

MESSAGE OF THE PRESIDENT ON THE BUDGET

To the Congress of the United States:

During the first two months of the year, inflation took another sharp upward leap, both in the United States and abroad. Actual prices and interest rates worsened, along with expectations about future inflation. Continued price increases of the size we have experienced would do grave harm to American society and the American economy.

OPEC's December oil price discussions in Caracas proved inconclusive, and world oil price increases were far beyond expectations. But inflation outside of the energy sector also rose. The American economy continued to be unexpectedly strong. Consumer demand and business investment remained at higher levels than predicted. Since the Federal Reserve continued, correctly, to restrict the growth of the money supply, the surge in inflation and credit demands produced a sharp upward spiral in interest rates.

To reverse these dangerous trends, I announced a five-point anti-inflation program. This program consists of spending cuts necessary to balance the budget for 1981, additional restraints on credit, wage and price actions, further energy conservation measures, and structural changes to enhance productivity, savings, and research and development.

These measures are interrelated and interdependent. Taken together, they will be more than the sum of their parts. They will not reduce inflation immediately, but together they will produce a significant decline in inflation as the year progresses.

At the center of this policy is my decision to cut Federal spending so as to balance the 1981 budget. In January, I submitted to the Congress a budget for 1981 that provided for substantial restraints on Federal spending and the lowest deficit in 7 years. After adjustment for inflation, the 1981 spending level was virtually level with that for 1980. It was a budget that followed in every respect the policies of restraint I have set during the past three years. However, in view of the continued high level of economic activity, and what has recently happened to inflation and interest rates, I have had to consider new policies. I must now ask the Congress and the American people to support a revised budget that is even more restrained and austere.

REVISED BUDGET OUTLOOK
(in billions of dollars)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Budget receipts.....	465.9	532.4	628.0	724.8	837.8
Budget outlays.....	<u>493.7</u>	<u>568.9</u>	<u>611.5</u>	<u>683.3</u>	<u>759.0</u>
Surplus or deficit (-) ..	-27.7	-36.5	16.5	41.5	78.9
Budget authority.....	556.7	665.8	691.3	777.3	849.1

Let me first explain the extraordinary way in which my budget reduction proposals have been developed.

The budget, as it is finally enacted, is -- as it should be under our Constitution -- the joint product of the Congress and the executive branch. Because of the great importance we attach to reduced spending, the leadership of the Congress and I have done everything within our power to reach general understandings in advance on reduction proposals. I and senior members of my Administration met with Members of the Congress hour after hour, literally day and night, in order to reach consensus. The importance of cutting spending to achieve a balanced budget was never seriously in dispute. But agreements on the approach necessary to achieve this balance were not easy to reach. They could be worked out only through a lengthy and sometimes tedious process of consultation.

The revision of the 1981 budget that accompanies this message describes my proposals for increased budget discipline. The principal actions are:

- deferral, reduction, or cancellation of most of the new and expanded programs originally proposed in the 1981 budget;
- a cut in expenditures for personnel, operations, and maintenance throughout the government;
- an immediate limitation on Federal civilian employment, and rigid maintenance of employment ceilings to ensure that there will be at least 20,000 fewer Federal employees by the end of fiscal year 1980 than there are now;
- a reduction in ongoing spending programs throughout the Federal Government;
- re-emphasis of the savings and revenue measures submitted in the January budget, including hospital cost containment, Federal pay reform, and cash management reforms;

- defense efficiencies and savings that do not affect military readiness and are consistent with my continued commitment to real increases in defense spending;
- a 15% reduction in the use of consultants throughout the Federal establishment; and
- a freeze on basic salary increases for senior executive branch officials and members of the White House staff.

These budgetary decreases are being supplemented by a series of actions taken by the Federal Reserve to achieve greater restraint on the expansion of credit in the private sector. Some of these actions have been taken under the authority granted by the Credit Control Act of 1969. The measures taken by the Federal Reserve will help to reduce inflation by slowing the growth of business loans and some forms of consumer credit.

In addition to the actions of the Federal Reserve on private credit, the Administration will increase restraint of Federal credit programs:

- Federal loan guarantees will be cut by \$4 billion in fiscal year 1981.
- My new system to control Federal credit activities will be strengthened by expanding significantly the amount of Federal insurance and guarantee activity subject to limits within the system.

I urge the Congress to include Federal credit limitations in the concurrent budget resolutions. These measures will enable the Federal Government to control more effectively total lending and loan guarantee activity.

As part of this anti-inflation program, I have used my existing authorities to impose a gasoline conservation fee on imported oil. In the budget revisions, I am proposing to replace this fee with an ad valorem equivalent gasoline tax that, at current prices, will yield 10 cents per gallon. I am also proposing the withholding of taxes on interest and dividend payments at the source to ensure that Federal income taxes owed on those payments are in fact paid, and paid promptly. The resulting receipts will not be used to balance the 1981 budget. They will not be used as a substitute for necessary spending cuts. Rather, these receipts will give the budget, which will be balanced independently of these sources of income, a margin of safety. This will ensure that the budget will remain in balance if estimates change in a way that cannot be predicted now.

Success in reducing spending to achieve a balanced budget will require prompt action by the Congress. To achieve substantial outlay savings for 1981, the Congress must act before the fiscal year begins. I particularly urge prompt and constructive action on rescissions of 1980 budget authority, so as to produce outlay reductions at least equal to my proposals. I also urge prompt enactment of proposals to modify certain

programs that now have two automatic inflation adjustments a year so that they conform to the normal practice of annual adjustments.

I will do everything in my power to ensure that my budget proposals are realized. I repeat that I intend to veto any legislation that threatens the spending reductions required for a balanced budget. I will use the powers available to me to defer spending or to rescind funds. If adequate steps are not being taken by the Congress to achieve the required fiscal restraint, I intend to seek from the Congress a temporary grant of extraordinary budget restraint powers.

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We are not alone in facing recent rapid inflation at annual rates nearing 20%. Wholesale prices have been increasing at annual rates in excess of 25% in Italy, Great Britain, and Japan. Even in Germany increases have been over 13%. Many other countries are responding as we are, by reevaluating their budgets and seeking reductions.

There are no quick or easy answers to this worldwide inflation. It is deep-rooted, the result of many forces built up over the past decade and a half. No single measure -- by itself -- will stop inflation. My five-point program to strengthen the fight against inflation has as an essential element the spending reductions needed for a balanced 1981 budget. Those who say that we cannot stop inflation simply by balancing the 1981 budget miss the point. Balancing the budget is not a cure-all, but it is an essential element in the more comprehensive program. I believe that no overall anti-inflation program can work until the Federal Government has demonstrated to the American people that it will discipline its own spending and its own borrowing -- not just for one year or two, but as a long-term policy.

JIMMY CARTER

March 31, 1980

TO THE CONGRESS OF THE UNITED STATES:

On February 18, I spoke to a Joint Session of Congress about the economic crisis facing America. I pledged then to take the action necessary to alleviate the grievous economic plight of our people. The plan I outlined will stop runaway inflation and revitalize our economy if given a chance. There is nothing but politics-as-usual standing in the way of lower inflation, increased productivity, and a return to prosperity.

Our program for economic recovery does not rely upon complex theories or elaborate Government programs. Instead, it recognizes basic economic facts of life and, as humanely as possible, it will move America back toward economic sanity. The principles are easily understood, but it will take determination to apply them. Nevertheless, if inflation and unemployment are to be curtailed, we must act.

First, we must cut the growth of Government spending.

Second, we must cut tax rates so that once again work will be rewarded and savings encouraged.

Third, we must carefully remove the tentacles of excessive Government regulation which are strangling our economy.

Fourth, while recognizing the independence of the Institution, we must work with the Federal Reserve Board to develop a monetary policy that will rationally control the money supply.

Fifth, we must move, surely and predictably, toward a balanced budget.

The budget reform plan announced on February 18 includes 83 major cuts resulting in \$34.8 billion outlay savings for 1982, with greater future savings. With this message, over 200 additional reductions are proposed. An additional \$13.8 billion in savings are now planned. Further, I am proposing changes in user charges and off-budget payments that will bring total fiscal savings to \$55.9 billion. This compares with \$49.1 billion in fiscal savings announced on February 18.

In terms of appropriations and other budget authority that will affect future spending, we are proposing elimination of \$67 billion in 1982 and over \$475 billion in the period 1981 to 1986.

These cuts sound like enormous sums -- and they are -- until one considers the overwhelming size of the total budget. Even with these cuts, the 1982 budget will total \$695.3 billion, an increase of 6.1 percent over 1981.

The budget reductions we are proposing will, undoubtedly, face stiff opposition from those who are tied to maintaining the status quo. But today's status quo is nothing more than economic stagnation coupled with high inflation. Dramatic change is needed or the situation will simply get worse, resulting in even more suffering and misery, and possibly the destruction of traditional American values.

While recognizing the need for bold action, we have ensured that the impact of spending reductions will be shared widely and fairly by different groups and the various regions of the country. Also, we have, as pledged, maintained this society's basic social safety net, protecting programs for the elderly and others who rely on Government for their very existence.

Budget cuts alone, however, will not turn this economy around. Our package includes a proposal to reduce substantially the personal income tax rates levied on our people and to accelerate the recovery of business with capital investment. These rate reductions are essential to restoring strength and growth to the economy by reducing the existing tax barriers that discourage work, saving, and investment. Individuals are the ultimate source of all savings and investment. Lasting economic progress, which is our goal, depends on our success in encouraging people to involve themselves in this kind of productive behavior.

Our tax proposal will, if enacted, have an immediate impact on the economic vitality of the Nation, where even a slight improvement can produce dramatic results. For example, a 2 percent increase in economic growth will add \$60 billion to our gross national product in one year alone. That \$60 billion adds to the State and local tax base, to the purchasing power of the American family, and to the resources available for investment.

When considering the economic recovery package, I urge the Members of Congress to remember that last November the American people's message was loud and clear. The mandate for change, expressed by the American people, was not my mandate; it was our mandate. Together we must remember that our primary responsibility is to the Nation as a whole and that there is nothing more important than putting America's economic house in order.

The next steps are up to Congress. It has not been easy for my Administration to prepare this revised budget. I am aware that it will not be easy for the Congress to act upon it. I pledge my full cooperation. It is essential that, together, we succeed in again making this Nation a land whose expanding economy offers an opportunity for all to better themselves, a land where productive behavior is rewarded, a land where one need not fear that economic forces beyond one's control will, through inflation, destroy a lifetime of savings.

RONALD REAGAN

THE WHITE HOUSE,

March 10, 1981