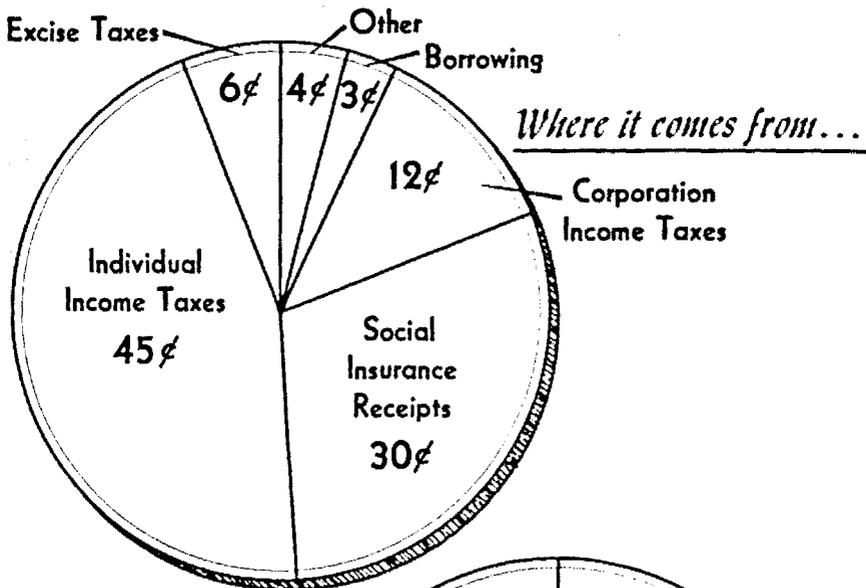

PART 1

THE BUDGET MESSAGE
OF THE
PRESIDENT

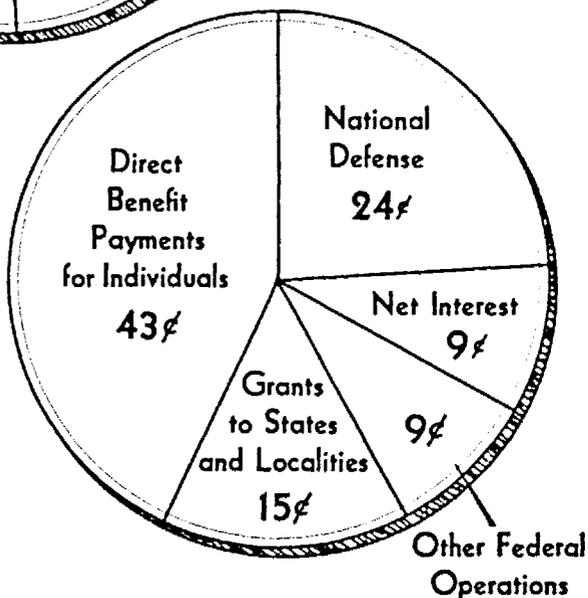
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THE BUDGET DOLLAR

Fiscal Year 1981 Estimate



Where it goes...



BUDGET MESSAGE OF THE PRESIDENT

To the Congress of the United States:

This budget for 1981 is prudent and responsible. It continues the strategy of restraint that I proposed, and the Congress accepted, for the 1980 budget. At the same time it proposes selected, essential increases in areas of high priority and great national concern. In this way it seeks a balance between our needs for budgetary restraint and our needs for specific expenditures. I expect the Congress to support it.

Total outlays for 1981 proposed by this budget are \$615.8 billion, an increase of 9%. After allowing for inflation, this budget is virtually level with 1980 spending. Total receipts for 1981 are estimated to be \$600 billion. In view of current economic conditions, the only major revenue proposal included in the budget is my windfall profit tax now before the Congress.

THE BUDGET TOTALS

(In billions of dollars)

	1979 actual	1980 estimate	1981 estimate	1982 estimate	1983 estimate
Budget receipts.....	466	524	600	691	799
Budget outlays.....	494	564	616	686	774
Surplus or deficit (—).....	—28	—40	—16	+5	+25
Budget authority.....	557	654	696	775	868

Thus, I am proposing a deficit of \$15.8 billion, the lowest deficit in 7 years. This reduces the deficit by 60% in comparison to 1980. More significantly, it is \$50 billion less than when I first ran for the Presidency. As a percentage of the budget, and of the gross national product, the 1981 deficit is the second lowest of the last decade.

Economic projections deeply affect this budget. It appears today that the long economic recovery occurring throughout my first term may falter this year. I have therefore assumed that there will be some decline in GNP during the course of 1980, followed by renewed but moderate growth in 1981. As a result, budget receipts will be reduced and certain expenditures will increase automatically. This is why the 1981 budget is in deficit. If, contrary to our assumptions, the economy were to perform strongly enough to keep the unemployment rate at its current level, the 1981 budget would be in surplus.

We must monitor the economic outlook carefully. If the economy begins to deteriorate significantly, I will consider tax reductions and temporary spending programs for job creation targeted toward

particular sectors of economic stress. But I believe current economic conditions argue for restraint.

I believe that this judgment and this budget recognize that equitable budget restraint is essential in our efforts to control inflation; that the unemployed should not bear the costs of our anti-inflation efforts; and most importantly, that we continue to pursue the goals of full employment, price stability, and balanced growth. The fiscal and program policies in this budget are essential, I believe, if we are to move rapidly toward these goals in the 1980's.

Indeed, the restraint proposed in this budget is essential to achieve these goals. The unacceptably high inflation now prevailing is clearly due to many, deeply imbedded, long-term forces. Countering this inflation involves sustained action across a wide spectrum.

- We must reduce our dependence upon foreign oil.
- We must enhance our economy's productivity.
- We must continue our efforts to foster competition and innovation through further deregulation.
- We must sustain compliance with the administration's wage and price guidelines.

But none of these efforts can succeed unless Federal spending is controlled. By continuing a clear and consistent policy of restraint, the 1981 budget insures that the Federal budget will not be an inflationary force in the economy.

Although I have kept spending in this budget from rising in real terms, I have found it necessary to increase funds in a few critical areas. The most important of these are defense, energy, basic research, and the training and employment of our Nation's young people.

Defense.—The long decline in real spending for defense that began in 1969 has been reversed. The uncertain and sometimes hostile world we live in requires that we continue to rebuild our defense forces. The United States will continue to seek peaceful means to settle international disputes. But I cannot ignore the major increases in Soviet military spending that have taken place inexorably over the past 20 years. I cannot ignore our commitment to our NATO allies for mutual real increases in our investment in national defense. I cannot ignore the implications of terrorism in Iran, or Soviet aggression in Afghanistan.

Therefore, my budget proposes a defense program in 1981 of \$158.2 billion in budget authority, an increase of over 5% in real terms. Outlays for defense will be \$142.7 billion, a real increase of over 3%.

Moreover, I am committed as a matter of fundamental policy to continued real increases in defense; and I plan increases in my defense budgets through 1985. Over the period 1981-85, I am proposing that the defense program level of the United States increase by \$90 billion.

Energy.—This budget reflects the important progress made by my administration toward a broad and practical program dealing with the energy problems the Nation will face in the next decade. I am confident, and the 1981 budget assumes, that early in the 1980 session the Congress will pass the crucial measures I proposed last year: the windfall profit tax, the Energy Security Corporation, the conservation measures, and the Energy Mobilization Board.

With this budget we will have put into place an energy program composed of the following elements:

(1) *Realistic pricing and fair taxes.*—My decontrol decision of last April is now in effect. It is painful, and no one can pretend otherwise. But we cannot have an energy program that maintains illusions. Energy is not cheap, and we must accept that fact.

My windfall profit tax, to be passed early this year, retains a portion of the profits from energy price increases for the public. This will insure that increased energy prices will lead to new public investment in energy production. It will insure also that the burdens of higher energy costs are fairly shared.

(2) *Conservation.*—The 1981 budget allocates resources for tax incentives, low-interest subsidized loans, and other measures to stimulate more conservation. Conservation is the quickest and cheapest step we can take to confront our energy problem.

(3) *Production.*—This budget anticipates the creation of the Energy Security Corporation to facilitate the development of synthetic fuels and a major new gasohol program. It also supports continued new investments in those energy initiatives begun in the last two budgets. We are significantly increasing our expenditures on fossil fuels, on solar energy, and on nuclear fusion. Nuclear fission research, on the other hand, declines, while greater emphasis is placed on solving the current problems of nuclear power.

(4) *Protection.*—As we adjust to the new energy realities, we must continue to protect those who are most vulnerable. The 1981 budget continues to provide funds for the poor to weatherize their homes; funds to enable the most disadvantaged Americans to cope with the rising cost of energy; and funds for energy crisis assistance.

My energy program is, of necessity, a long-term one. But if it is sustained through the new decade, we will reduce consumption,

increase production from domestic sources, and promote alternate forms of energy. We will significantly reduce our dangerous reliance upon foreign oil. We will remove a major source of inflation. Our economy and our Nation will emerge from the 1980's stronger than they are now.

Basic research.—In the long run, economic growth depends critically on technological development. For many years, this country has led the world in producing new technology. We are in danger of losing this leadership. The 1981 budget continues my long-standing commitment to reverse the trends of the past two decades and provide for major and sustained increases—above the rate of inflation—for research and development programs. Obligations for research and development will increase by 13%; for basic research by 12%. Since 1978, obligations for basic research will have increased by 40%. I believe that these are among the most important expenditures we can make. The payoff, particularly for basic research, is long-term, but immense. We benefit today—in new industries, in millions of jobs, in lives saved, and in lives protected—from the investments in science made decades ago. We must continue such investments today to reap similar returns tomorrow.

Human resources.—My budget, restrained as it is, provides needed support to those Americans who are most in need. Most of the increase in the 1981 budget over 1980 is due to the automatic cost-of-living increases in entitlement programs that provide income to the poor and the elderly. I have continued and improved these programs. In addition, I have proposed discretionary increases in a wide range of programs affecting those in our society who are the most disadvantaged.

The budget includes \$687 million for proposals to expand health services to the poor and the underserved, including \$403 million to provide medicaid eligibility for 2 million additional low-income children and approximately 100,000 pregnant women. The budget also includes a 24% increase in subsidized housing programs and a 24% increase in elementary and secondary education programs for the disadvantaged. Overall, I am proposing an increase of \$7 billion in aid to the poor to protect them against the effects of inflation.

At the same time, I am proposing a major initiative that will enable our Nation's disadvantaged youth to receive a strong basic education, to find and keep a job. This is a critically important time for this initiative. In the 1980's, the number of youths entering the labor market will fall. If the young people of the 1980's are prepared, they will be able to find good jobs and build productive

lives. My initiative will make this preparation possible. It will couple a strong emphasis on basic education with significant employment opportunity. For those young people who participate, the programs will be tough and challenging. But they will be extremely worthwhile. Those who complete them will have a major advantage where it counts—in the permanent job market. I consider this investment in human resources for the 1980's to be as important as the investments I am proposing for basic research. It is an investment in our most precious resource—the energies and talents of America's young people.

Agriculture.—Because of the aggression by the Soviet Union against Afghanistan, I concluded that we could not now permit that country to benefit from our productive agriculture. On January 4, I announced the suspension of shipments of grain, soybeans, and their byproducts to the Soviet Union. This budget reflects the steps necessary to avoid the devastating effects such action could have had on our farmers and grain shippers. Specifically, the Secretary of Agriculture will:

- purchase contracts entered into with the Soviet Union at prices at or above those prevailing on January 4;
- if necessary, take title to the grain intended for export to the Soviet Union and isolate it from the market;
- purchase up to 4 million metric tons of wheat for an international food aid reserve;
- increase the loan level for feed grains and wheat by 10 and 15 cents per bushel, respectively; and
- modify the farmer-owned grain reserve to encourage farmers to place additional grain in the reserve.

On January 19, I announced, as additional steps to avoid the impact of suspension of shipments, that the Government would:

- increase the 1980 and 1981 Public Law 480 programs in order to increase grain shipments abroad; and
- purchase corn directly at local levels to stabilize cash markets and alleviate transportation backups.

I stand ready to take further steps if these actions prove insufficient.

Other commitments.—In other important areas, the 1981 budget reflects the reorganization accomplishments of the administration; continues the significant progress already experienced in urban and community development; expresses my commitments to welfare reform and a national health plan, programs that will begin in future budget years; and reaffirms my dedication to improved Federal budgeting and management.

The budget anticipates that my welfare reform proposals will take full effect in 1982, and my national health plan proposal in 1983. Taken together, these programs provide income support and assured health care to all Americans in need. My national health plan—which will be phased into operation prudently, consistent with the state of our economy—minimizes direct governmental control over health care, restrains the growth of Government, and provides maximum individual choice. I am continuing to seek enactment of my hospital cost containment proposal, which I believe is an essential part of any national health plan. When fully enacted, these two proposals—welfare reform and the national health plan—will significantly and permanently improve the lives and prospects of all Americans.

The 1981 budget includes a \$15.5 billion allocation for the new Department of Education, which the Congress has approved. The establishment of this Department will require a great deal of effort in the short run, but it will give our system of education the consistent attention and high priority it deserves.

This budget also continues the improvement in the budget process I promised 4 years ago. In the 1979 budget we introduced zero-base budgeting, a system we have now used in three budgets to assure the allocation of scarce public resources to the most critical areas. Last year, in the 1980 budget, we moved to multiyear budgeting. My budget again this year shows not only decisions for 1981, but the effect of those decisions—in detail—for 1982 and 1983. To the extent feasible, the multiyear budget projects also the future costs of programs such as the national health plan, welfare reform, defense, energy, and research and development.

This year I have installed a central system to control the use of Federal credit. In the past, too much has escaped the normal discipline of the budget. This system, which is now in place, recommends specific credit limitations for most credit programs.

THE CREDIT BUDGET TOTALS

(in billions of dollars)

	1979 actual	1980 estimate	1981 estimate
New direct loan obligations	51.4	59.7	60.7
New loan guarantee commitments	74.7	75.2	81.4
Total	126.1	134.9	142.1

The new system of credit control will permit both the administration and the Congress to improve their understanding of the credit programs, to measure their important effects, and to determine appropriate levels of credit activity.

This budget reflects continued efforts to improve financial management in Government and to stop illegal or improper use of taxpayers' money. We are achieving major savings from better cash management and stronger internal auditing in Federal agencies.

Conclusions.—Proposing a responsible Federal budget is a fundamental task of public leadership. The budget must reconcile a broad range of legitimate claims for resources with the needs of the economy and the burdens on the taxpayer. Simultaneously, it must:

- respect past commitments in its allocations to social security, to veterans, and to the elderly;
- meet the needs of the present for defense, unemployment benefits, and health services; and
- invest in the future through research and development, energy programs, and education.

The budget must do all of these things specifically and in detail. A budget rests on specific proposals related to specific costs, not on rhetoric.

A budget also rests on policy. And this budget contains important policy decisions—major departures, new initiatives, larger and longer-term commitments. Each stands on its own merit. Yet taken together all of the proposals in this budget can also be characterized in a more general way. They reflect the maturing of the administration's basic, consistent underlying policy themes: restraint in budgeting the taxpayers' dollars; the strengthening of our defense; providing energy for the future; improving opportunities for the Nation's youth; and making Government work better.

Ours is a great and complex nation. The existing arrangements in our society are the result of complex, not always consistent decisions of the past, emerging from a democratic people. Change is sometimes slow because it rests on consent. But intelligent, consistent leadership, persistently applied, can bring about change in policies and further the well-being of our society and of its people. I believe that this budget, and those I have submitted in the past, support the fundamental policies that will prepare America for the new decade.

JIMMY CARTER.

JANUARY 28, 1980.