PART 1

THE BUDGET MESSAGE OF THE PRESIDENT

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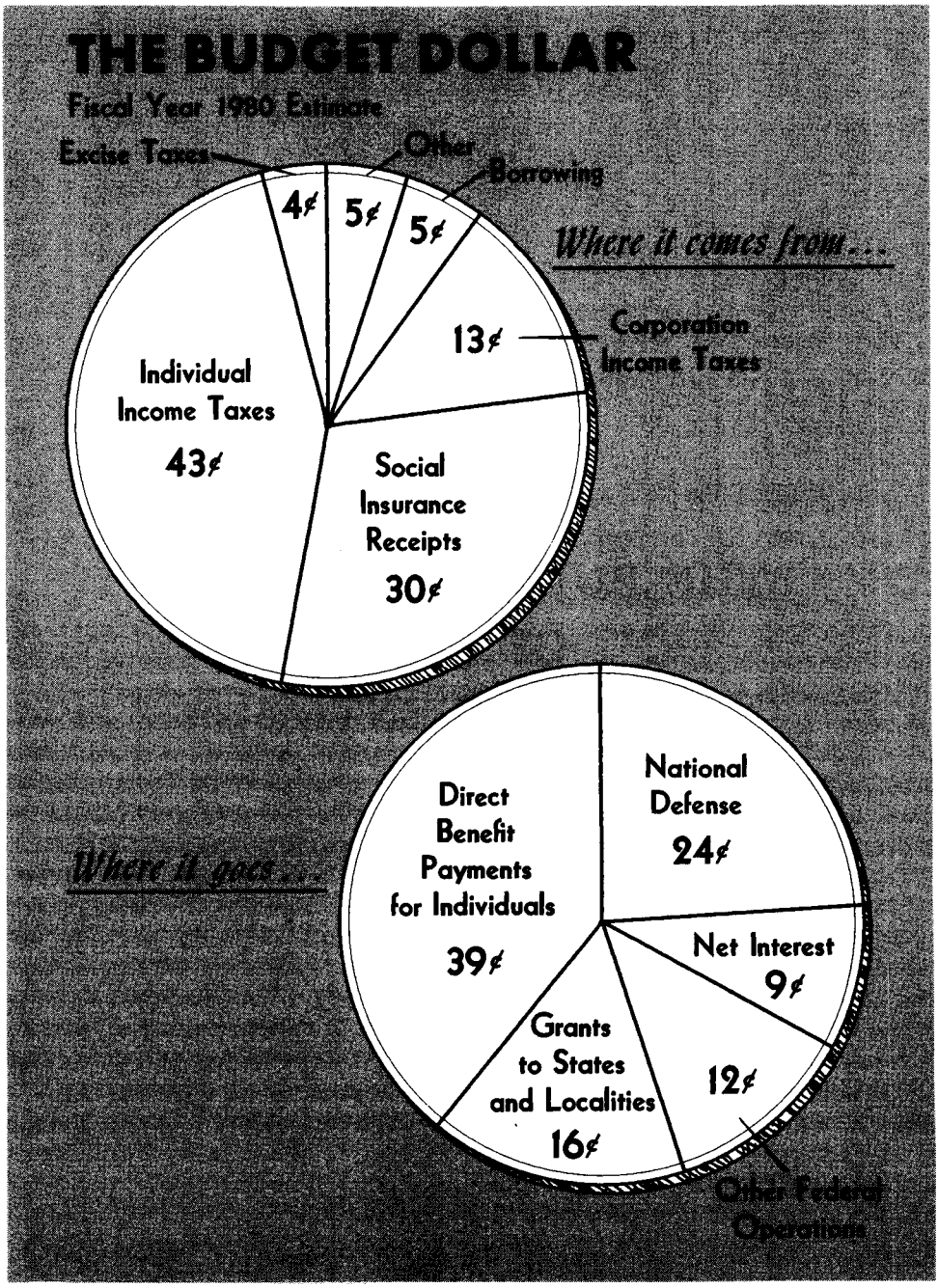

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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

This budget for fiscal year 1980 is lean and austere. It recommends a spending level well below that suggested by the recent momentum of Federal spending. It will disappoint those who seek expanded Federal efforts across the board. It meets my commitment to a deficit of $30 billion or less.

This policy of restraint is not a casual one. It is an imperative if we are to overcome the threat of accelerating inflation.

If that threat is realized, it would severely disrupt our economy and the well-being of our society. Americans with low and fixed incomes would suffer the most. Restraint would eventually become an inescapable necessity. But the longer we wait, the more severe and costly the inevitable restraint will be. By contrast, this budget supports a balanced fiscal policy. It is sufficiently restrained to ease inflationary pressures, but it will permit continued economic growth.

The Federal Government cannot overcome inflation by itself. Success will require cooperation from business, from labor, from consumers, from State and local governments—in short, from everyone. I have called for that cooperation as part of my anti-inflation program. However, only through its leadership and its example can the Federal Government secure this cooperation. This budget provides that leadership. It restrains Government's demand on the economy. At the same time, it makes the Federal dollar work harder and better.

The key to effective Federal leadership against inflation, unemployment, and poverty lies in more effective allocation and management of available resources. We must reduce the growth of total Federal spending while protecting the security of our Nation and the well-being of the American people.

This budget provides the necessary discipline over Federal spending by:

—eliminating programs that are unworkable;

—improving programs to make them more effective;

—focusing assistance on the disadvantaged and the poor; and

—reorganizing and consolidating Federal activities to improve efficiency and avoid waste, abuse, or mismanagement.

I believe this discipline represents an opportunity to reassess and build strong foundations for future Government activity, an oppor-

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tunity to change Government for the better. It is my firm intention to continue these policies in future years, to reduce the size of the deficit, and to achieve a balanced budget as soon as economic conditions permit.

THE BUDGET TOTALS

[In billions of dollars]

	1978 actual	1979 estimate	1980 estimate	1981 estimate	1982 estimate
Budget receipts	402	456	503	577	653
Budget outlays	451	493	532	578	615
Surplus or deficit (−)	−49	−37	−29	−1	38
Budget authority	502	560	616	651	696

My budget provides for total outlays in 1980 of $532 billion, an increase of $38 billion, or 7.7%, over 1979, and receipts of $503 billion. For 1981 and 1982, it provides for total outlays of $578 billion and $615 billion, respectively. Budget outlays will decrease as a share of the Nation's gross national product from 22.1% in 1978 to 21.2% in 1980 and 20.3% in 1982. This reduction in the share of our national product spent by the Federal Government is a fundamental goal of my policy, equally as important as reducing the deficit.

The expenditures I recommend are specifically focused on overcoming our Nation's crucial problems. Through rigorous zero-base analyses, priorities have been established to help us get the best Government possible for the resources we can afford. Careful attention to efficiency and productivity will enable Federal managers to achieve our most important priorities with less money and fewer people.

The spending restraint in this budget means that in some areas the Government will simply not be able to do as much as it has in the past. Inevitably, real sacrifices must be made if we are to overcome inflation. In formulating this budget, I have made every effort to spread that burden fairly and objectively. Restraint has not been applied arbitrarily.

However, there are areas where we cannot make major reductions. I have sought to reconcile the need for extraordinary restrictions on Government spending with the need to maintain a strong defense; to implement a national energy policy; to assist people in need; and to continue important public services and investments.

First, as President, it is my central responsibility to ensure that our defense forces are strong enough to deter aggression. This budget does that.

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In May of 1977 I met with our NATO allies and urged that we work together to strengthen our common defense. They are meeting the goal that we agreed upon. We must and will do our share.

In total, the 1980 defense budget provides for growth in outlays in real terms of 3% above the current year's spending. Most of this increase will be for strengthening our NATO forces and maintaining the strategic balance. The budget continues my policy of steady modernization of our strategic forces, and improved combat readiness of our tactical forces. It also emphasizes research and development to meet future challenges to our security. At the same time, however, it restrains defense costs by introducing important economies in purchasing, supply management, and personnel costs and numbers.

Second, the 1980 budget recognizes the vital importance of energy to the Nation. Because of our dependence on foreign oil, we continue to be in danger of having supplies disrupted as they were 5 years ago. It is essential that we continue to move forward with an effective national energy program that will decrease our demand for foreign oil and protect against disruption of foreign oil supplies.

The 1980 budget provides for the continued buildup of the strategic petroleum reserve. It continues to assist in the development of technologies to tap our domestic energy resources more effectively. I have given special emphasis to developing advanced solar power technologies. The budget proposals give increased attention to more efficient use of uranium, to nuclear proliferation and environmental problems, and to effective measures to deal with nuclear waste.

Third, even when budget restraint is essential, we will continue as a compassionate society to meet our commitments to the disadvantaged. Therefore, I have ensured that my budget include adequate funds for programs that help those Americans most truly in need. To make these funds as effective as possible, the budget includes recommendations for adjustments in direct payment programs, better targeting of existing programs, and improved management so that funds are not wasted but go to the people for whom they were intended.

My administration is developing a national health plan. Consistent with the development of that plan, the budget emphasizes programs to address critical health needs. As early steps toward this plan, my proposals extend health services to 2 million more low-income children and pregnant women who cannot afford health care that they need, and bring new health care resources to people who live in medically-underserved areas. The budget includes new and expanded programs to reduce activities that cause ill health, such as drug and alcohol abuse, as well as to protect individuals and communities from pollution and other toxic sub-

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stances; increased funding for mental health research; and expanded health-related services such as nutrition programs for low-income mothers and children.

I am again proposing legislation to contain the exorbitant nationwide rise in hospital costs. The 320% rise in these costs in the past 10 years has been a major inflationary force and an unacceptable drain on family incomes. The Congress *must* act on this problem.

Curbs on hospital costs will benefit State and local budgets—and those of private citizens—as well as the Federal budget. They will strike directly at inflation in a sector where price increases have been chronically high.

The budget recommends a number of changes in the social security system to streamline it and eliminate unnecessary benefit payments. They will reduce the future costs of this largest of all Federal programs—and, ultimately, hold down the taxes imposed on workers and employers. I will consider future social security tax reductions in conjunction with these savings.

In the past 2 years, total employment in the U.S. has increased by 7.4 million jobs. This is an average rate of 4.1% per year, one of the most rapid expansions in our history. The proportion of our civilian population employed is higher, at almost 60%, than it has ever been before. But despite these gains, unemployment, particularly among the disadvantaged and minorities, remains too high.

Continued high structural unemployment in an inflationary economy requires a redirection of our efforts. Programs targeted to employ the truly disadvantaged are continued at their current high levels as established by this administration. More general employment programs, not directed specifically to those most in need, must be reduced to reflect improvements in the economy and our need to establish priorities. Our youth employment and CETA programs reflect my continued strong commitment to fight unemployment of the needy. The employment tax credit enacted last year is encouraging the private sector to provide increased employment opportunities for the disadvantaged, primarily youth. This incentive will be reinforced by a private sector employment initiative, for which I am requesting a $400 million supplemental appropriation for 1979.

This budget also provides strong support for economic development programs, and again proposes a National Development Bank to help fund these efforts. The budget provides for a 36% increase in assistance to minority business enterprises.

Finally, I believe that the Federal Government must lead the way in investing in the Nation's future. This budget, therefore, continues my policy of providing real growth in Federal support of basic research. This support amounts to a relatively small part of the total budget—$4.6 billion in 1980—but it is vital to the future

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of our Nation. The knowledge created through basic research holds the potential for breakthroughs to the solution of problems we face or may face in such critical areas as agriculture, health, environment, energy, defense, and the overall productivity of our economy. Higher productivity gains in the future, moreover, will make an important contribution to reducing inflation.

* * * * *

Meeting the essential needs of the Nation, while restraining growth in overall spending, makes efficient management not just desirable, but essential.

In 1977 I proposed—and the Congress approved—a Cabinet-level Department of Energy, a streamlined Executive Office of the President, and a consolidation of our international information activities.

In 1978 I proposed—and the Congress approved—reorganizations of the Federal civil service system, emergency preparedness and disaster relief programs, civil rights enforcement, and the pension plan insurance system in order to make them more responsive and effective.

In 1979 I will resubmit my proposal to establish a Department of Education and propose further reorganization and consolidation in economic development assistance, natural resources management, and surface transportation.

For the second year, my budget reflects detailed, Government-wide, zero-base budgeting. Agency programs were explicitly ranked by priority, and programs were ranked across agencies, in a new interagency, zero-base budgeting process.

For the first time, the budget reflects the 3-year budget planning system I have instituted to gain better control of the longer-range effects and direction of Government policies.

In this budget I am proposing a new system to control the growth of Federal credit activities, particularly federally-guaranteed credit.

Other important steps will be taken to improve the way the Government operates and the way it affects the private sector. To increase the efficiency of the private sector, the administration will eliminate unnecessary regulation where possible, and will minimize the redtape involved in necessary environmental and safety regulation. Further efforts will be made to reduce excessive paper work. State and local governments, private institutions, and citizens will benefit from simplified conditions for receiving Federal assistance. In particular, a number of programs have been consolidated to simplify the grant system, and more will be proposed in the future. The Government's own management will be improved through more effective cash management, application of the Civil

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Service Reform Act, and use of new offices of Inspectors General to identify waste and search out fraud and corruption.

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Preparing this budget reminds me once more of the overwhelming demands upon the Federal budget and of the limits on our resources.

I believe that we must firmly limit what the Government taxes and spends. We must balance public and private needs. We must set priorities more carefully. We must change some old priorities and establish new ones. We must defer some of our demands if we are to meet adequately today's most critical needs.

These principles have guided my actions in shaping this budget and they will continue to do so in the future:

—the budget must be kept within the bounds of what is appropriate in today's economic circumstances;

—the Government has no resources of its own, its only resources are those it collects from the taxpayer;

—Government action must be limited to those areas where its intervention is more likely to solve problems than to compound them; and,

—we have an obligation to manage with excellence and to maintain proper priorities within the $532 billion proposed in this budget.

I know that the Congress shares these beliefs. You, as well as the executive branch, are sensitive to the American people's concerns about the scope of Government, the burdens of taxes, the needs of our citizens, and the efficiency of public management. Indeed, the Congress in the last few years has taken important steps—in particular, through the establishment of the congressional budget process—to improve its own means of establishing priorities. I have worked closely with the Congress, and will continue in this spirit of cooperation.

I look forward to working with the Congress and its leadership on this budget.

The decisions I have made are difficult ones. They involve, not figures on a balance sheet, but the lives and future of the American people. I have chosen restraint in Government spending because inflation must be controlled. I have tried to be equitable in ordering priorities. Yet I have continued to support those programs that represent our most pressing needs. To do so I have terminated, reduced, or deferred other programs.

It is difficult to maintain a sense of strong national purpose when we do not face a clear and immediate crisis. But it is equally

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important. These are times when responsible leadership means anticipating those day-to-day actions that enable us to avoid crises and to build toward the future. This has been the fundamental purpose behind the decisions considered here, and that is the intent of this budget.

JIMMY CARTER.

JANUARY 22, 1979.

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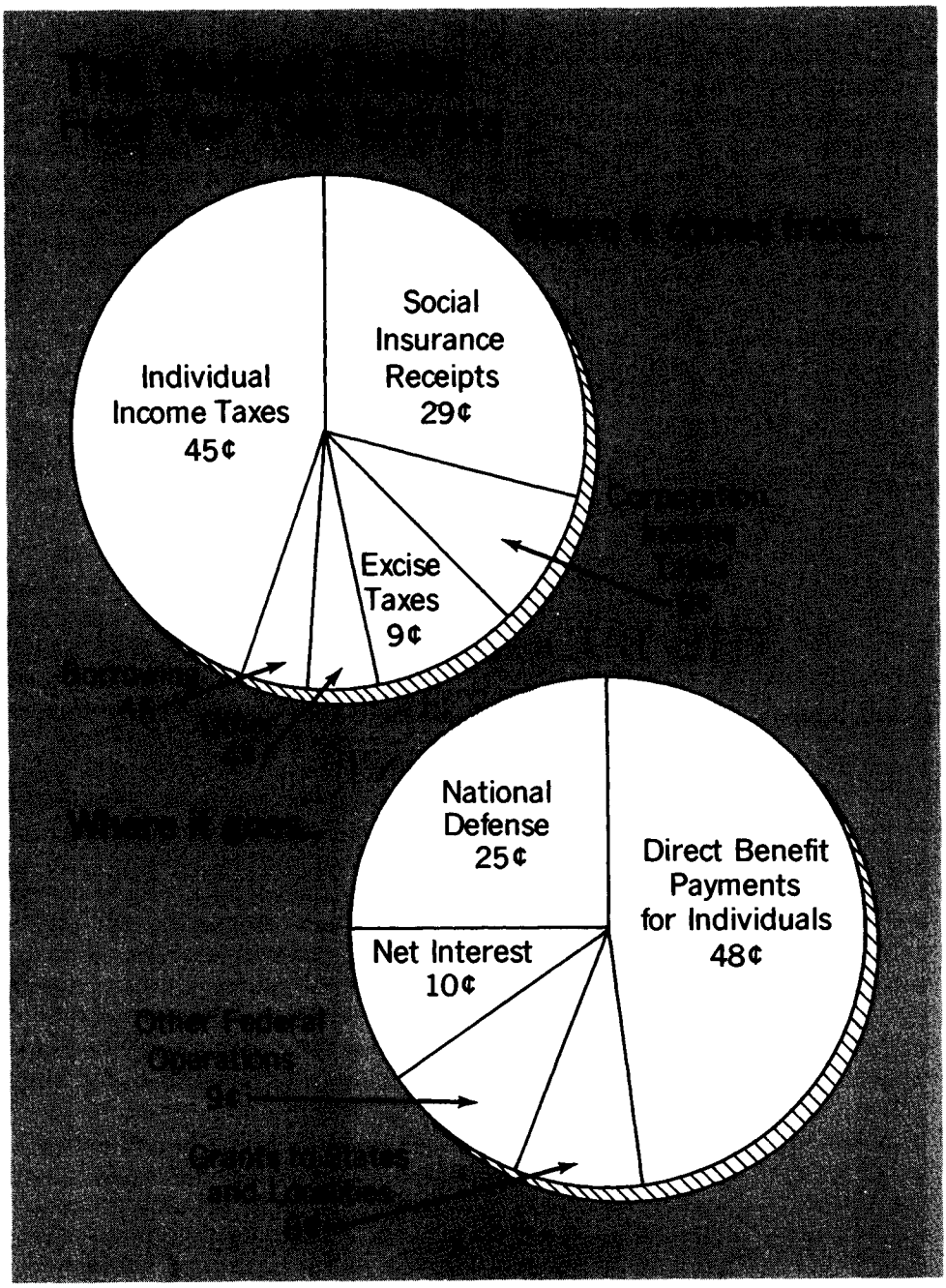

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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

My administration has faced a wide range of challenges at home and abroad, challenges stemming from our strengths, not our weaknesses: our strengths as a world leader, as a developed industrial nation, and as a heterogeneous democracy with high goals and great ambitions. Meeting these challenges satisfactorily requires that we establish priorities, recognizing the limits to even our Nation's enormous resources. We cannot do all that we wish at the same time. But we must provide for our security, establish the basis for a strong economy, protect the disadvantaged, build human and physical capital for the future, and safeguard this Nation's magnificent natural environment.

This budget provides for meeting these needs, while continuing a 4-year policy of prudence and restraint. While our budget deficits have been higher than I would have liked, their size has been determined for the most part by economic conditions. Even so, the trend has been downward. In 1976, the budget deficit equalled 4.0% of gross national product. This was reduced to 2.3% in the budget year that ended 3 months ago. The 1982 budget deficit is estimated to equal only 0.9% of gross national product.

The rate of growth in budget outlays has been held to a minimum. In spite of significant increases in indexed programs, outlays for nondefense programs—after adjusting for inflation—decrease slightly.

The 1982 budget calls for outlays of $739 billion, an increase of 1.0% when adjusted for inflation. Nondefense spending is projected to decline by 0.2% in real terms. The tax reductions I proposed as part of the economic revitalization program have been retained,

THE BUDGET TOTALS

(In billions of dollars)

	1980 actual	1981 estimate	1982 estimate	1983 estimate	1984 estimate
Outlays	579.6	662.7	739.3	817.3	890.3
Receipts	520.0	607.5	711.8	809.2	922.3
Surplus or deficit (−)	−59.6	−55.2	−27.5	−8.0	32.0
Budget authority	658.8	726.5	809.8	892.0	962.7
Credit budget	131.2	165.4	152.6	.....	.....

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but some have been delayed or phased in over a longer period in recognition of the continued high inflation rate. The budget deficit—which is now projected at $55.2 billion in 1981—is estimated to decline to $27.5 billion in 1982.

In planning this budget, I have considered four major issues:

- What is the economic policy that will ensure prosperity for all while minimizing inflation?
- How much of our Nation's wealth should be used by the Federal Government?
- What are desirable spending proposals and strategies for defense, human resources, and investment?
- How can the management of Government be improved?

THE ECONOMY

During the last decade we withstood a series of economic shocks unprecedented in peacetime. The most dramatic of these were the explosive increases of OPEC oil prices. But we have also faced world commodity shortages, natural disasters, agricultural shortages, and major challenges to world peace and security. Our ability to deal with these shocks has been impaired by slower productivity growth and persistent, underlying inflationary forces built up over the past 15 years.

Nevertheless, the economy has proved remarkably resilient. Real output has grown at an average annual rate of 3% since I took office, and employment has grown by 2½%. Nearly 8 million productive private sector jobs have been added to the economy. However, unacceptably high inflation remains our most difficult economic problem. This inflation requires that we hold down the growth of the budget to the maximum extent, while still meeting the demands of national security and human compassion. I have done so, as I did in my earlier budgets.

While budget restraint is essential to any appropriate economic policy, high inflation cannot be attributed solely to Government spending. The growth in budget outlays has been more the result of economic factors than the cause of them. For fiscal year 1981 alone, budget outlays must be increased by $9 billion over last year's estimate as a result of higher interest rates. Yet this increase results not only from inflation but from the monetary policies undertaken to combat it. Nearly $18 billion for 1981 reflects higher defense costs and higher automatic inflation adjustments than were anticipated a year ago.

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We are now in the early stages of economic recovery following a short recession. Typically, post-recessionary periods have been marked by vigorous economic growth abetted by stimulative policies such as large tax cuts or spending programs. I am not recommending such actions, because persistent inflationary pressures dictate a restrained fiscal policy. However, I continue to recommend specific tax reductions that contribute directly to increased productivity and long-term growth.

THE SIZE AND ROLE OF GOVERNMENT

We allocate about 23% of our Nation's output through the Federal budget. (Including all levels of government, the total government share of our gross national product is about one-third.) We must come close to matching Federal outlays with tax receipts if we are to avoid excessive and inflationary Federal borrowing. This means either controlling our appetite for spending or accepting the burden of higher taxes.

The growth of budget outlays is puzzling to many Americans, but it arises from valid social and national security concerns. Other developed countries face similar pressures. We face a threat to our security, as events in Afghanistan, the Middle East, and Eastern Europe make clear. We have a steadily aging population; as a result, the biggest single increase in the Federal budget is the rising cost of retirement programs, particularly social security. We must meet other important domestic needs: to assist the disadvantaged; to provide the capital needed by our cities and our transportation systems; to protect our environment; and to revitalize American industry.

I have been concerned with the proper role of the Federal Government in designing and providing such assistance. The Federal Government must not usurp functions that are best left to the private sector or to State and local governments. My administration has sought to make the proper assignments of responsibility, to resolve problems in the most efficient manner.

We have also recognized the need to simplify the system of Federal grants to State and local governments. Once again, I am proposing several grant consolidations in the 1982 budget, including a new proposal that would consolidate several highway programs. Previous consolidation proposals of my administration have been in the areas of youth training and employment, environment, energy conservation, airport development, and rehabilitation services. These consolidations are essential to improving our intergovernmental system. However, the Congress has so far agreed to consolidate only rehabilitation services grants. Therefore, I am proposing again the consolidations recommended earlier.

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MAJOR BUDGET PRIORITIES

Spending growth can be constrained; not easily, not quickly, but it is possible. My budget priorities have been established, once again, to achieve this goal in a responsible manner.

Three years ago, in my 1979 budget message, I outlined the following principles:

- The Nation's armed forces must always stand sufficiently strong to deter aggression and to assure our security.
- An effective national energy plan is essential to reduce our increasingly critical dependence upon diminishing supplies of oil and gas, to encourage conservation of scarce energy resources, to stimulate conversion to more abundant fuels, and to reduce our large trade deficit.
- The essential human needs of our citizens must be given high priority.
- The Federal Government must lead the way in investment in the Nation's technological future.
- The Federal Government has an obligation to nurture and protect our environment—the common resource, birthright, and sustenance of the American people.

My 1982 budget is again based on these principles.

Tax policy and economic revitalization.—I continue to believe that large inflationary individual income tax cuts are neither appropriate nor possible today, however popular they might appear in the short run. My economic revitalization program stresses tax reductions on a timetable that we can afford, and that will fight inflation by encouraging capital formation and increasing industrial productivity. This program stresses:

- simplification and liberalization of depreciation allowances;
- modification of the investment tax credit to encourage investment by temporarily depressed firms and by growing new firms;
- an income tax credit to offset increases in social security taxes;
- a liberalized earned income credit to also offset social security taxes and to encourage low-income earners to work;
- a working-spouse deduction to make more equitable the way working husbands and wives are taxed; and
- more favorable tax treatment for Americans in certain areas overseas to help American exports and strengthen the dollar.

Defense.—Maintaining a strong defense has been a primary objective of this administration. In order to meet the security needs of the Nation, real spending for defense increased in 1979 and 1980 by more than the 3% target I set at the NATO ministerial meeting

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in 1977. This real growth rate in defense spending has been maintained despite the adverse effects of higher than anticipated inflation, and restrained budgets.

To meet critical remaining needs, this budget includes a $6.3 billion supplemental request for 1981, largely for military pay increases and combat readiness. Together with congressional add-ons to my earlier 1981 request, this supplemental will increase defense programs almost 8% in real terms over 1980. For 1982 and beyond, the budget charts a course of sustained and balanced improvements in defense programs that will require real annual increases in funding of about 5% per year.

The budget request reflects a careful balance between the need to meet all critical defense needs, while maintaining fiscal restraint. There will be advocates for higher defense levels, but after careful review I do not believe that higher spending would add significantly to our national security. My budget already provides for the three major defense requirements:

- *Personnel recruitment and retention.*—Our armed forces can be no better than the quality of the people who serve in them. Accordingly, I recently approved the largest pay and benefits increase in history—a $4.5 billion compensation package that provides for an average compensation increase of 16%. This increase in base pay, plus better housing allowances, expanded enlistment and reenlistment bonuses, and special pay enhancements for submariners and other specialists, will help attract and retain highly qualified men and women.
- *Improving combat readiness.*—Increased compensation will be a key factor in overcoming key personnel shortages, which are the major source of readiness problems. In addition, there have been shortages in critical spare parts and, in a few cases, inadequate funds for training. The funds recommended by this budget should alleviate these problems.
- *Modernizing our forces.*—I also propose major investments to enhance substantially the capabilities of our forces. Strategic forces are being upgraded through continued procurement of Trident submarines and missiles, procurement of cruise missiles, modification of the B–52 bomber, and development of the MX missile. Army equipment, including tanks, armored vehicles, helicopters, and air defense and other missile systems, is being modernized. Fighter and attack planes are being added to Navy and Marine forces, and a continuing major shipbuilding program will add over 80 ships to our growing fleet between 1982 and 1986. The rapid deployment of our forces is being improved through the acquisition of more cargo ships and modification of airlift aircraft.

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Foreign aid.—Foreign assistance remains crucial in achieving our country's international political and economic goals. From the start of my administration, I have stressed the need for substantial increases in assistance to friendly nations, many of whom are drastically harmed by constantly increasing oil prices and other external economic and security pressures. At the same time, I have insisted upon improved management of both our security and development assistance programs.

In the first 2 years of this administration, the Congress reduced my foreign aid requests but permitted some program growth. For the past 2 years, however, the Congress has failed to pass regular foreign aid appropriations. Assistance programs in 1981 are being funded under a continuing resolution that provides amounts slightly above the 1979 levels in nominal terms, and substantially below them in real terms.

I believe in the need for higher levels of aid to achieve foreign policy objectives, promote economic growth, and help needy people abroad. Foreign aid is not politically popular and represents an easy target for budget reduction. But it is not a wise one. For 1982, therefore, I am requesting a foreign assistance program level that is higher by 14% in real terms than the amount currently available for 1981. This request would reverse the recent real decline in aid and demonstrate that the United States retains its commitment to a world of politically stable and economically secure nations.

The bilateral development aid budget includes a U.S. response to the 1980 Venice Summit agreement that the major industrial countries should increase bilateral aid for food production, energy production and conservation, and family planning in the developing countries. Such an effort to increase the availability of resources on which the industrial countries depend will serve U.S. national security, and will stimulate additional actions by the private sector in the recipient countries. This U.S. effort is planned in the expectation that the other Summit countries will also increase aid in these sectors, in response to the Venice Summit agreement. We hope this initiative will lead to agreement on arrangements for increased consultation and cooperation among the major industrial countries providing increased bilateral aid to these three vital sectors.

Energy.—My administration, working with the Congress, has established fundamental new policies that will profoundly change the way the Nation produces and uses energy. They have already led to more domestic exploration and to substantial energy conservation. This energy program represents a major long-range national commitment to meeting one of our most pressing problems. It includes:

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- Deregulation and decontrol of oil prices to be completed by October of this year.
- Establishment of the Synthetic Fuels Corporation, which will share with the private sector the risk in producing oil and natural gas substitutes that directly reduce U.S. oil imports.
- Support for energy research and development in technologies, such as solar and fusion energy, that the private sector would not finance.
- Development of the strategic petroleum reserve to reduce the impact of disruptions in world oil supplies.
- Energy conservation in public and nonprofit enterprises.
- Research on the environmental effects of energy production and use to assure that adverse effects on environmental quality are minimized.

Continuation of a sound energy policy is essential to the Nation's well-being in the coming decades. Such a policy must include the pricing of energy at its true cost, mechanisms to stimulate conservation, incentives for the continued development of our own domestic sources of energy, encouragement for longer-run renewable forms of energy, and equity for all our citizens as we adjust to this new reality.

Basic science and space technology.—Basic research is essential to the long-term vitality of the Nation's economy. Because the benefits of such investments cannot be fully realized by individual companies, the Federal Government plays a key role in supporting such research.

My budgets have reversed a long period of decline in Federal support for basic research. The 1982 budget continues that policy by providing for 4% real growth in support for the conduct of basic research across all Federal agencies. The budget also provides for greater efforts to foster cooperation among government, business, and universities in research.

In addition, we have recognized the growing importance of improving scientific technology in the Nation's universities as critical to the advancement of science and to the training of scientific and engineering manpower.

My administration's comprehensive space policy encourages the practical, effective use of information obtained from orbiting satellites and the coordinated use of the Space Shuttle, now nearing completion. Successful resolution of development problems is expected to lead to the first manned orbital flight of the Shuttle in 1981.

With these increases, Federal support for basic research will have increased by almost 58% over 1978.

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Social programs.—This budget supports my deep commitment to programs that help our citizens develop their full potential, and to programs assisting the poor, the unemployed, the elderly, and the sick.

The most extensive such programs are *social security* and *medicare.* Parts of this system are expected to experience short-run financing problems because higher than expected unemployment has decreased payroll taxes below previous forecasts, and high inflation has increased benefit payments. Therefore, the administration continues to urge the passage of legislation that would permit the three major social security trust funds to borrow from each other. In addition, it is essential that the Congress and the American people give early consideration to medium-term financing concerns.

The reports of the Commission on Pension Policy, which I established 2 years ago, and the National Commission on Social Security should stimulate constructive debate on these issues. These Commissions will complete their final reports during the coming months.

My administration has consistently maintained a strong commitment to remedying *youth unemployment* and the problems it causes. This budget includes an increase of $1.2 billion in 1982 and an additional increase of $0.8 billion in 1983 for the youth initiative I proposed last year. This initiative emphasizes the mastery of basic arithmetic and literacy skills, as well as the link between the classroom and the workplace.

The Job Corps would be continued at this year's level, serving twice as many youth as when my administration took office. In addition, my budget provides 240,000 public service jobs for low-income, long-term unemployed persons in 1982. This program is designed for the hard-core structurally unemployed, and includes substantial training in order to place men and women in permanent jobs. At the same time, the budget continues the countercyclical public service employment program through 1982 at the 100,000 level set by the Congress for 1981. The budget also provides a slight increase for the administration's private sector jobs initiative and essentially maintains the 1980 level of summer youth employment.

I am again proposing to augment medicaid with a *child health assurance* program effective by the end of 1982. This proposal, which the House of Representatives passed last year, would extend medicaid coverage to an additional 2 million children and pregnant women.

I am also proposing a number of changes in existing programs. For example, I am again proposing that retirement benefits for government employees be adjusted for inflation once, rather than twice, a year. This change would make these adjustments comparable to those for social security and most private sector automatic

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adjustment practices. The Congress approved a similar administration initiative last year for the food stamp program. This proposal would save $1.1 billion in 1982.

Benefits that are adjusted by statute for inflation will comprise nearly one-third of total Federal spending in 1981. During the last year, my administration has been assessing whether these adjustments are fair and equitable. We have concluded that the Consumer Price Index has several deficiencies as a measure of the true cost of living, particularly because of the manner in which it represents housing costs. I am therefore proposing, in this budget, that future benefits be based on an alternative, more representative index. The alternative index is already calculated and published by the Bureau of Labor Statistics. This proposal is designed to improve the technique of indexing these programs, not to reduce benefits. Therefore, no cost savings are assumed in the budget.

The budget also includes legislation to make unemployment benefits more nearly uniform among the States and to coordinate benefits more precisely with unemployment rates. Although this proposal would save about $2 billion in 1982 under the unemployment rates being projected for this budget, a slightly higher rate of unemployment would trigger extended benefits nationally. In such a case, unemployment benefits would be very close to those under current law. Even with the projected change, under current economic projections $1.5 billion would be paid in 1982 for extended benefits in States where the program is triggered.

I remain committed to a national health plan that would assure basic and catastrophic medical coverage for all Americans, as well as for prenatal and infant care. An estimated 22 million Americans lack any private or public health insurance coverage. Another 60 million people lack adequate basic coverage or protection against catastrophic medical expenses. Given the fact that adequate cost containment does not exist and the need for overall budgetary constraints, the budget does not include specific amounts for this plan. However, it is important that our Nation attempt to meet these needs and that the incentives in our health care system be restructured. A clear demonstration of success in restraining medical care costs is an essential prerequisite to the enactment of a national health plan.

My proposals to reform our welfare system should also be enacted as soon as possible. Such a program is essential to ensuring that no American goes hungry or lacks a reasonable income, and to provide needed fiscal relief to States, counties, and cities.

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IMPROVING GOVERNMENT MANAGEMENT

This budget reinforces my commitment to use resources not only wisely, but efficiently. During my administration we have:

- installed new Offices of Inspectors General in 15 major agencies to combat waste, fraud, and abuse;
- carried out a major Government-wide reform of the civil service system;
- reorganized important areas of the Federal Government, particularly those concerned with education and energy;
- reduced permanent Federal civilian employment by 45,000;
- achieved budgetary savings directly through improved cash management; and
- reduced paperwork and established a paperwork budget.

Such efforts to streamline the way the Government conducts its business are rarely dramatic. Improved efficiency is not the product of a simple sweeping reform but, rather, of diligent, persistent attention to many aspects of Federal program management.

One important aspect of improved management has been in the budget process itself. *Zero-base budgeting* is now an integral part of the decisionmaking system, providing a more systematic basis for making decisions. We have also instituted a 3-year budget planning horizon so that the longer range consequences of short-term budget decisions are fully considered and understood.

In 1978 I made a major commitment to establish a system of controlling *Federal credit* since, in the past, the very large Federal loan guarantee programs had largely escaped the discipline of the budget process. This system is now in place.

I am gratified that the Congress has supported these efforts to improve budget control. Appropriations bills now include limits on many credit programs. The congressional budget resolutions place significantly greater emphasis on longer range budget trends and set overall credit targets.

While the credit control system provides a means of assessing and limiting Federal credit programs, I believe Federal credit programs have become unduly complex and pose an increasing threat to the effective and efficient operation of private capital markets. In particular, the Federal Financing Bank has become a major and rapidly growing source of off-budget funds for direct loans to a wide range of borrowers.

Therefore, I am recommending that a panel of outstanding financial and budget experts should be established to examine these issues. Such a panel should consider the treatment of credit activities in the budget, the adequacy of program administration, uniform rules and procedures for Federal credit programs, the role of

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the Federal Financing Bank, and the relationship of tax-exempt financing to overall credit and tax policies.

CONCLUSION

My budget recommendations reflect the major changes that have taken place in our country over recent decades. In 1950, social security and railroad retirement benefits accounted for less than 3% of budget outlays. Last year they accounted for more than one-fifth of the total. Mandatory outlays for entitlement programs, the levels of which are fixed by law, for interest on the public debt, and for payments under binding contracts account for three-fourths of total budget outlays. Because so much of the budget is committed under current law before either the President or the Congress begins the annual budget formulation process, controlling budget growth has been difficult, and the results uneven. It has been difficult because benefit payments and other legal obligations have too often been spared from annual budget scrutiny. The results have been uneven because budget restraint has fallen disproportionately on programs subject to the annual appropriations process.

My administration and the Congress began to redress this imbalance in the 1981 budget. The Congress passed, and I signed into law, a reconciliation bill that for the first time was used as a mechanism for changing a variety of entitlement and tax programs. I do not propose that we break faith with the American people by arbitrarily or unfairly reducing entitlement programs. However, these programs developed independently, and they should be made less duplicative, more consistent, and more equitable. The size of these programs, and our need for budget restraint, requires that we address these problems. I urge the Congress to build upon last year's experience and review all aspects of the budget with equal care.

The allocation of one-fifth of our Nation's resources through the Federal budget is a complex, difficult, and contentious process. Restraint on any program, small or large, is usually subject to heated debate. At a time when there is broad consensus that the size of the Federal budget is too large, we can no longer—as individuals or groups—make special pleas for exceptions to budget discipline. Too often we have taken the attitude that individual benefits or particular programs or specific tax measures are not large enough to require restraint. Too often we have taken the attitude that there must be alternative sources for reductions in programs that benefit our particular group. This attitude is in part responsible for the rapid budget growth we have experienced—and can no longer afford.

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Given our Nation's needs and our economic constraints, my recommendations meet the fundamental demands of our society: a strong defense, adequate protection for the poor and the disadvantaged, support for our free enterprise economy, and investment in the Nation's future.

JIMMY CARTER.

JANUARY 15, 1981.

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PART 1

THE BUDGET MESSAGE OF THE PRESIDENT

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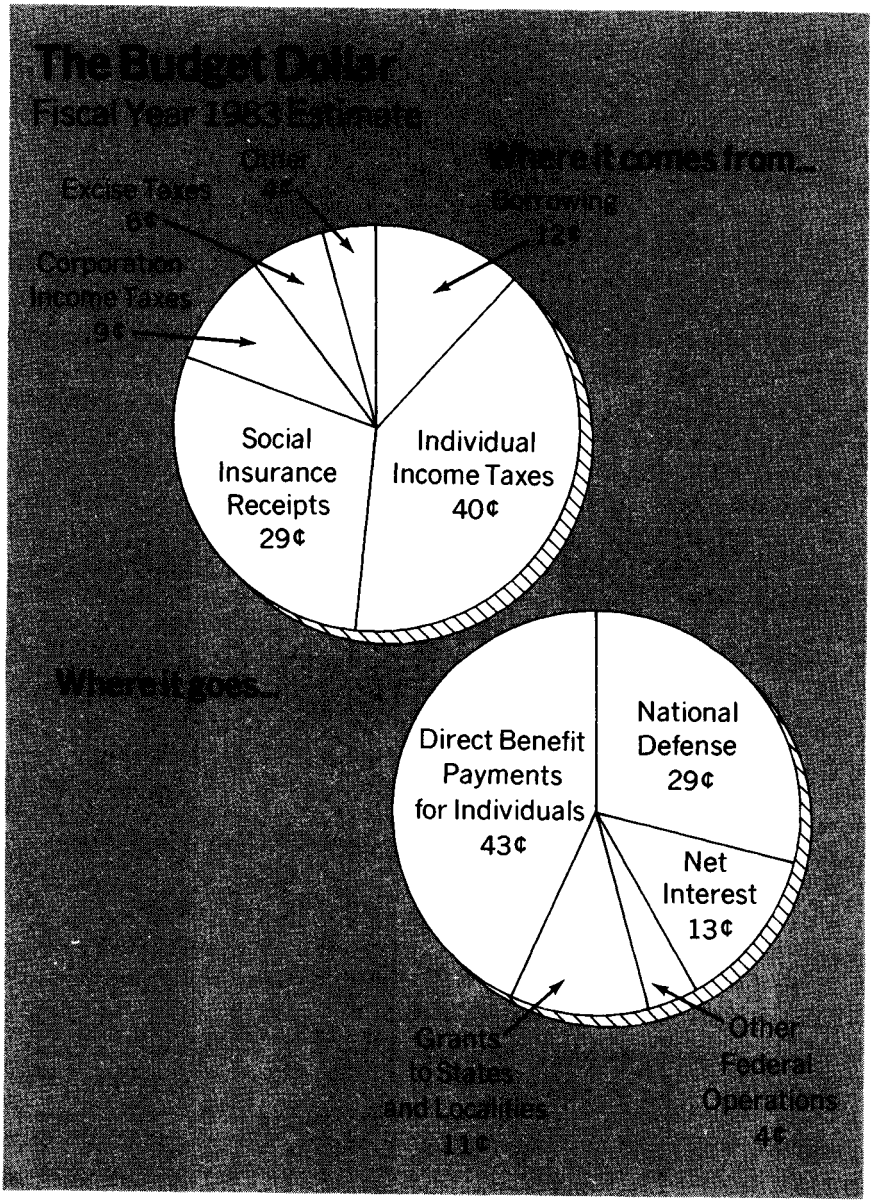

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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

One year ago, in my first address to the country, I went before the American people to report on the condition of our economy. It was not a happy occasion.

Inflation, interest, and unemployment rates were at painfully high levels, while real growth, job creation, new investment, personal savings, and productivity gains had virtually ceased. Our economy was staggering under the burden of excessive tax rates, double-digit inflation, runaway Government spending, counter-productive regulations, and uneven money supply growth. The economy, I declared, was in the "worst mess" in half a century.

To our great good fortune, there were many in the Congress who understood the nature of our difficulties and who rose with us to meet the challenge. Fundamental and long-overdue remedies were proposed and put in place. Together, we enacted the biggest spending and tax reductions in history. Counter-productive regulations have been swept away, and the Federal Reserve has taken action to bring excessive monetary growth under control.

The first year of the 97th Congress will be remembered for its decisive action to hold down spending and cut tax rates. Today, the question before us is whether the second year of this Congress will bring forward equal determination, courage, and wisdom. Clearly, there is a great deal more to be done.

Some seek instant relief from the economic problems we face. There is no such panacea. Our program began October 1, and it cannot solve in 4 months problems that have been building for more than 4 decades. All the quick fixes tried in the past not only failed to solve but actually aggravated our economic difficulties. They simply ensured a new cycle of boom and bust, of exaggerated hopes and eventual disappointment.

We did not promise the American people a miracle. We did promise them progress, and progress they will get.

Our goal was and remains economic recovery—the return of non-inflationary and sustained prosperity. We seek a larger economic pie to provide all Americans more jobs, more after-tax income, and a better life. Quick fixes won't get us there.

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What will get us there is firm resolve and unwavering adherence to the four fundamentals of our economic recovery program that I outlined to the Congress 1 year ago:

- Reducing personal and business taxes to stimulate saving, investment, work effort, and productivity.
- Reducing the growth of overall Federal spending by eliminating Federal activities that overstep the proper sphere of Federal Government responsibilities.
- Reducing the Federal regulatory burden in areas where the Federal Government intrudes unnecessarily into our private lives or interferes unnecessarily with the efficient conduct of private business or of State or local government.
- Supporting a moderate and steady monetary policy, to bring inflation under control.

At the same time, I have proposed strengthening the Nation's defenses, to restore our margin of safety and counter the Soviet military buildup.

Congressional response to these proposals has been positive and gratifying. While much remains to be done, we have made a good beginning.

The Nation's fiscal policy is now firmly embarked on a new, sound, and sustainable course. For the first time in 2 decades, the destructive pattern of runaway spending, rising tax rates, and expanding budgetary commitments has been slowed, and with the cooperation of the Congress this year, will finally be broken.

- Where the growth rate of spending had soared to 17.4% in 1980, it is now declining dramatically—to 10.4% this year, and, under the budget I am submitting, to 4.5% next year.
- Where budget growth totaled $166 billion from 1979 to 1981, spending will rise by only 60% of that amount from 1981 to 1983, despite cost-of-living adjustments and the needed defense buildup.
- After having reached 23% of GNP in 1981, the Federal Government's claim on our economy will steadily recede—to 22% in 1983 and to below 20% by 1987.
- After a decade of tax-flation in which fiscal and monetary excess fueled the unrelenting rise of prices and the automatic increase of taxes, significant tax rate reductions have been enacted. A permanent safeguard against bracket creep and Government profiteering on inflation—income tax indexing—has also been created.
- Where Government had passively tolerated the swift, continuous growth of automatic entitlements and had actively shortchanged the national security, a long-overdue reordering of priorities has begun, entitlement growth is being checked, and the restoration of our defenses is underway.

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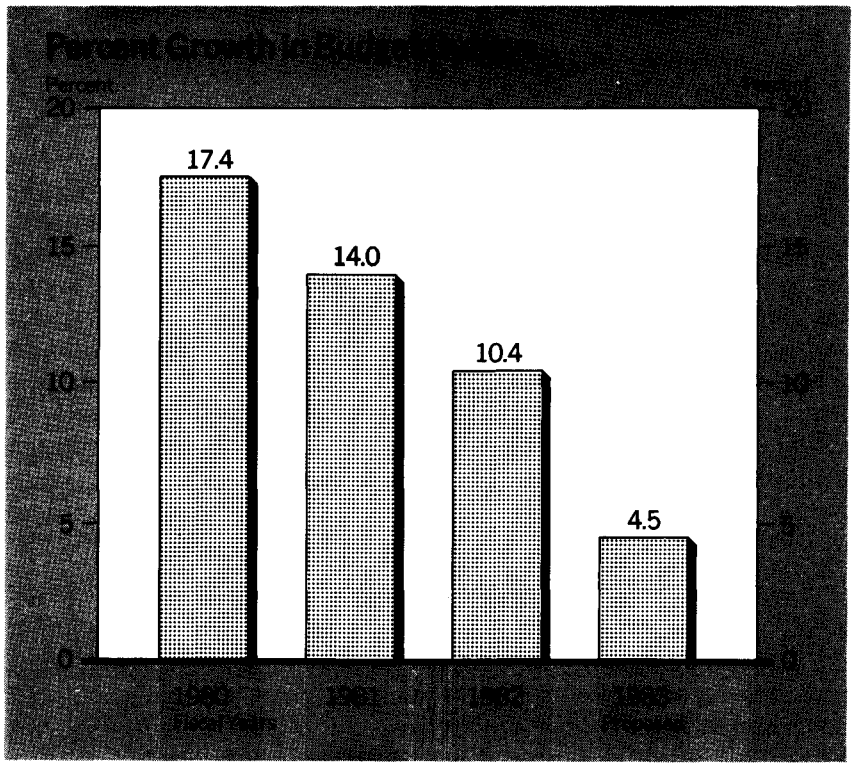

This dramatic progress in reordering fiscal policy has been paralleled by a similar redirection of monetary policy. The excessive, unsustainable, and eventually ruinous growth of money and credit of the past decade has been curbed. The inflation spiral has been broken. The growth of prices is slowing down. Peoples' savings are beginning to flow out of unproductive speculation, tangible assets, and other inflation hedges back into the Nation's financial arteries where they will be available to power economic recovery, more jobs, and growing incomes and opportunities.

THE BUDGET TOTALS

(In billions of dollars)

	1981 actual	1982 estimate	1983 estimate	1984 estimate	1985 estimate
Budget receipts	599.3	626.8	666.1	723.0	796.6
Budget outlays	657.2	725.3	757.6	805.9	868.5
Surplus or deficit (—)	—57.9	—98.6	—91.5	—82.9	—71.9
Budget authority	718.4	765.5	801.9	858.0	943.5

In short, we are putting the false prosperity of overspending, easy credit, depreciating money, and financial excess behind us. A

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solid foundation has been laid for a sound dollar, sustained real economic growth, lasting financial stability, and noninflationary prosperity for all Americans.

We are also moving to shackle the regulatory juggernaut that burdened production, consumed jobs, and diminished productivity growth. During the past year no significant new regulatory statutes were enacted and few major new regulations were imposed. Additions to the Federal Register declined by 23,000 pages. Benefit-cost analysis was made mandatory for regulations. Dozens of existing regulations were reviewed, modified, or eliminated. Without taking into account billions of dollars of savings from regulations never formally proposed because of the changed climate our program has created, quantifiable one-time cost savings of over $3 billion and recurring annual savings of nearly $2 billion have been realized. And the effort has just begun.

A YEAR OF HISTORIC ACHIEVEMENT

These remarkable achievements are the cornerstones of our national economic recovery program. They far exceed anything that the skeptics and critics ever dreamed possible just 1 year ago. They occurred because the executive and legislative branches of our Government joined together to respond to the mandate of the American people and overcome the impediments that had paralyzed Washington for a decade. Together, we have launched a process of reform and change that can transform the course of events.

The Economic Recovery Tax Act of 1981 is the largest, most comprehensive, and most constructive tax bill ever adopted. With the cooperation of the Congress and support of the public, it was enacted in just 5 months. It addressed and substantially remedied most of the tax system's shortcomings and disincentives that had accumulated over decades—distortions that were imposing an increasingly heavy toll on investment, economic growth, and job creation.

- The penalty tax rate on investment income has been eliminated. By dropping the top rate from 70 to 50%, the attractiveness of tax shelters will be reduced and the incentives for productive investment in stocks, bonds, new business ventures, and other financial assets will be increased. Our Nation's capital will again flow to the growth of business and jobs rather than to the vendors of protection from punitive taxation.
- Marginal tax rates have been significantly lowered for the first time in two decades. The 23% across-the-board rate reduction will mean $183 billion in lower taxes for individuals over the first 3 years. The financial reward for savings, work

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effort, and new production will stop diminishing and start rising once again.

- Powerful new incentives for savings have been established. Beginning this year, 50 million workers will be eligible for the first time to set aside tax-free up to $2,000 per year for Individual Retirement Accounts. The annual limit for existing Keogh and IRA investors will also be raised. By sharply altering the incentives for saving as opposed to consumption, a huge new flow of current income will be channeled toward restoring our productivity and lifting our national savings rate from last place in the industrial world.
- The taxation of phantom corporate profits has also been significantly curtailed. The new accelerated cost recovery system will shorten depreciation periods to 5 years for machinery and 15 years for structures. This will permit fuller recovery of asset costs, a more valid accounting of taxable profits, and a reasonable after-tax return on investments for the first time in years. By eliminating the drastic under-depreciation provided in previous tax law, after-tax business cash flow will be increased by $10½ billion this year and $211 billion over the next 6 years. This growing stream of funds for modernization, new machinery, new technology, new products, and new plants will revive our lagging productivity, restore our competitiveness in world markets, and spur the steady growth of jobs, production, and real incomes.
- The confiscatory taxing of estates and inheritances has been halted as well. By raising the exemption to $600,000, by lowering the rate to 50%, and by removing the limits on the marital deduction, 99.7% of all estates will eventually be exempt from estate taxation. Hard-working American farmers, small businessmen, investors, and workers can once again be confident that the sweat, sacrifices, and accumulations of a lifetime will belong to their heirs rather than their Government.
- Government profiteering on inflation has been abolished. Beginning in 1985, the individual income tax brackets, the zero-bracket amount, and the personal exemption will be corrected annually for inflation. Bracket creep will never again systematically plunder the rewards for production and effort. Government will never again use inflation to take a rising share of the peoples' income without a vote of their representatives.

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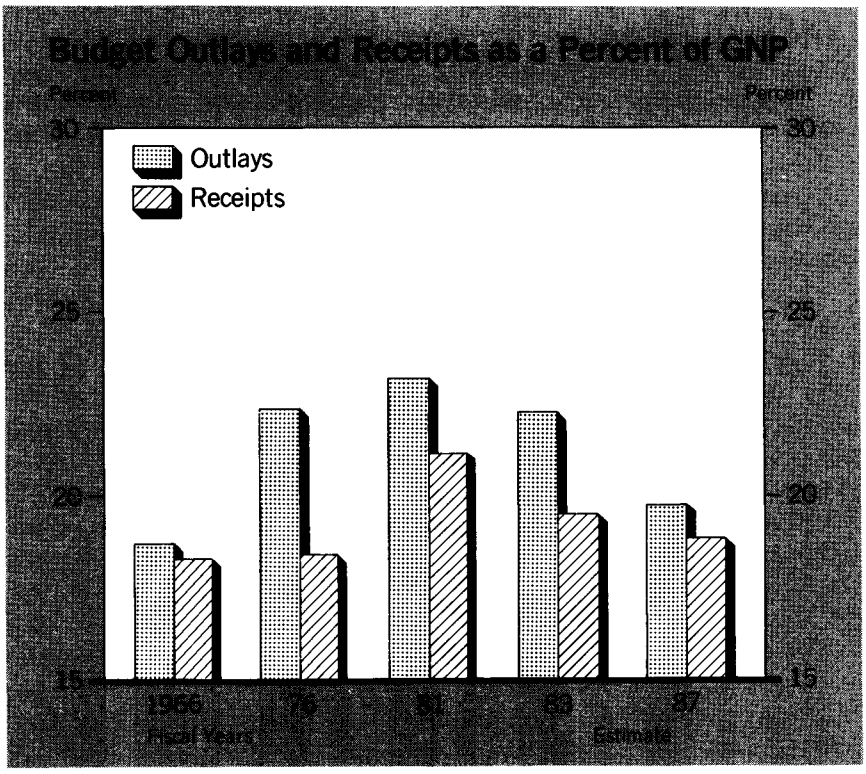

The past year's achievements on spending control and the reestablishment of budgetary discipline are no less impressive than the sweeping tax changes. For the first time ever, the Congress activated its central budgetary machinery and overcame the spending impulses of its fragmented parts. The Omnibus Budget Reconciliation Act of 1981 was a watershed in fiscal history—a giant step toward the restoration of fiscal discipline. By the accounting of its own Congressional Budget Office, spending will be $35 billion lower this year and about $130 billion lower over the next 3 years due to just one bill passed in only 5 months after having been considered by 30 different committees, a bill that reduced, reformed or eliminated hundreds of programs. The growth of budgetary outlays is at last being brought in line with the growth of the tax base and the national income. Excess spending commitments, unnecessary programs and overlapping activities were meaningfully addressed in the Reconciliation Act for the first time in decades.

- As a result of congressional action in 1981, the growth of entitlements will be reduced by $41 billion during the next 3 years. For the first time, eligibility standards for food stamps and student loans have been tightened. Unemployment benefits have been targeted to States where they are needed. Subsidies for non-needy students have been reduced in the school lunch program. Abuses of the medicaid, nutrition, and

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AFDC programs have been curtailed, saving $14.4 billion over the next 3 years. Overly generous and unaffordable twice-a-year cost-of-living adjustments for Federal retirees have been eliminated. The "uncontrollables" are being brought under control, and benefits have been retargeted where they are most needed.

- Dozens of ineffective or counter-productive programs have been eliminated or reduced. The $4 billion make-work CETA public sector jobs program was abolished. Extravagant dairy subsidies have been cut substantially. The ineffective $700 million Economic Development Administration is being phased out. The Community Services Administration has been eliminated. An unnecessary $2 billion in Government subsidies for new energy supplies and technologies has been cut. The excessively-funded impact aid program was substantially scaled back. In short, a long-overdue housecleaning of excess budgetary commitments was accomplished.
- Inappropriate Federal subsidies have been withdrawn. Legislation to return Conrail to the private sector has been enacted. The National Consumer Cooperative Bank has been privatized. Subsidies to the auto industry for new technology demonstrations have been eliminated. Operating subsidies to local mass transit systems are being phased out. Subsidies to exporters have been sharply curtailed. Subsidized disaster loans to financially viable businesses have been eliminated.
- A major stride toward rationalizing the structure, reducing the cost, and increasing State and local flexibility in the Nation's $91 billion grant-in-aid system has been enacted. Fifty-seven narrow, redtape-ridden categorical grants programs have been replaced with 9 block grants. The pages of regulation imposed on State and local governments have been reduced from over 300 to 6, while the cost to the Federal budget has been reduced.
- Total funding for nondefense discretionary programs has been reduced. After continuous growth for two decades, the budget cost of these programs will actually decline from $137 billion in 1981 to $130 billion in 1982.
- An impressive start at reducing fraud, waste, abuse, and unnecessary Government overhead was made. The President's Council on Integrity and Efficiency, established to coordinate a Government-wide attack on fraud and waste, saved $2 billion in the last 6 months of 1981 alone. A comprehensive effort to collect $33 billion in delinquent debts has been launched and will recover $1.5 billion in 1982 and $4.0 billion in 1983. These estimates include recoveries of delinquent taxes due to the Internal Revenue Service. Federal nondefense employment has been reduced by 35,000 since January

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1981. The cost of Government travel, publications, and consultants has been reduced substantially.

At the same time that the Congress joined in these long-overdue efforts to pare back the size of the Federal budget and slow its momentum of growth, it has fully supported our ambitious but essential plan to rebuild our national defense. A year ago every component of military strength was flashing warning lights of neglect, under-investment, and deteriorating capability. Today, health is being restored.

- Pervasive deficiencies in readiness—including too many units not ready for combat, too many weapons systems out of commission, too few people with critical combat skills, and too few planes and ships fully capable of their missions—are being corrected. Funds for operations and maintenance, including training and aircraft flying hours, have been boosted. Backlogs of combat equipment needing repair are being eliminated. Adequate supplies of spare parts necessary to support high operating rates for training, as well as to provide war reserves, are being purchased.
- The serious inadequacy in pay and benefits that threatened the all-volunteer force, caused an exodus of skilled personnel, and sapped morale throughout the armed services has been corrected. Last year's 14.3% pay increase has improved recruit quality, boosted reenlistment rates, stopped the drain of critical skills, and contributed to the dramatic revival of morale in our military services. End-strength goals are now being exceeded. In addition, the percentage of recruits with higher test scores has risen in the past year.
- Critical investments in conventional and strategic force modernization are now moving rapidly forward. A new bomber for early deployment and an advanced (Stealth) bomber for the 1990's have been approved to retain our capability to penetrate Soviet air defenses. Development of a new, larger, and more accurate MX missile to preserve our land-based deterrent is proceeding. A 5-year shipbuilding program including 133 new ships and a total investment of $96 billion—double the 5-year program of the previous administration—has been launched. Rapid production of new combat systems including the M-1 Abrams tank, the AV-8B Marine Corps attack aircraft and the F/A-18 Navy tactical fighter have been approved. Improvements in our airlift and sealift forces to transport equipment and soldiers rapidly to counter military aggression anywhere in the world, are moving forward.

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NO TIME TO RETREAT

These achievements of the first year truly constitute a new beginning. In every major dimension of national strength and well-being we have launched the redirection of policy that was so desperately needed and so long overdue. We are ending the destructive inflation and the financial disorder built up over a decade. We have removed the yoke of over-taxation from our workers and our business enterprises. We have begun to dismantle the regulatory straitjacket that impeded our commerce and sapped our prosperity. And we have reversed the dangerous erosion of our military capabilities.

The task before us now is a different one, but no less crucial. Our task is to persevere; to stay the course; to shun retreat; to weather the temporary dislocations and pressures that must inevitably accompany the restoration of national economic, fiscal, and military health.

The correction of previous fiscal and monetary excesses has come too late to avert an unwelcome, painful, albeit temporary business slump. In the months ahead there will be temptation to resort to pump-priming and spending stimulus programs. Such efforts have failed in the past, are not needed now, and must be resisted at every turn. Our program for permanent economic recovery is already in place. Artificial stimulants will undermine that program, not reinforce it.

Likewise, previous excesses in money and credit growth have resulted in financial strain in many regions and sectors of our national economy. The adjustment to lower inflation and a more moderate money and credit policy did not come soon enough to avoid interest rates and unemployment far higher than we would like, and that we are working to reduce. But these effects are temporary. They cannot be remedied by a return to rapid, unsustainable expansion of Federal spending and money growth, which would drive inflation and interest rates to new highs. Our hard-won gains in reducing inflation must be preserved and extended—because permanent reduction of interest rates and unemployment is impossible if the fight against inflation is abandoned, just when it is being won.

Similarly, our budget deficits will be large because of the current recession, and because it is impossible in a short period of time to correct the mistakes of decades. But our incentive-minded tax policy and our security-based defense programs are right and necessary for long-run peace and prosperity, and must not be tampered with in a vain attempt to cure deficits in the short-run. The answer to deficits is economic growth and indefatigable efforts to

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control spending and borrowing. These principles we dare not abandon.

THE DEFICIT PROBLEM: ITS ORIGINS

Despite the new course we have charted and the gains we have achieved, the voices of doubt, retreat, and rejection are beginning to rise. They conveniently forget that the present business slump was not caused by our program but is the result of the accumulated burdens of past policy errors, which we have taken action to redress. They fail to comprehend that our spending cuts and tax reductions were not designed to redistribute the output of a stagnant economy, but to revive the economy's growth and to increase its size—for the jobless as well as the affluent, for those who aspire to get ahead as well as those who have already arrived.

Increasingly, the larger budget deficits that we unavoidably face are offered as evidence that our entire course should be recharted. The matter of budget deficits, therefore, must be addressed squarely. We must fully comprehend why they have grown from our original projections, why they may remain with us for some time to come, what dangers they pose if not vigorously combatted and what steps we can and must take to steadily reduce their size and drain on our available savings.

Our original plan called for a balanced budget in 1984. Balance is no longer achievable in 1984, but the factors that have postponed its realization are neither permanent nor cause for abandoning the goal of eventually living within our means.

In the near term, the most important setback to our budgetary timetable is the recession now underway. During 1982, receipts will decline by $31 billion and outlays rise by $8 billion due to the falloff of business activity and the increase of unemployment-related payments. This factor alone accounts for nearly all of the difference between the $45 billion 1982 deficit we projected last year and our current estimate of $98.6 billion.

While the recession will end before this fiscal year is over, its budgetary impact will spill over for many years into the future. It will take time for the unemployment rate to come down and safety net payments to diminish. The growth of receipts will recover, but not at the levels previously projected. This will add billions to deficits for 1983 and 1984.

The second major factor widening the deficit projection is interest payments on our trillion dollar debt. Here we are being penalized doubly for the misguided policies of the past.

The discredited philosophy of spend and spend, borrow and borrow, saddled us with a permanent debt burden of staggering dimensions. This year's interest payment of $83 billion exceeds the size of the entire Federal budget as recently as 1958.

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In addition, past fiscal, monetary, and credit excesses have resulted in temporarily high interest rates—rates that will come down, but only as inflation abates, private and public financing practices adjust, and long-term confidence rebuilds. Since market confidence has been so badly shaken by runaway inflation and interest rates in the past 3 years, it is apparent that interest rates over the next several years will fall less rapidly than we had originally anticipated. Between the huge inherited base of national debt, the higher interest rates, and the large prospective additions to the national debt in the next several years, our total debt service costs will rise substantially.

Interest payments on the debt will exceed our original projections by $18 billion in 1982, $32 billion in 1983, and $182 billion over 1982–86 taken as a whole. The interest rate/debt service factor, then, constitutes a major source of the setback to our budget timetable. But let us be clear about its origins: it arises primarily from a legacy of past excesses, not from a shortfall in our current budget control efforts, nor from a flaw in our overall program.

The third and most important factor contributing to the growth in deficit projections is quite simply the ironic by-product of our rapid and decisive success in bringing down the rate of inflation. Our economic forecast last February projected a 9.5% inflation rate in calendar year 1981 and a further decline to 7.7% in 1982. This projection was scorned by many as too rosy just 1 year ago. Yet the actual inflation rate in 1981 turned out to be lower than our projection, and the inflation decline this year and next year almost certainly will exceed our earlier projections.

This is welcome news to every American and we have adjusted our inflation forecast accordingly. But lower rates of price increase also mean lower inflation components in wages and incomes and a reduced flow of inflation-swollen tax receipts to the Treasury.

This point is not merely academic. Over the next 5 years, our forecast projects a 9.9% average rate of growth in nominal GNP reflecting a steady fall of inflation to about 4½% by 1987. If nominal GNP growth were just 2% higher each year, reflecting a continuation of higher inflation, Federal receipts would be enlarged by the staggering sum of $353 billion over the 5 years. On paper, at least, the budget would be nearly balanced in 1987 rather than more than $50 billion in deficit.

But if the last decade offers any lesson, it is that we cannot inflate our way to budget balance. Indeed, every budget from 1975 forward projected a balanced budget 2 years into the future and growing surpluses in the out-years. Not one of these surpluses materialized for a very compelling reason: the monetary excesses needed to finance inflationary growth of wages and incomes are the enemy of savings, investment, real economic growth, and fun-

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damental business confidence and financial stability. They lead to the kind of pervasive economic breakdown that we experienced during 1979–81—a breakdown that swells Government spending, interrupts the flow of receipts, and causes prospective budgetary surpluses to vanish in a flow of red ink.

Thus, we cannot and will not pursue the will-o'-the-wisp of reflation nor the phantom of future budget surpluses premised on a continuance of high inflation.

Instead, we must recognize that for a period of time, success in our unyielding battle against inflation will appear to work against our goal of a balanced budget. Thus, while our current revenues will reflect the decline of inflation today, part of our current outlays will reflect the higher rates of inflation in years past. This is especially true in the case of some $249 billion in indexed programs. Generally, the inflation rate used to adjust indexed benefits lags a year or more behind the current payment period. During 1983, for example, an inflation rate of 6.5% is projected, but cost-of-living adjustments to social security and other program benefits will be 8.1% based largely on the actual inflation experience of 1981. Much the same is true of the $96.4 billion in debt service for 1983. Some part of that will reflect the higher cost of debt securities issued in 1980–82 when inflation and interest rates will have been higher than is now projected for 1983.

Thus, the conquest of inflation will contribute to budgetary imbalance for some years to come. But these deficits will prove manageable if we understand why we have them and redouble our efforts to reduce them.

The final factor contributing to the worsening of the deficit outlook is that all of the budget savings we had planned for last year were not actually achieved. Most importantly, our plan to ensure the short- and long-run solvency of social security was discarded by the Congress. In an effort to eliminate partisanship and facilitate movement toward a constructive solution, our reform proposal has been withdrawn in favor of a bipartisan commission charged with developing a plan to rescue the social security system by next fall. I am confident that the commission will do just that, but in the meanwhile our outlay projections must be increased by $6 billion in 1983 and $18 billion for 1987.

Likewise, the Congress failed to adopt all of the reforms we proposed for medicaid, guaranteed student loans, food stamps and other entitlements. Without further action, about $4 billion would be added to the 1983 deficit in these areas alone. While major and unprecedented action was taken to curb the growth of entitlements last year, the shortfall is still substantial. Entitlement reforms not acted upon by the Congress last year will add nearly $20 billion to the deficit over the next 3 years. When this is combined with

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substantial added outlays for farm subsidies and for discretionary programs that were not reformed, it is clear that the task of budget control is far from complete.

THE BUDGET DEFICIT IN PERSPECTIVE

Taken together, the effects of recession, higher interest rates, declining inflation, and incomplete congressional action will mean high, continuing, and troublesome Federal budget deficits. Constant vigilance and relentless efforts to pare back future spending and borrowing will be imperative to ensure that they are not permitted to worsen and add further pressure to financial markets and interest rates.

Nevertheless, three features of these high deficit numbers must not be lost sight of even as we seek eventually to eliminate them.

First, even the 1982 deficit of $98.6 billion is not unprecedented in the context of a recession and recovery cycle. Relative to the present size of the U.S. economy, the budget deficit would have been $94 billion for 1975, followed by deficits of $139 billion, $91 billion and $97 billion in the next 3 years, respectively.

Second, these deficits reflect the excess spending commitments of past rather than new spending programs with potential to grow in the future. That means that by remaining firm in our efforts to reduce waste and excess, reform entitlements, reduce low priority spending, and gradually return domestic programs back to State and local governments, the gap between spending subject to firm fiscal discipline and revenues being lifted by steady economic expansion will gradually diminish.

Finally, the share of GNP taken in taxes will be substantially lower and the incentives for savings markedly stronger. This expansion of the total savings supply will increase our capacity to absorb deficits and give us additional time to work toward their elimination.

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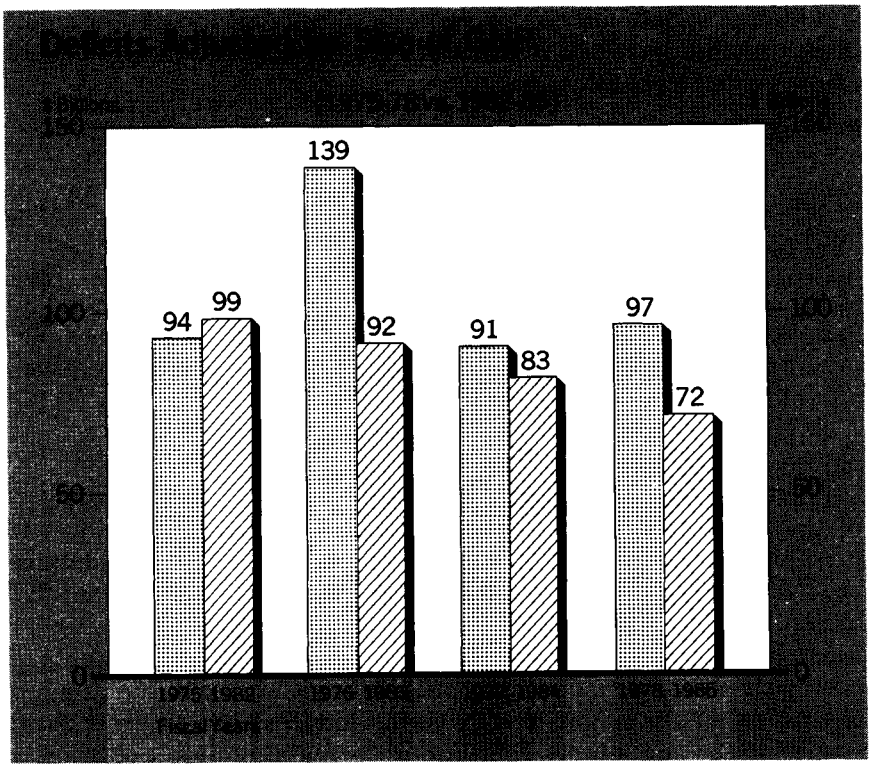

$239 BILLION DEFICIT REDUCTION PLAN

The prospect of high deficits during the transition to strong economic growth and low inflation contains a profound warning: any relaxation of our budget control efforts, any backsliding to spending politics as usual, any retreat to time-worn excuses about "uncontrollables"—that results in spending growth significantly above our projections, will mean a serious threat to the progress of our entire economic recovery program. There is precious little margin for shirking or diluting the task the American people have charged us with. That task is nothing less than a constant, comprehensive, ceaseless search for ways to reduce the size of Government and the future growth of its spending.

The 1983 budget I am presenting to the Congress faithfully adheres to that mandate. If all proposed measures are adopted, the prospective deficit will be reduced by $56 billion next year, $84 billion in 1984, and $99 billion in 1985. In short, the budget this year represents much more than simply a tabulation of accounts or a compilation of spending decisions, large and small. Instead, it represents a far-reaching, resourceful, and integrated blueprint for reducing the prospective deficit by $239 billion over the next 3 years. It is a bold action plan that, if faithfully implemented, can cut the prospective deficits over that period by nearly 50%.

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Our plan for deficit reduction consists of five parts. It addresses each area of the budget where actions to reduce the gap between spending and revenues are possible and desirable.

The first area concerns nonsocial security entitlements. Despite the heartening progress we made toward reform last year, the cost of these automatic spending programs will rise to $201 billion in 1983 without further action. This figure compares to only $119 billion in 1979.

Thus, our 1983 budget proposals continue the objective set out previously: to reduce the swift growth of automatic entitlements while preserving benefits for the truly needy. If acted upon fully by the Congress, these new reform measures will save $12 billion next year and $52 billion over the next 3 years. They include new steps to tighten eligibility, reduce errors and abuse and curtail unwarranted benefits in the welfare, medical, and nutrition programs. The explosive growth of medical programs—16.7% per year since 1978—will be contained with tighter reimbursement standards for providers, modest copayment requirements for medicaid beneficiaries, and, later in the year, a comprehensive plan to reform the health care reimbursement system and provide new cost control incentives for all participants. We have also proposed measures to target guaranteed student loans better to those with financial need and to limit the cost growth of Federal military and civilian retirement programs.

Nevertheless, let me be clear on this point. Our administration has not and will not turn its back on our elderly or needy citizens. Under our new budget, funding for social insurance programs will be more than double the amount spent only 6 years ago. For example, the Federal Government will subsidize 95 million meals every day. That is one of every seven of all meals served in America. Headstart, senior nutrition programs, and child welfare programs will not be cut from the levels we proposed last year.

The second component of our deficit reduction plan covers domestic discretionary and other programs for purposes ranging from agricultural research to housing subsidies and manpower training. Our proposed savings here total $14 billion next year and $76 billion over the next 3 years.

These savings measures involve two essential principles. First, where programs are unnecessary, can be better targeted or can be significantly streamlined, we have proposed substantial reductions. Our proposals to convert the fragmented and wasteful CETA training program to a block grant, to target low-income energy assistance to the colder States where it is needed, to combine the WIC program with the child and maternal health block grant, and to further reduce subsidies to business for energy technology development and commercialization are all examples of this principle.

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The other principle governing discretionary programs is that we have generally not provided inflation allowances for them. This will provide a powerful incentive to reduce overhead, waste, and low-priority activities and ensure that the money we spend for many worthwhile purposes in the areas of education, transportation, community development, and research is utilized in the most efficient and productive manner possible. Our deficit problem is simply too severe to permit business as usual to continue any longer.

The third component of the deficit reduction program involves user fees, or more appropriately, the recovery of costs borne by the taxpayers generally, but that predominantly benefit a limited group of businesses, communities or individuals. Total savings would amount to $2.5 billion in 1983 and $10 billion over the next 3 years.

While the Congress made great strides on most of our proposed budget cuts last year, the user fees proposals were a noticeable and disappointing departure from this pattern. The case for action now is even stronger than it was last year. With sacrifices required of almost every beneficiary of Federal programs, it is simply inexcusable and intolerable that yacht owners escape without paying even a small part of the Coast Guard services; or that commercial and general aviation are not paying the cost of the air traffic control system that ensures their safety; or that ship and barge operators do not pay a fair share of the costs of waterways maintained by the Federal Government. Our user fee package corrects these and similar shortcomings in current budget policy and will contribute significantly toward reducing the deficit.

The fourth part of the plan is aimed at the executive branch and the most inexcusable of all forms of spending: lax management, the toleration of fraud and abuse, the failure to recover debts owed the Government or to dispose of properties it does not need, and outdated, inefficient, procurement practices.

Our fiscal plan has always assumed that our new management would take hold, and that savings would be possible in areas we have simply never looked at before. After 1 year, our new management team has indeed taken hold, the results to date have been impressive, and our plans for future savings are bold and far-reaching. All told, these efforts will reduce the budget deficit by $20 billion next year and $68 billion over the next 3 years.

We will collect the debts we are owed and the taxes we are due. New legislation will be needed in some cases, but much of these savings will flow from tighter, more aggressive management throughout executive branch agencies.

Likewise, we will move systematically to reduce the vast Federal holdings of surplus land and real property. It is estimated that the

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Federal Government owns approximately 775 million acres, and 405,000 buildings, covering about 2.6 billion square feet. Some of this real property is not in use and would be of greater value to society if transferred to the private sector. During the next 3 years we will save $9 billion by shedding these unnecessary properties while fully protecting and preserving our national parks, forests, wildernesses and scenic areas.

Our management efforts will also be directed toward the more cost-effective procurement of the goods and services required by the Federal Government. The changes we seek will increase competition for the Government's business, reduce and simplify paperwork and regulations, and develop better standards for our procurement processes and personnel. Over time these efforts will yield large outyear savings not included in the budget totals.

Finally, our emphasis thus far has been on reducing excessive tax rates and shrinking the Government's take from the paychecks of workers and the profits of business. On that principle we will not waver. But that does not mean unintended loopholes should go uncorrected, that obsolete tax incentives should be continued, or that profitable business should not contribute at least some minimum fair share to the cost of financing Government. Thus, our deficit reduction plan includes $34 billion over the next 3 years in additional receipts from new initiatives in these areas.

About one-third of this total is attributable to our proposal to strengthen the minimum corporate tax, and a substantial share of the other tax revisions will also affect business. In every case, these measures involve the collection of a tax that is owed now or that was intended by the Congress, or elimination of incentives that are no longer needed due to the sweeping reform of business taxation contained in the Economic Recovery Tax Act of 1981.

These new proposals will have no adverse impact on our economic recovery program, are fair and equitable, and will contribute significantly to the reduction of future deficits.

CONTINUING THE RESTORATION OF NATIONAL DEFENSE

Our 1983 budget plan continues the effort begun last year to strengthen our military posture in four primary areas: strategic forces, combat readiness, force mobility, and general purpose forces.

A thorough 8-month review of U.S. strategic forces and objectives preceded my decision this past October to strengthen our strategic forces. The review found that the relative imbalance with the Soviet Union will be at its worst in the mid-1980's and hence needs to be addressed quickly. It also concluded that the multiple protec-

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tive structure basing proposal for MX did not provide long-term survivability since the Soviets could counter it (at about the same cost) by simply deploying more warheads.

In addition, our review pointed to serious deficiencies in force survivability, endurance, and the capability to exercise command and control during nuclear war. Current communications and warning systems were found to be vulnerable to severe disruption from an attack of very modest scale.

The 1983 budget funds programs to correct these deficiencies. The 1983 strategic program of $23.1 billion, an increase of $6.9 billion over 1982, provides for both near-term improvements and longer-term programs. These initiatives include:

- Early deployment of cruise missiles on existing bombers and attack submarines.
- Acquisition of a new bomber (the B–1B) and development of advanced technology (Stealth) bomber for deployment in the 1990's to provide a continued capability to penetrate Soviet defenses.
- Development and procurement of a new, larger, and more accurate land-based missile, the MX.
- Continued deployment of Trident ballistic missile submarines to strengthen the sea-based leg of our strategic deterrent.

Longer-term programs include: development of a survivable deployment plan for the MX missile, development of a new submarine-launched ballistic missile, continued improvements in the survivability of warning and communications systems, and improvements in strategic defenses against both bomber and missile attacks.

The 1983 budget provides $114.3 billion in operations and military personnel costs, an increase of over $13 billion from the 1982 level to improve the combat readiness of our forces.

Today a major conflict involving the United States could occur without adequate time to upgrade U.S. force readiness. Our concerns with military readiness reflect both the long lead time required to procure sophisticated equipment (both parts and finished equipment) and past failures to provide adequate peacetime support for combat units. We cannot wait for a period of rising tensions before bringing forces up to combat readiness.

My program will continue to bolster combat readiness by increasing training, operating rates, and equipment support. There will be increased aircraft flying hours and supply inventories. In addition, backlogs of combat equipment and real property awaiting maintenance will be reduced. Also, the 1983 budget will provide levels of military compensation that will improve the readiness and capability of the All Volunteer Force.

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Current U.S. mobility forces cannot move the required combat or combat support units fast enough to counter effectively military aggression in Europe, Korea or in the Southwest Asia/Persian Gulf region. For example, at present only a small light combat force could be moved rapidly to the Southwest Asia region. Major mobility shortages include wide-body military cargo aircraft; fast logistics ships; and prepositioned ships and associated support equipment. Elimination of these shortages is an essential first step toward improving U.S. military capability during the first 30 days after the beginning of a crisis.

The 1983 budget provides $4.4 billion for:

- Initial procurement of a fleet of improved C–5 cargo aircraft, and additional KC–10A tanker/cargo aircraft that will double our wide-bodied military airlift capability by the 1990's.
- Continued upgrading of existing C–5A aircraft to extend their effectiveness beyond the year 2000.
- Conversion of four additional fast logistic ships that will provide the capability to move heavy combat forces rapidly.
- Chartering a fleet of supply ships that can be stationed with equipment and supplies in Southwest Asia to reduce the time required for deployment of heavy forces.

In the last decade, the Soviet Union introduced large quantities of highly capable, new-generation tactical equipment including combat ships, tanks and aircraft, which must be countered by modernized U.S. forces. Also, the traditional U.S. superiority in system quality has been considerably narrowed, making Soviet quantitative advantages more serious. The Soviet military force buildup has increased the risk that they may rely on military power to support their foreign policy goals. For the U.S. to maintain, in concert with our allies, sufficient conventional forces to deter potential aggression, our forces must be provided with adequate numbers of new, modern tactical equipment.

My 1983 budget includes $106.2 billion for general purpose forces (including both operations and investment), an $18 billion increase over 1982. A key initiative is an expanded shipbuilding program. The United States, dependent on open seas for commerce and military resupply, must have the naval capability to maintain control of vital sea lanes. While our naval forces have declined from the mid-1960's, the Soviets have in existence or under construction eight new classes of submarines and eight new classes of major surface warships, including nuclear-powered cruisers and new aircraft carriers.

The budget provides an $18.6 billion shipbuilding program including full funding for two nuclear-powered aircraft carriers, to be constructed during 1983–87. Other ships included in my 1983 program are three large cruisers equipped with an advanced air de-

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fense system; two nuclear-powered attack submarines; two frigates for convoy protection and four mine countermeasure ships to improve fleet capability to operate in mined waters. My longer term objective is to increase the deployable battle force from 513 ships in 1982 to over 600 by the end of the decade.

In addition, the budget provides for increased production of ground and tactical air force weapons. Production rates will be increased for a variety of new systems such as the M-1 Abrams tank, light armored vehicles, and the AV-8B Marine Corps attack aircraft.

All of this will be done with a major reform of the acquisition process and vastly improved management of defense operations, which will save $51 billion by 1987. In a continuing fight against fraud, waste, and inefficiency, the Secretary of Defense has appointed an Assistant for Review and Oversight and a Council on Integrity and Management Improvement.

REVITALIZATION OF AMERICAN FEDERALISM

The Constitution provides clear distinctions between the roles of the Federal Government and of the States and localities. In their wisdom, our founding fathers provided for considerable flexibility so that in following centuries these responsibilities could be adapted to new conditions. But in recent years we have not adapted well to new conditions. We have created confusion as to who is responsible for what. During the past 20 years, what had been a classic division of functions between the Federal Government and the States and localities has become a confused mess. Traditional understandings about the roles of each level of government have been violated.

Governments at all levels have had and will continue to face various problems. But, as Governor of California, I learned that a problem in one part of the country does not automatically mean that we need a new Federal program in all 50 States. Yet that is what has happened.

In 1964, total Federal grants to State and local governments were $10 billion. By 1980, total Federal grants to States and localities exceeded $90 billion, meaning that 18% of Federal tax receipts were being passed through to States and localities for one reason or another. However, these funds were not passed through entirely benignly. Attached to them were Federal rules, mandates, and requirements. This massive Federal grantmaking system has distorted State and local decisions and usurped State and local functions.

I propose that over the coming years we clean up this mess. I am proposing a major effort to restore American federalism. This transition over nearly 10 years will give States and localities the time

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they need to plan for themselves when and how to meet State and local needs that are now being met with Federal Government funds. My proposal will also make available to the States and localities the tax resources that would otherwise fund these programs by the Federal Government.

In coming weeks, we will have intensive discussions with local and State officials, the Congress, and many others to hammer out a proposal I will soon send to the Congress. Essentially, I believe the Federal Government should assume full responsibility for the medicaid program which assures adequate health care for the poor. In contrast, financial assistance to the poor is a legitimate responsibility of States and localities. I am proposing, therefore, that the aid to families with dependent children (AFDC) and food stamp programs be turned over to the States. This swap will clarify responsibilities substantially because these programs will become the clear responsibility of one level of government or another. That responsibility is now mixed.

In addition, I propose that more than 40 current grant-in-aid programs costing the Federal Government about $30 billion a year be turned back to the States and localities, along with the funds to pay for them. During the period 1984–87, these programs will be funded by a specially designated set of taxes to be used exclusively for financing this transition program. These taxes will be deposited in a fund that will belong to the States. Each State will be able to make its own decision on how rapidly to phase out the turnback programs. This is because each State will have two options: it may use its share of the federalism trust fund to reimburse Federal agencies for continuing to carry out turnback programs, or it may ask that the programs be terminated and then use the funds directly for whatever purposes it desires.

Beginning in 1987, the federalism trust fund will gradually be dissolved and the tax sources themselves will be made available to the States.

The key to this program is that the States and localities make the critical choices. They have the time to make them in an orderly way. A major sorting out of Federal, State and local responsibilities will occur, and the Federal presence and intervention in State and local affairs will gradually diminish.

CONCLUSION

While some administration proposals have been turned down, turned aside, or compromised by the Congress, the overall assessment of the past year's action on the budget is heartening. Cooperation, support, goodwill, and a genuine sense of national purpose have enabled us to make significant progress in setting the Federal

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Government's affairs in order and America on the road to economic recovery.

I urge the Congress to approach the new, or renewed, proposals in this budget in the same spirit and with the same goodwill as it did my proposals of a year ago. Much has been accomplished. This budget proposes that more be done.

The proposals set forth in this budget will not be accepted readily. They are a second challenging installment of a politically difficult, yet necessary, program. In their specifics, these proposals will undoubtedly be altered by the Congress. The general direction we must travel, however, is clear. I urge the Congress to weigh these budget proposals thoughtfully, and to join me, and my administration, in a constructive effort to curb the growth of Federal spending and to provide for the Nation's security. We must, in the end, roll up our sleeves, face our responsibilities squarely, and persevere at the unending task of setting, and keeping, the Nation's affairs in order.

RONALD W. REAGAN.

FEBRUARY 8, 1982.

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PART 1

THE BUDGET MESSAGE OF THE PRESIDENT

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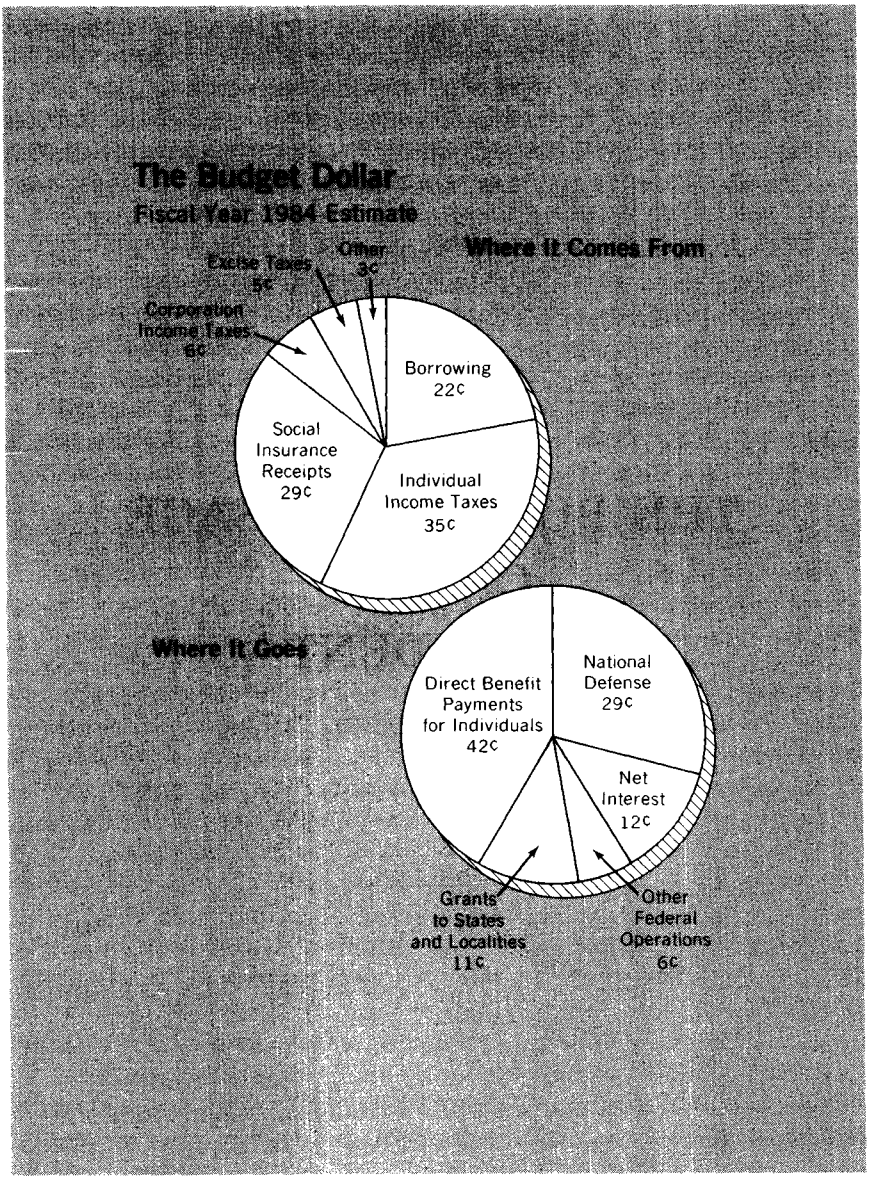

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BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

Two years ago, in my first address to the country, I went before the American people to report on the condition of our economy, which had suffered from many years of seriously misguided policies. I made a strong commitment to change the traditional short-sighted view that had previously been taken on economic priorities so that we could achieve our goal of long-term prosperity. I stated that we had a massive job before us.

Government spending was taking a rapidly increasing share of national income, burdensome Government regulation had stunted productivity increases, and excessive tax rates combined with erratic monetary policy resulted in serious disincentives to investment and long-term real economic growth. Inflation was at double-digit levels. Interest rates were at record highs. Real growth and job creation had ceased. New investment, productivity, and personal saving were stagnant. Our economy was in the worst mess in half a century.

To make matters worse, our military strength had been allowed to run down relative to the aggressively expanding military might of the Soviet Union. We were in serious danger of becoming powerless to deter or counter Soviet aggression around the world.

The economic program that I proposed at that time focused on long-range real growth. My tax proposals were designed to provide badly needed private incentives to stimulate saving and productive investment. I supported the Federal Reserve in its pursuit of sound monetary policy. I worked with the Congress to reverse the growth of Government programs that had become too large or outlasted their usefulness. I worked to eliminate or simplify unnecessary or burdensome regulations.

The unprecedented buildup of inflationary forces in the 1970's, however, exacerbated in severity and duration the economic downturn of recent years. One of the key detrimental forces has been the growing Federal budget. Despite our success in reducing the rate of growth of nondefense spending in the last two budgets, spending in 1983 will exceed 1981 levels by 21%, reflecting continued increases in basic entitlement programs, essential increases in defense spending, and rapid growth of interest costs.

Thus, the full effect of the changes we have made is taking time to develop. Over-reactive short-term remedies are not the answer.

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What is essential now is that we continue to work together to rebuild this country—without losing sight of the four fundamentals of our economic program:

- Limiting tax burdens to the minimum levels necessary to finance essential Government services, thus maintaining incentives for saving, investment, work effort, productivity, and economic growth.
- Reducing the growth of overall Federal spending by eliminating Federal activities that overstep the proper sphere of Federal Government responsibilities and by restraining the growth of spending for other Federal activities.
- Reducing the Federal regulatory burden in areas where the Federal Government intrudes unnecessarily into our private lives or interferes unnecessarily with the efficient conduct of private business or of State or local government.
- Supporting a moderate and steady monetary policy, to bring inflation under control.

TWO YEARS OF ACCOMPLISHMENT

Over the past 2 years, dramatic improvements have been made in the way the Government affects our economy. The Congress joined with my administration in a cooperative and politically courageous effort to reverse a decade of runaway growth in spending and tax burdens, proliferation of unnecessary regulations and red tape, and erosion of our military strength.

Both the Omnibus Reconciliation Acts of 1981 and 1982 effected fundamental reforms in numerous Federal programs, and demonstrated a greatly heightened level of maturity and responsibility of the congressional budget process that has come to fruition with the help and support of this administration. Although I am disappointed that many administration spending-reduction proposals did not pass last year—which has resulted in higher deficits—I believe that the revitalized congressional budget process signifies a refreshing willingness on the part of the Congress to work with my administration to address squarely the many crucial, complex, and politically difficult budgetary dilemmas before us. The results have been impressive:

- Where the growth rate of spending was almost out of control at 17.4% a year in 1980, it is now declining dramatically—to 10.5% this year, and, with this budget, to 5.4% next year—which is no more than the projected rate of inflation; in effect, a comprehensive freeze on total Federal spending.
- Where spending growth totaled $220 billion from 1978 to 1981, a 48% increase, spending will rise by only 27% from 1981 to 1984, despite legislated cost-of-living adjustments and the needed defense buildup.

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- For the first time since the Second World War, the Federal tax system has been fundamentally restructured. Income tax rates have been substantially reduced, greatly improving the climate for savings and investment. Excessive taxation of business income resulting from depreciation allowances rendered inadequate by inflation has been eliminated through depreciation reform. Tax loopholes have been closed, making the tax structure more equitable. Emphasis is shifting to financing programs through user fees commensurate with benefits and services provided.
- The excessive rates of growth of entitlement programs were curbed. Overly-broad eligibility criteria were tightened to limit benefit awards more to the truly needy, and eliminate or restrict unnecessary and costly payments of welfare-type benefits to those who are relatively well off and are, or ought to be, self-supporting. Overly-generous and unnecessarily frequent cost-of-living adjustments were pared back. Nonetheless, the growth of these programs has proven difficult to control and continues to be the primary cause of higher deficits.
- Limitation of Federal credit activity and off-budget spending is being achieved.
- The burgeoning growth of Federal regulations and red tape has been capped. The number of proposed new regulations has been reduced by one-third in the past 2 years. Unnecessary costs of Federal regulation to individuals, businesses, and State and local governments have been reduced by $6 billion in annual expenditures and $9 to $11 billion in capital costs. By the end of 1983, the time our citizens spend filling out Federal forms and reports will have been cut by over 300 million hours annually.
- Improvements in the management of Federal operations, such as better procedures for the collection of debts owed the Government and better cash-management practices, are being carried out. These improvements have helped reduce waste, fraud, and abuse in Government programs.
- And by the end of the 1982 fiscal year, the Federal nondefense workforce had been reduced by 91,300 employees since I took office.

During the past 2 years, we have also taken decisive measures to increase our military strength. At the same time, diplomatic approaches to increase our national security, such as arms reduction talks, have been vigorously pursued.

The improvement in our defense posture includes all of its major elements. Long-overdue modernization of our strategic forces is proceeding with new bomber-, submarine-, and land-based missile

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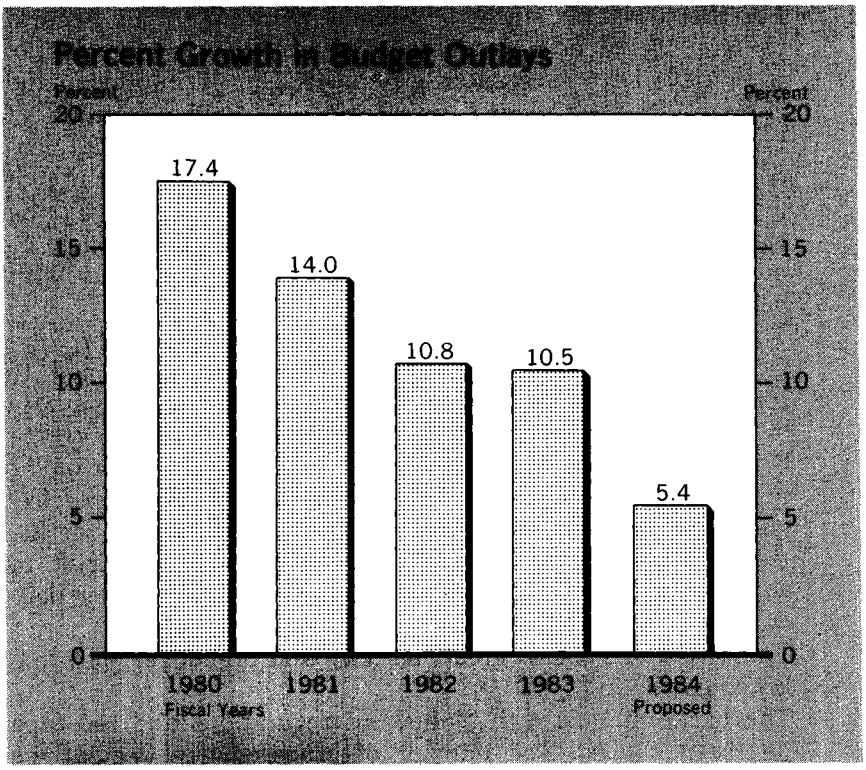

programs. Our conventional forces are also being modernized and strengthened, with new ships, tanks, and aircraft. Above all, successful recruiting and retention over the past 18 months have resulted in all of our armed services being more fully manned with capable, high-caliber men and women. The All Volunteer Force is now working well.

By any standards, these are accomplishments to be proud of. And I am proud of them. We have come far in restoring order to the chaos prevailing in our economy and Government affairs just 2 years ago.

This is not to say that we do not still face great problems such as excessive unemployment, slower than desired economic growth, and high deficits. During the past 2 years our Nation has labored to purge itself of the inflationary disease that for nearly two decades had progressively undermined the economy's ability to generate growth, capital formation, worker productivity incentives, and financial stability. Those inflationary fevers have largely subsided in the aftermath of my decision 2 years ago to redirect economic policy toward a more modest size and scope for the Federal Government, a series of tax rate reductions to reward productive invest-

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ment and work effort, and a restrained monetary policy to sustain the purchasing power of individual savings and income.

Accompanying the marked progress in unwinding the damaging inflation spiral that plagued our Nation for so many years, financial markets in 1982 experienced their first sustained improvement in more than 5 years. Interest rates throughout the maturity spectrum declined substantially, and by yearend we can proudly report that key rates for home mortgages, consumer loans, and business investment were able to sustain their lower levels, indicating new confidence in administration policies and bringing much needed relief to the housing and auto industries, the farm community, and the export sector.

Inflationary pressures of the sort experienced during the past two decades extracted a heavy toll from our economy. We have learned that the problems we inherited were far worse than most inside and out of Government had expected; the recession was deeper and longer than most inside and out of Government had predicted. Curing those problems has taken more time and a higher toll than any of us wanted. Unemployment is far too high.

Fortunately, the long nightmare of runaway inflation is now behind us. Slowly, but steadily and unmistakably, our national economy is completing the transition from recession to recovery. The interaction of lower tax rates, reduced inflation, and falling interest rates has placed the consumer and the producer in a much strengthened position with respect to balance sheets, liquidity, after-tax income, and purchasing power.

There are numerous signs that the battered, sputtering inflation-warped economy that we found 2 years ago is on the mend, and that the dislocation and hardship we have suffered in the interim will prove to be a corrective interlude on the path of sustained recovery. But our confidence must also be tempered by realism and patience. Quick fixes and artificial stimulants, repeatedly applied over decades, are what brought on the inflationary disorders that we have now paid such a heavy price to cure.

In part as a result of the difficult period of disinflation, during the past year and one-half our projections of the Federal deficit have steadily risen. They have now reached very high levels, creating uncertainty in the financial markets and threatening to block the economic recovery ahead of us.

But before we consider what is to be done, we must review how we got here. And the truth is that as in the case of the social security fund, the looming gaps in our national budget are the consequence of both the inflation that got out of hand and the correctives that have been unavoidably applied to cure it.

During the 1970's, the share of our national income devoted to domestic programs and transfer payments soared by more than

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50%—from 10 cents to 16 cents on every dollar produced by the American people. For a brief time, it appeared that we could afford all of this generosity because inflation badly misled us.

As inflation reached higher and higher peaks, the Treasury's coffers swelled from its take on inflated incomes and the upward creep of tax rates. For a time, we even financed our trillion dollar national debt on the cheap with interest rates that had not yet caught up with the spiraling inflation.

Meanwhile, defense spending grew at less than 60% of inflation, making room in the budget for extra domestic programs. The real purchasing power available to maintain our readiness, modernize our weapons, and maintain strategic nuclear safety declined by a startling 20%.

But it couldn't last—and it didn't. Today the Federal budget itself has become a major victim of the economic transition:

- The inflationary revenue windfall has dried up.
- Our staggering national debt until recently was being financed at the highest interest rates in peacetime history.
- The undelayable process of restoring our inflation-eroded military budgets and our decayed military strength has further strained our resources.
- Despite our great strides in reducing the spending growth over the last 2 years, the vast edifice of domestic programs remains significantly in place.

The social security system has also been a victim of our economic ills. First, the rampant inflation drained its reserves as Government tried to keep beneficiaries up with the spiraling cost of living that its own mistaken policies had created in the first place. Now the recessionary adjustments to disinflation have temporarily deprived it of the expanding wage base and growing revenues required to support commitments to the retired and disabled. As a result, for too long the specter of social security insolvency has haunted our Nation's elderly citizens and threatened to rupture the lifeline on which 36 million retired and disabled Americans depend.

But however obvious the threat of insolvency, one thing is certain: social security cannot and will not be allowed to fail the 36 million Americans who depend on it. With this commitment in mind, it is especially pleasing to me to join with the Speaker of the House and the Senate Majority Leader in urging the Congress to enact the bipartisan compromise plan developed by the National Commission on Social Security Reform.

There are elements in it that none of us prefers, but taken together it forms a package all of us can support. It asks for some sacrifice by all—the self-employed, beneficiaries, workers, new government employees, and the better-off among the retired—but it

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imposes an undue burden on none. And, in supporting it, we keep an important pledge to the American people: the integrity of the social security system will be preserved—and no one's payments will be reduced.

TOWARD ECONOMIC RECOVERY

To enhance prospects for sustained economic recovery and lower unemployment, I am proposing a sweeping set of fiscal policy changes designed to reduce substantially the mounting Federal deficits that threaten the renewal of economic growth. My plan is based on these principles:

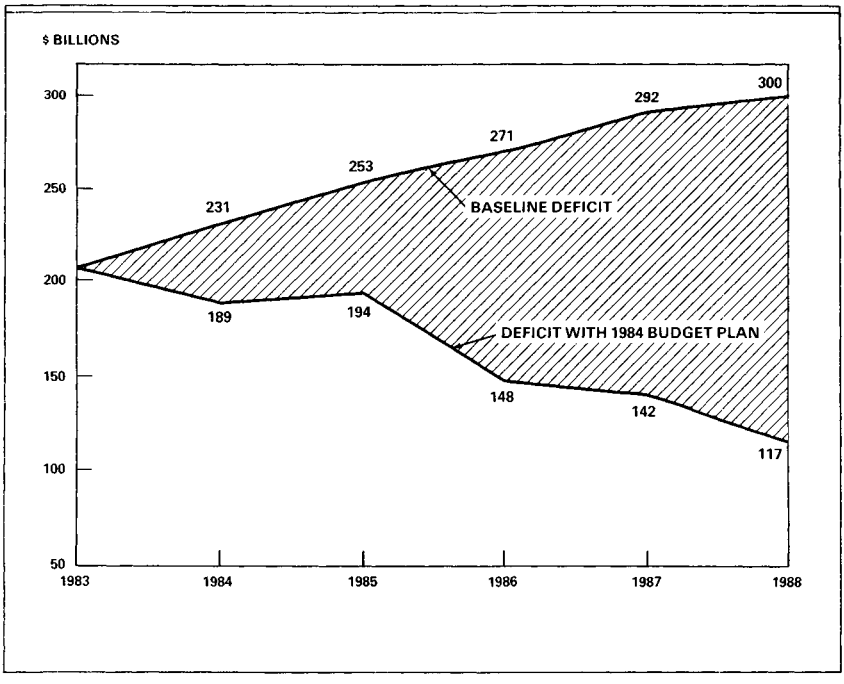
It must be bipartisan. Overcoming the deficits and putting the Government's house in order will require the best efforts of all of us.

It must be fair. Just as all will share in the benefits that will come from recovery, all should share fairly in the burden of transition.

It must be prudent. The strength of our national defense must be restored so that we can pursue prosperity in peace and freedom, while maintaining our commitment to the truly needy.

Finally, it must be realistic. We cannot rely on hope alone.

DEFICIT OUTLOOK AT A GLANCE: BASELINE VS. 1984 BUDGET PLAN



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With these guiding principles in mind, let me outline a four-part plan to increase economic growth and reduce deficits.

First, I am recommending a Federal spending freeze. I know this is strong medicine, but so far we have cut only the rate of increase in Federal spending. The Government has continued to spend more money each year, though not as much more as it did in the past. Taken as a whole, the budget I am proposing for the next fiscal year will increase no more than the rate of inflation—in other words, the Federal Government will hold the line on real spending. That is far less than many American families have had to do in these difficult times.

I will request that the proposed 6-month freeze in cost-of-living adjustments recommended by the bipartisan National Commission on Social Security Reform be applied to other Government benefit programs. I will also propose a 1-year freeze on a broad range of domestic spending programs, and for Federal civilian and military pay and pension programs.

Second, I will ask the Congress to adopt specific measures to control the growth of the so-called "uncontrollable" spending programs. These are the automatic spending programs, such as food stamps, that cannot be simply frozen—and that have grown by over 400% since 1970. They are the largest single cause of the built-in or "structural" deficit problem. Our standard here will be fairness—ensuring that the taxpayers' hard-earned dollars go only to the truly needy; that none of them is turned away; but that fraud and waste are stamped out. And, I am sorry to say, there is a lot of it out there. In the food stamp program alone, last year we identified almost $1.1 billion in overpayments. The taxpayers are not the only victims of this kind of abuse; the truly needy suffer, as funds intended for them are taken by the greedy. For everyone's sake, we must put an end to such waste and corruption.

Third, I will adjust our program to restore America's defenses by proposing $55 billion in defense savings over the next 5 years. These are savings recommended to me by the Secretary of Defense, who has assured me they can be safely achieved and will not diminish our ability to negotiate arms reductions or endanger America's security. We will not gamble with our national survival. As a percent of GNP, the level I am requesting for defense spending in 1984 is less than the United States spent during the decade of the 1960's. As a percent of the total Federal budget it is far less than was allocated for national defense in those years. We are 2 years into the program to re-arm America. Sustaining the momentum of this program is essential if we are to avoid slipping back into the inefficient and counterproductive pattern of wildly fluctuating defense spending levels.

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THE BUDGET TOTALS

(In billions of dollars)

	1982 actual	1983 estimate	1984 estimate	1985 estimate	1986 estimate
Budget receipts	617.8	597.5	659.7	724.3	841.9
Budget outlays	728.4	805.2	848.5	918.5	989.6
Surplus or deficit (−)	−110.6	−207.7	−188.8	−194.2	−147.7
Budget authority	779.9	847.4	900.1	997.4	1,079.6

Fourth, because we must ensure reduction and eventual elimination of deficits over the next several years, I will propose a stand-by tax limited to no more than 1% of the gross national product to start in fiscal year 1986. It would last no more than 3 years and would start *only* if the Congress has first approved our spending freeze and budget control program. You could say that this is an insurance policy for the future—a remedy that will be at hand if needed, but resorted to only if absolutely necessary.

In the meantime, we will continue to study ways to simplify the tax code and make it more fair for all Americans. This is a goal that every American who has ever struggled with a tax form can understand.

At the same time, however, I will oppose any efforts to undo the basic tax reforms we have already enacted—including the 10% tax break coming to taxpayers this July and the tax indexing that will protect all Americans from inflationary bracket creep in the years ahead.

Impact of Stronger Economic Growth

- If the recovery of real GNP growth over the next 2 fiscal years is *about 1%* above our cautious projections, the deficit estimates would improve by an average of about $20 billion per year, and would result in lower deficits as follows:

	1984	1985	1986	1987	1988
Deficit (−) ($ billions)	−177	−177	−127	−119	−90

- An average real GNP growth rate *1.33%* higher each year over the next 6 years, compared to the prudent projections made in the 1984 budget, would result in a balanced budget by 1988. This is a "high growth" scenario but within the range of previous historical experience. My administration remains committed to the goal of a balanced budget and will propose additional policy actions, as needed, to achieve it.

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This plan is urgently needed and is geared toward solving the problems of the growing deficits. But it naturally requires the cooperation of both branches of Government, both Houses, and both parties. Thus, our plan is aimed at bridging the institutional, philosophical, and political differences that separate us—which are not as important as the overriding common objective of economic recovery and sustained prosperity for America.

After 2 years of reducing much of the overspending, we have now reached the bone in many places—programs where we will not propose further reductions. My administration will now work with the Congress in an effort to accommodate those special concerns of the legislative branch that have caused unnecessary strains in the past.

Thus, we will propose $3 billion more for education programs than was proposed last year, and almost $2 billion more for employment and training. Proposals for new rescissions of already-enacted budget authority will be held to an absolute minimum.

This budget process must be a two-way street, for the problem of large deficits is very real. Even when all reasonable measures are applied to the vast detail of the budget, the resulting deficits are large and progress toward reducing them slow. The political risks entailed in these deficit-containment measures are considerable. But the risk of doing nothing at all due to partisanship or legislative stalemate is much greater. I therefore urge the Congress to join with my administration behind this common-sense strategy.

MEETING—AND RESHAPING—FEDERAL RESPONSIBILITIES

My administration seeks to limit the size, intrusiveness, and cost of Federal activities as much as possible, and to achieve the needed increase in our defense capabilities in the most cost-effective manner possible. This does not mean that appropriate Federal responsibilities are being abandoned, neglected, or inadequately supported. Instead, ways are being found to streamline Federal activity, to limit it to those areas and responsibilities that are truly Federal in nature; to ensure that these appropriate Federal responsibilities are performed in the most cost-effective and efficient manner; and to aid State and local governments in carrying out their appropriate public responsibilities in a similarly cost-effective manner. The Nation must ask for no more publicly-provided services and benefits than the private sector can reasonably be asked to finance.

Education.—One of the high priorities I have set for my administration is the return to a more appropriate role for the Federal

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Government in the Nation's education systems and policies. We have slowed the alarming rate of growth of Federal spending for education, an area that is rightfully and primarily a family and State and local government responsibility. From 1974 to 1981, Federal spending for education increased by 172%. From 1981 to 1982, however, outlays declined by more than $1 billion. My administration has accomplished a major consolidation of small fragmented education programs into a flexible education block grant to States and localities. We have cut back on unnecessary regulation and Federal intrusion in local affairs.

The 1984 budget seeks to stabilize education spending, requesting $13.1 billion in budget authority for 1984. It reflects several important new initiatives to strengthen American education:

- Passing of tuition tax credits for parents who want to send their children to qualified private or religiously-affiliated schools.
- Establishing education savings accounts to give middle- and lower-income families an incentive to save for their children's college education and, at the same time, to encourage a real increase in savings for economic growth.
- Reorienting student aid programs to ensure that students and families meet their responsibilities for financing higher education, while making funds available across a wider spectrum of schools for the low-income students most in need.
- Allowing States or localities, if they so choose, to use their compensatory education funds to establish voucher programs to broaden family choice of effective schooling methods for educationally disadvantaged children.
- Helping States to train more mathematics and science teachers.

These initiatives represent the administration's continuing commitment to avoid improper Federal involvement in State, local, and family decisions, while preserving proper Federal support for key national policy goals such as supporting compensatory and handicapped education, facilitating access to higher education, and helping States improve science and mathematics education.

Research.—My administration recognizes the Federal responsibility to maintain U.S. leadership in scientific research. Although support of basic scientific research represents a small share of the Federal budget, it is a vital investment in the Nation's future. Such research lays the foundation for a strong defense in the years to come, and for new technologies and industries that will help maintain our industrial competitiveness, create new jobs, and improve our quality of life. By carefully establishing budget priorities, my administration has been able to reinvigorate Federal support for basic scientific research. With my 1984 budget proposals, such sup-

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port across the Government will have increased by more than 20% over the 1982 level.

Health care.—A major problem for both individuals and the Federal Government in meeting health care needs is the rapid inflation of health care costs. The rate of increase in health care costs is excessive and undermines people's ability to purchase needed health care. Federal policies have contributed significantly to health care cost increases. The budget contains several major initiatives to reduce cost increases. We must eliminate the tax incentive for high-cost employee health insurance programs. Savings from medicare cost controls will be used to protect the aged from catastrophic hospital costs. Incentives will also be proposed to slow the growth of medicaid costs.

Agriculture.—The administration seeks to move agricultural supply toward a better balance with demand by reducing farm production and Government program stocks. The budget proposes a four-part approach to solving the current surplus supply problem:

- establishing a payment-in-kind (PIK) program, under which farmers would receive surplus commodities now held for Federal loans, or owned by the Government, in return for reducing their production;
- freezing farm crop target prices at current levels;
- donating Government-held commodities through international humanitarian organizations for needy people around the world; and
- selling our agricultural produce abroad, both through commercial channels and through governmental negotiation.

Efforts are also continuing to identify surplus Federal land holdings for sale from those administered by the Departments of Agriculture and of the Interior. Planned sales total $500 million in 1984.

Transportation.—In the transportation area, my administration has made major strides in implementing one of the fundamental principles in my program for economic recovery: having users pay for program costs that are clearly allocable to them. During the past year, I signed into law two administration-backed proposals to increase excise taxes on aviation and highway users and thereby provide funding needed to revitalize and modernize these important segments of the Nation's transportation system. The 1984 budget reflects the administration's continued commitment to the "users pay" principle by again proposing user fees for:

- construction and maintenance of deep-draft ports;
- the inland waterway system;
- selected direct Coast Guard services; and

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- nautical and aviation maps and charts.

Recognizing the importance of our transportation system in maintaining and contributing to the Nation's economic and social well being, my administration secured passage of legislation designed to rebuild the Nation's highway and public transportation facilities. This legislation substantially increased funds available to the States and local communities to complete and repair the aging interstate highway system, to rehabilitate principal rural and urban highways and bridges, and to improve mass transit systems.

Fully capable ports and channels are essential to make U.S. coal exports competitive in world markets. My administration will work with the Congress to provide for timely and efficient port construction. We propose a system of user fees for existing port maintenance and new port construction. Local governments would be empowered to set up their own financing arrangements for the immediate construction of facilities in their areas.

Reducing the Federal presence in commercial transportation, currently regulated by the Interstate Commerce Commission, the Civil Aeronautics Board, and the Federal Maritime Commission, will improve the efficiency of the industry. To this end, my administration will seek further deregulation of trucking, airlines, and ocean shipping. Experience since the adoption of initial transportation deregulation legislation has shown clearly that both consumers and industry benefit from reduced Federal involvement in these activities.

Energy.—The administration has significantly reoriented the country's approach to energy matters in the past 2 years. Reliance on market forces—instead of Government regulation and massive, indiscriminate Federal spending—has resulted in greater energy production, more efficient use of energy, and more favorable energy prices. For example:

- The U.S. economy today is using 18% less energy to produce a dollar's worth of output than it did in 1973 when energy prices first began to rise.
- The price of heating oil and gasoline has actually fallen in real terms by 12% in the past 2 years—confounding past theories that insisted that these prices could only increase.

Federal energy programs and policies have been refocused and made more productive:

- Wasteful spending on large, unprofitable technology demonstrations has been curtailed.
- At the same time, spending has increased in areas where the Government has a key role to play—for example, in supporting long-term energy research.
- The strategic petroleum reserve has more than doubled in size over the past 2 years.

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Criminal justice.—My administration has also sought to strengthen the Federal criminal justice system by proposing major legislative initiatives, such as bail and sentencing reform, by attacking drug trafficking and organized crime, and by achieving a better balance among law enforcement, prosecutorial, and correctional resources. Twelve regional task forces will focus on bringing to justice organized crime drug traffickers. The administration will strengthen efforts to identify, neutralize, and defeat foreign agents who pose a threat to the Nation.

International affairs.—Our foreign policy is oriented toward maintaining peace through military strength and diplomatic negotiation; promoting market-oriented solutions to international economic problems; telling the story abroad of America's democratic, free-enterprise way of life; and increasing free trade in the world while assuring this country's equitable participation in that trade.

- The security assistance portion of the international affairs program has been increased to assist friendly governments facing threats from the Soviet Union, its surrogates, and from other radical regimes.
- Development aid emphasizes encouraging the private sectors of developing nations and increasing U.S. private sector involvement in foreign assistance.
- A major expansion of international broadcasting activities aimed primarily at communist countries is planned, and a new initiative will be undertaken to strengthen the infrastructure of democracy around the world.
- Special attention is being given to assuring adequate financing of U.S. exports while my administration seeks to obtain further reductions in the export subsidies of other governments.

My administration will submit to the Congress a proposal to increase the U.S. quota in the International Monetary Fund and the U.S. obligations under the IMF's General Arrangements to Borrow, as soon as negotiations on these issues are completed. This is necessary to ensure that the IMF has adequate resources to help bring the world economy back to strong, noninflationary growth.

Although now less than 2% of the budget, international programs are critical to American world leadership and to the success of our foreign policy.

Minority-owned businesses.—My administration will assist in the establishment or expansion of over 120,000 minority-owned businesses over the next 10 years. The Federal Government will procure an estimated $15 billion in goods and services from minority business during the 3-year period 1983-1985. It will make available approximately $1.5 billion in credit assistance and $300 million

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in technical assistance to promote minority business development during this period.

Civil service retirement.—The 97th Congress made some improvements in the civil service retirement system. However, civil service retirement still has far more generous benefits and is much more costly than retirement programs in the private sector or in State and local governments. Accordingly, this budget proposes fundamental changes in civil service retirement designed to bring benefits into line with those offered in the private sector and reduce the cost of the system to affordable levels. Retirement benefit changes will be phased in over a period of years in order to avoid upsetting the plans of those at or near retirement.

UNEMPLOYMENT DEMANDS SPECIFIC ATTENTION

My administration seeks to provide appropriate assistance to the unemployed. There are three major groups who need help: the largest, those who are unemployed now but will find jobs readily as the economy improves; those whose jobs have permanently disappeared; and youth who have trouble finding their niche in the labor market.

Those in the first group need interim help because, historically, increases in jobs always lag in an economic recovery. Last year we provided a temporary program to give the long-term unemployed up to 16 added weeks of unemployment compensation, in addition to the up to 39 weeks available from our permanent unemployment insurance. This temporary program expires March 31, 1983. I propose to modify and extend the program for 6 more months, and provide an option for recipients to receive assistance in securing work through a system of tax credits to employers. This will give employers a significant incentive to hire the long-term unemployed, while workers will get full wages rather than the lower unemployment benefit.

Those whose jobs have permanently disappeared must be helped to find new long-term occupations. The Job Training Partnership Act, enacted last year, authorizes grants to States to help retrain such workers and assist them in locating and moving to new jobs. The Congress appropriated $25 million to start this new program in 1983. I am requesting $240 million to implement the program fully in 1984. In addition, I propose that the Federal unemployment law be changed to allow States to use a portion of the unemployment taxes they collect to provide such retraining and job search assistance to their unemployed workers. Regulatory reform and passage of enterprise zone legislation will also create new incentives for jobs and opportunity.

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Those youth who have problems finding jobs after they leave school are often condemned to a lifetime of intermittent employment and low earnings. The new Job Training Partnership Act is designed to help disadvantaged youth acquire the basic skills potential employers look for when they hire. I am requesting $1.9 billion for the block grant to States under that Act. The States must use at least 40% of that for youth.

One of the problems hampering youth is inability to get meaningful work experience during school vacations. Such experience is invaluable to demonstrate their qualifications to potential permanent employers. The budget provides for 718,000 public summer job opportunities for disadvantaged youth. But we must also make it possible for youth to experience work in the private sector. The minimum wage law now frequently prevents this. Inexperienced youth cannot produce enough of value to make it worthwhile for employers to pay them the full minimum wage during short periods of employment. I therefore propose that the minimum wage for summer jobs for youth be reduced to $2.50 an hour. Limitation of the reduced minimum wage to the summer months will make it unlikely that employers will substitute youths for older workers.

I remain adamantly opposed to temporary make-work public jobs or public works as an attempted cure for non-youth unemployment. There are several reasons for this. The cost per "job" created is excessive; we cannot afford major new programs, particularly in our current budgetary straits; the actual number of new jobs "created" is minimal; the jobs created tend to be temporary and of a dead-end nature; and most such jobs do not materialize until after recovery is well underway.

IMPROVING THE EFFICIENCY OF GOVERNMENT

The proposed freeze on program funding levels will compel program managers in every agency of the Government to find more efficient ways of carrying out their programs. For too long, costs of Federal operations have been mounting unchecked.

Good management has not always been a priority of the executive branch. I have been correcting that situation.

My administration has redirected programs to improve their efficiency and to achieve cost savings Government-wide. My administration is committed to improving management and reducing fraud, waste, and abuse. The President's Council on Integrity and Efficiency (PCIE), made up of 18 Inspectors General, reported that almost $17 billion has been saved or put to better use in the past 2 years.

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In 1982, I signed into law the Federal Managers' Financial Integrity Act. Under this Act, my Cabinet officers and other agency heads will report to me and the Congress annually on the status of their efforts to improve management controls that prevent fraud and mismanagement. A number of agencies have already begun to make significant improvements in this important area.

But the Government can go only so far with the seriously outdated and inefficient management/administrative systems that are currently in place. One-third of our large-scale computers, for example, are more than 10 years old. A comprehensive management improvement program was needed, so "Reform '88" was initiated. We intend to upgrade and modernize our administrative systems to make them more effective and efficient in carrying out the Government's business and serving the public.

We are already saving tax dollars by managing our almost $2 trillion yearly cash flow more effectively, collecting the Government's $250 billion of just debts, cutting Government administrative costs, modernizing Federal procurement systems, reducing internal regulations, controlling our office space and equipment more prudently, and streamlining the workforce in many departments and agencies. These cost-reduction efforts will continue.

CONTINUING REFORM OF OUR FEDERAL SYSTEM

The overall efficiency of Government in the United States can also be improved by a more rational sorting out of governmental responsibilities among the various levels of government—Federal, State, and local—in our Federal system, and eliminating or limiting overlapping and duplication.

In 1981, the Congress responded to my proposals by consolidating 57 categorical programs into 9 block grants. In 1982, block grants were created for job training in the Jobs Training Partnership Act, and for urban mass transit in the Surface Transportation Act. The initiatives to be proposed this year will expand on these accomplishments.

Four new block grants will be proposed, with assured funding for major functions now addressed through categorical grants:

- A general Federal-State block grant covering approximately 15 categorical programs.
- A Federal-local block grant that would include the entitlement portion of the community development grant program and the general revenue sharing program.
- A transportation block grant.
- A rural housing block grant.

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The administration is improving the management of intergovernmental assistance by providing State and local elected officials with greater opportunity to express their views on proposed Federal development and assistance actions before final decisions are made. Under Executive Order 12372, Intergovernmental Review of Federal Programs, which I signed in July 1982, Federal agencies must consult with State and local elected officials early in the assistance decision process and make every effort to accommodate their views. The Order also encourages the simplification of State planning requirements imposed by Federal law, and allows for the substitution of State-developed plans for federally required State plans where statutes and regulations allow.

Through the President's Task Force on Regulatory Relief and the regulatory review process, the administration is eliminating and simplifying regulations affecting State and local governments that are burdensome, unnecessary, and counter-productive. These changes have improved local efficiency and accountability and reduced program costs. Twenty-five reviews were completed during the past 2 years by either the Task Force or by various Federal agencies. Available data indicate that regulatory relief actions will save State and local governments approximately $4 to $6 billion in initial costs, and an estimated $2 billion on an annual basis. My administration is also simplifying selected, generally applicable crosscutting requirements that are imposed on State and local governments as a condition of accepting financial assistance.

FEDERAL CREDIT PROGRAMS: MORE SELECTIVE

The administration continues its strong commitment to control Federal credit assistance, which has serious effects on the Nation's financial markets. To this end, I propose a credit budget that reverses the accelerated rate of growth in direct and guaranteed lending by the Federal Government that occurred during the second half of the 1970's and the first years of the 1980's.

Federal intervention through guarantees and provision of direct lending misdirects investment and preempts capital that could be more efficiently used by unsubsidized, private borrowers. Because federally assisted borrowers are frequently less productive than private borrowers, large Federal credit demands must be reduced in order to improve prospects for economic growth.

CONCLUSION

The stage is set; a recovery to vigorous, sustainable, noninflationary economic growth is imminent. But given the underlying deterioration in the overall budget structure that has occurred over the

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past 2 years, only the most sweeping set of fiscal policy changes could help to reverse the trend and set the budget on a path that is consistent with long-term economic recovery.

If the challenge before us is great, so, too, are the opportunities. Let us work together to meet the challenge. If we fail, if we work at cross purposes, posterity will not forgive us for allowing this opportunity to slip away.

RONALD W. REAGAN.

JANUARY 31, 1983.

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