB on its progress in addressing the issues so identified;

  -- identify existing rules which are candidates for major revisions, including withdrawal;

  -- identify program areas in which further regulatory activities should be terminated or curtailed.

- The Office of Information and Regulatory Affairs within OMB will monitor the agencies' progress to insure that they adequately consider the costs and benefits of their rules, and that their rules reflect the Administration's overall regulatory policies.

2. ~~3.~~ REGULATORY RELIEF AND PAPERWORK REDUCTION [illegible]

- On April 1, 1981, the Paperwork Reduction Act goes into effect.

- The law gives OMB a new charter to direct a government-wide reduction in the burdens imposed by the combination of regulatory and paperwork requirements. The law sets a goal of a 15% reduction in paperwork burden to be achieved by October 1, 1982.

- The law requires OMB approval of any rule or other requirement which demands that 10 or more persons or businesses fill out a government form or keep specified records.

- The new Paperwork Reduction Act gives OMB a powerful new tool to reduce burdens imposed by the combination of federal paperwork requirements and federal regulatory requirements.

3. Legislative Changes Will be Sought

caps

Anticipated Results of the President's Program (B)

- The Presidential Task Force on Regulatory Relief will increase regulatory oversight responsibility of the Executive Office of the President and encourage promulgation of less costly and more cost-effective regulations. It will also encourage and focus serious consideration of market-oriented alternatives to command and control regulations.

- The President's directive to freeze rules will allow the new Administration time to review the Midnight Regulations to assure that they are cost-effective and in concert with this Administration's policies. At the same time, the directive permits expedited issuance of actions intended to reduce regulatory burdens. During the 60-day freeze the Task Force will reassess the need for regulations that have been under development.

- Over the next year, OMB will encourage agencies to review closely the rules identified as high priority targets. During this review, the agencies will be asked to consider whether there are less costly al... the pending propo...

- The early regulatory actions listed above will save ~~the American~~ ~~public~~ over $1 billion annually, and represent an early commitment by this Administration to reduce the costly and intrusive effects of government regulation.

... Office of the President has a clear, statutory mandate to cut down on the burdens of federal regulation and paperwork. This mandate will be carried out vigilantly and vigorously. OMB will report regularly to the President, individual agency heads, and the Congress on progress in reducing federal regulatory and paperwork burdens.

- The President's new Executive Order will provide the direction and strength to reduce regulatory burden on the public, and to ensure that those regulations which are issued are effective and appropriate. It is the Administration's intent, through this Order, that new regulations be based on a thorough consideration of costs and benefits, and that regulatory goals be achieved in the least burdensome way possible.

federal paperwork requirements and federal regulatory requirements.

3. Legislative Changes Will be Sought (B)

caps

Anticipated Results of the President's Program

- The Presidential Task Force on Regulatory Relief will increase regulatory oversight responsibility of the Executive Office of the President and encourage promulgation of less costly and more cost-effective regulations. It will also encourage and focus serious consideration of market-oriented alternatives to command and control regulations.

- The President's directive to freeze rules will allow the new Administration time to review the Midnight Regulations to assure that they are cost-effective and in concert with this Administration's policies. At the same time, the directive permits expedited issuance of actions intended to reduce regulatory burdens. During the 60-day freeze the Task Force will reassess the need for regulations that have been under development.

- Over the next year, OMB will encourage agencies to review closely the rules identified as high priority targets. During this review, the agencies will be asked to consider whether there are less costly alternatives to the pending proposals.

- ~~Modifying the fifteen rules OMB recommended for immediate review could save between several billion dollars and would reduce federal government's intrusion into our daily lives.~~

- For the first time, the Executive Office of the President has a clear, statutory mandate to cut down on the burdens of federal regulation and paperwork. This mandate will be carried out vigilantly and vigorously. OMB will report regularly to the President, individual agency heads, and the Congress on progress in reducing federal regulatory and paperwork burdens.

- The President's new Executive Order will provide the direction and strength to reduce regulatory burden on the public, and to ensure that those regulations which are issued are effective and appropriate. It is the Administration's intent, through this Order, that new regulations be based on a thorough consideration of costs and benefits, and that regulatory goals be achieved in the least burdensome way possible.

B

3. Legislative Changes Will be Sought

o Although this Administration does not believe that legislation is the complete answer to our regulatory problems, existing regualtory statutes do have a number of deficiencies:

-- Many laws are conflicting, overlapping and inconsistent.

-- Some laws give agencies little discretion in developing rules, and others give them too much.

o This Administration will press for legislative review and change which will permit the most efficient and cost-effective regualtion possible. All legislation which is the basis for major reuglatory programs will be examined.~~bxthexVixexPRexx~~

o The administration is supportive of procedural legiation or regulatory reform. ~~but~~ -- It is deeply concerned that it may result in additional layers of review, make ~~the~~ ~~prxcexx~~ it even more difficult to make needed changes in regualtoion,s create additional delay and uncertainty, and increase the size of the federal bureaucracy.

-- Our emphasis will be to streamline the statutory authorities under which regulations are developed.