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*bill under Congress spent* February 16, 1981

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 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, "last, best hope of man."

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% and over 15% 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 8 million Americans are out of work. These are people who want to be productive. But as the weeks go by despair dominates their lives. The threat of layoff and unemployment hangs 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 thought I could ever earn but I seem to be getting worse off." Well, he is. The average weekly take home pay of American workers in 1972 was \$122 a week. If we figure their take home pay

pay last year in those same 1972 dollars they only received \$105. And inflation isn't the only cause of this. In the last 4 years Federal personal taxes for the average family increased by 58%.

Can we who man the ship of state deny it is out of control? Our National debt is \$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 a few inches high would make you a million. A trillion dollars would be a stack of \$1,000 bills 60 miles high.

The interest on our debt this year will be \$86 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.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that adds \$100 billion to the price of things we buy and reduces our ability to produce. The rate of increase in American productivity, once the highest in the world, is now among the lowest of all industrial nations. Indeed, it actually declined last year.

I have painted a grim picture but I believe I have painted it accurately. <sup>(to X me for</sup> It is within our power to change this picture and we can act in hope. There is nothing wrong

with our internal strengths. There has been <sup>NO</sup>~~BEEN~~ breakdown in 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 finetune the economy and get a tune more to our liking, I am proposing a 4-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.

The plan is aimed at reducing the rate of increase in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive. And encouraging a consistent monetary policy aimed at maintaining the value of our currency.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. It is a plan designed to get our economy moving again; to increase productivity and thus create the jobs our people must have.

I am asking that you join me in reducing the proposed budget for 1982 by \$ \_\_\_\_\_ billion. This will still allow an increase of \$ \_\_\_\_\_ billion over 1981 spending.

I know that exaggerated and inaccurate stories about the proposed cuts have disturbed many people, particularly those dependent on grant and benefit programs for their livelihood. Some of you have heard from constituents afraid that Social Security checks for example might be taken from them. I regret the fear these unfounded stories have caused and 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<sup>y</sup>, all those with true need, can rest assured that programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million Society 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, aged and disabled. 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. There will be about \$3.5 billion for job training programs under C.E.T.A. and we will keep nearly a million college work-study jobs as well as more than 900,000 loans to college students.

All in all, more than \$216 billion in some 20 programs are being maintained at the present growth level. But

government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. And while we will reduce some subsidies to regional and local government, 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 government entities and States more flexibility. We call for an end to duplication in Federal programs and reform of those which are not cost-effective.

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 \$2.6 billion by removing from eligibility those who are not in real need and who are abusing the program. Despite this reduction, the program will be budgeted for more than \$10 billion.

Welfare will be tightened with more attention being given to outside sources of income when determining the amount of welfare an individual is allowed. This plus strong and effective work requirements will save \$671 million next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by eliminating meals for families who can afford to pay, the savings will be \$1.2 billion.

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 ~~whole~~heartedly support this and believe Americans will continue to do this. Therefore, I am proposing a cut of \$128 million in the subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry 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 is the synthetic fuels program. We will continue support of research leading to development of new technologies but we can save \$\_\_\_\_\_ billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

We are asking that another major business subsidy, the Export-Import Bank loan authority be reduced by 33% in 1982. And this brings me to a number of other lending programs in which government makes low interest loans, some of them for an interest rate as low as 2% and not more than 5%. What has not been very well understood is that the Treasury Department has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers, of course, are paying that high interest rate. Government doesn't have any money of its own.

The Rural Electrification program came into being at a time when rural America was almost totally without electric power. A program of low interest loans to rectify this made sense then. I believe the recipients today of R.E.A. loans will understand the fairness of switching to the private capital market and borrowing at the commercial interest rate. Doing this will save the taxpayers \$2 billion in 1981 and '82 with ongoing savings of \$15 billion through 1985.

By terminating the Economic Development Administration we can save \$300 million in 1982 and \$2 billion through 1985. 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.

I mentioned the elimination of duplicating programs. This is true among the lending agencies. For example, the Farmers Home Administration is a duplicate of several other lending programs. By trimming its lending activities 25% we can remove the useless duplication in 1982 and save \$105 million.



Let me just touch on a few other areas which are typical of the kind of reductions we have 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 lay off of workers. But these benefits are paid in addition to regular unemployment insurance which anyone must agree is unfair. Incidentally the Trade Adjustment payments have a higher ceiling than Unemployment Insurance. By putting both kinds of unemployment on the same footing, savings will amount to \$1.15 billion.

Another \$204 million can be saved by ending or reducing neighborhood housing programs which simply duplicate other such programs in the Department of Housing and Urban Development.

Earlier I made mention of changing categorical grants to states and local governments into block grants. We know of course that categorical grants fund programs mandated on local and state governments by the Federal Government accompanied by strict rules and regulations as to how the programs are to be implemented and of course with vast amounts of paperwork to comply with reporting procedures.

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. It will bring government closer to the people and will save \$5 billion over the next five years.

Our program for economic renewal (treats/?) 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 to press the Postal Service into becoming more effective.

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

In the Department of Housing and Urban Development there is a loan guaranty program which encourages communities to, in effect, mortgage their block grants as security for repayment on loans to purchase and rehabilitate property. It also allows communities to exceed their own legal debt limits. We plan changes here that will save \$275 million in this coming year amounting to more than a billion through 1985.

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. Secretary

of Defense Weinberger came up with a number of cuts which reduced the amount of the addition we had to make in order to restore our military balance.

I believe my duty as President requires that I recommend increases in defense spending over the coming year. Since 1970 the Soviet Union has invested \$300 billion more in its military forces than we have. They 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 sacrifice beginning now is far less costly than waiting and attempting a crash program several years from now. Nevertheless the Department of Defense will not be spared the obligation of making significant reductions over the coming years by finding and eliminating waste and inefficiency. The aim will be to provide the most effective defense for the lowest possible cost.

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 are to have economic recovery. It is time to create new jobs, 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 tax payers 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.

I had hoped we could make this retroactive to January 1st but the deterioration of the economy in the months since September has ruled that out. We also learned that making it retroactive would work a hardship on states where the state income tax is tied to the Federal tax. Their budgets already in place would be thrown out of balance.

Therefore the effective starting date for these 10 percent personal income tax reductions will be July 1st.

Again, let me remind you this 30 percent reduction 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 (quote, unquote) "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 a reduced tax rate will be inflationary. A solid body of economic experts don't agree. And certainly tax cuts adopted over the past three-fourths of a century indicate the economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow to \$400 billion higher than it is today. The average worker's wage will rise (in real purchasing power) by \_\_\_\_\_ 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 economically counterproductive. Very simply, it bases the depreciation of plant, machinery, materials, 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 \_\_\_\_\_ year write-off for tools; a \_\_\_\_\_ year write-off for machinery; \_\_\_\_\_ years for

vehicles and trucks; and a \_\_\_\_\_ year write-off for plant.

Rental property would be depreciated over \_\_\_\_\_ years instead of the present \_\_\_\_\_ years.

In calendar year 1982 under this plan business would acquire \$10 billion for investment and by 1985 the figure would be \$45 billion. If one accepts \$50,000 as the investment necessary to create 1 new job \$45 billion could create 4½ million jobs.

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. 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 nearly doubled.

The result has been higher prices, less employment, and lower productivity. Overregulation causes entrepreneurs 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 <sup>the</sup> 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. My economic message will contain a list of over 100 additional regulations that we will be reviewing over the coming months. 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 monetary base.

I fully recognize the independence of the Federal Reserve System and will do nothing to undermine that independence. However, I plan to 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. 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.

Already some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only 10% of total educational funding.

For this the Federal government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that 10% will amount to very little of the total cost of education. It will, however, restore more authority to States and local schools districts.

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 importantly, 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 shops. They are the services provided in ten thousand 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 <sup>not</sup> 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.

In the months left in this fiscal year we can reduce the budget by \$\_\_\_\_\_ billion. In 1982 by \$\_\_\_\_\_ 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 put an end to inflation.

If we don't do this, inflation will put an end to everything we believe in and to our dreams for the future. We do not have 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. Reducing inflation from 12% just to 10 is equivalent to giving the average family of 4 \$\_\_\_\_\_ in cash. Cutting the present rate in half would be worth \$\_\_\_\_\_ to that average family. Wiping it out entirely should be our aim.

It will take time for the favorable effects of our proposal to be felt. So let us 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.