Persistent high inflation threatens the economic security of our country.

Since my economic and budget reports in January, rapid changes in world events and economic prospects have made it necessary to intensify our anti-inflation fight.

In the last eight weeks, interest rates have surged to unprecedented heights and inflation has sharply intensified.

This is a worldwide problem. During the last two reporting months, the increases in the wholesale price index in Japan, Great Britain and Italy have all exceeded an annual rate of 25 percent. Even in West Germany the inflation rate in wholesale prices was 13 percent.

The inflation we face today is deeply rooted. Its many causes have built up over more than a decade. The most important of these causes are soaring world oil prices, declining productivity growth and our failure in government, as individuals, and as a society to live within our means.

Inflation is a symptom of economic distress. The truth is that we have inflation because our economy is not productive enough to do all the things we demand of it. We want it to give us higher incomes, bigger profits and bigger government programs in our favorite area.

The federal government must stop spending money we do not have and borrowing to make up the difference.

Our whole society -- the entire American family -- must try even harder to live within its means. As individuals and as a nation, we must begin to spend money according to what we can afford in the long run -- not according to what we can borrow in the short run.

There are no quick answers to inflation and above all no painless answers. If there were any such solutions, they would have been implemented long ago. We cannot abolish inflation overnight by just passing a law against it. Only a long-term effort -- with the partnership of business and labor, individual citizens and all branches and levels of government -- can succeed in bringing this problem under control.

This dangerous situation calls for urgent measures. We must act firmly and decisively. We must act now. We must remove any doubt about this nation's will to take the painful steps needed to control inflation. We cannot accept high rates of inflation as a permanent fact of life.
The intensive anti-inflation program I am announcing today involves five major components:

-- First, discipline by reduction in the federal budget.

-- Second, discipline by restraints on credit.

-- Third, discipline by wage and price actions.

-- Fourth, discipline by greater conservation of energy.

-- Fifth, structural changes to encourage productivity, savings, and research and development.

Let me discuss them one by one.

First, the budget.

I will soon set forth a revised budget for fiscal year 1981 — which begins on October 1 of this year. It will be a balanced budget, and I intend to keep it in balance.

Since the last balanced budget 12 years ago we have added almost one-half trillion dollars to our national debt. In 1981 we will thus achieve an objective that has almost always eluded our country — in good times and bad — a balanced budget.

By the end of this month, I will send to the Congress a major revision in both my 1980 and my 1981 budgets.

I will propose significant reductions of budget authority from the current budget, in order to cut spending this fiscal year and next.

I will cut spending in the 1981 budget by more than $13 billion. To reach that goal, I will:

-- Defer, reduce or cancel most of the new or expanded programs that were originally proposed in the 1981 budget.

-- Cut expenditures for personnel, operations and maintenance throughout the government.

-- Freeze federal civilian employment immediately, and maintain rigid ceilings so that by the end of October of this year we will have 20,000 fewer federal employees.

-- Reduce ongoing spending programs throughout the federal government.

I urgently request from the Congress the savings and revenue measures in the budget I submitted in January. I want to stress particularly the legislation needed to hold down hospital costs, to reform federal pay, and to speed up collections of revenue.

When budget cuts demand sacrifices from many Americans, it is intolerable for some to evade prompt payment of taxes. I will send to the Congress legislation to make sure that taxes that are owed on interest and dividends are actually paid, and paid in a timely manner.
I will maintain my commitment to a strong defense and to the level of real growth in defense spending which we pledged to our NATO allies. But the Defense Department will not be immune from budget austerity. In particular, I will require that the Department make savings that do not affect our military readiness. I consider the proposed defense budget adequate to meet our nation’s needs. We must maintain budget restraint and fiscal responsibility in all government agencies.

Based on our estimates of economic and budgetary developments, the actions I have described will produce a balanced budget in 1981.

In our system, Congress controls the power of the purse. The recent intense efforts of the Congressional leaders and my close consultation with them have convinced me that the Congress will indeed enact and maintain a balanced budget, as I am recommending. But to ensure that outcome I will use every power at my command:

-- As I did last week on a popular bill, I will veto any legislation that exceeds the spending limits consistent with a balanced budget.

-- I will use my full powers under the 1974 Budget Reform Act to hold down federal spending, including some expenditures which have previously been authorized.

-- If during the course of the year I judge that these actions and powers are not sufficient, I will ask the Congress for a temporary grant of extraordinary powers to ensure that spending is contained.

Cutting back federal spending to match revenue is not a cure-all — but it is an essential first step. The sources of inflation are far too complex to be treated by a single remedy. But nothing will work until the federal government has demonstrated that it can discipline its own spending and borrowing — not just as a one-year exercise, but as a long-term policy. Together, we will do just that. We will dispel the notion that deficits will always be with us.

I want to be absolutely honest about these budget cuts. We have been cutting out waste and fraud and trimming the bureaucratic fat. But this time, there will also have to be cuts in good, worthwhile programs — programs which I support very strongly.

In this critical situation we must all look beyond some of our most worthwhile immediate aims to be the overriding permanent needs of the whole nation.

Our second area of action is restraining the growth of credit.

Just as our governments have been borrowing to make ends meet, so have individual Americans. But when we try to beat inflation with borrowed money, we just make the problem worse.

Inflation is fed by credit-financed spending. Consumers have gone into debt too heavily. The savings rate in our nation is now the lowest in more than 25 years. As inflationary expectations have worsened, businesses and other borrowers are tempted to use credit to finance speculative ventures as well as productive activities.

The traditional tools used by the Federal Reserve to control money and credit expansion are a basic part of the fight on inflation. But in present circumstances, those tools need to be reinforced so that effective restraint can be achieved in ways that spread the burden reasonably and fairly.
I am therefore using my power under the Credit Control Act of 1969 to authorize the Federal Reserve to impose new restraints on the growth of credit on a limited and carefully targeted basis. Under this authority the Federal Reserve will:

-- Establish controls for credit cards and other unsecured loans but not for secured loans on homes, automobiles, and other durable goods.

-- Restrain credit extensions by commercial banks that are not members of the Federal Reserve System and by certain other money-market lenders.

The Chairman of the Federal Reserve will announce a voluntary program, effective immediately, to restrain excessive growth in loans by larger banks and other lenders. At the same time, the program will encourage the flow of available credit supplies for investment and other productive uses. Special attention will be given to the particular needs of small businesses, farmers, and homebuyers. I support these initiatives by the Federal Reserve.

These carefully targeted actions will not damage the productive capacity of our nation. By helping to curtail excessive uses of credit and dampening inflation, they should — along with the budgetary measures I announced — speed prospects for reducing the strains in financial markets.

In addition, I am taking steps to reduce the extension of credit by the federal government. Federal loans and loan guarantees will be cut by nearly $4 billion in fiscal 1981.

As a longer-run measure, I urge Congress to institute the credit budget I proposed in January. It will help us control more effectively the loans and loan guarantees provided by the federal government.

Our third area of action is the voluntary wage and price standards.

I do not have authority to impose controls. I do not seek that authority. We will not impose mandatory wage and price controls. Government wage and price controls have never worked in peacetime. They create unfair economic distortions and hurt productivity. These results always force price controls first to be eased and then dismantled — while inflation roars ahead.

Controls create inequities — and the greatest inequity is their effect on the average family. As even the most ardent advocates of mandatory controls concede, the cost of vital necessities such as food and fuel would be passed on to those living on frozen wages and fixed incomes.

We cannot outlaw inflation with a massive federal bureaucracy, or wish it away with magic formulas.

On the other hand, voluntary wage and price standards offer the flexibility we need to deal with our complex economy.

The Council on Wage and Price Stability has just issued revised pay standards and confirmed an extension of the price standards.

The new pay standards were developed from the recommendation of a Tri-Partite Advisory Committee, with members from business, labor and the public. The Committee unanimously recommended standards for pay increases in the range of 7-1/2 to 9-1/2 percent, and stated that under normal circumstances increases should average 8-1/2 percent. I am determined to meet that goal.
In the fact of last year's 13 percent increase in the consumer price index, and the even higher rate of recent months, this unanimous recommendation of the Pay Advisory Committee -- designed to produce an average wage and salary increase of 8-1/2 percent -- reflects a commendable spirit of restraint and cooperation. With business, labor and public support, we can meet this goal of restraint.

I am sharply expanding the price and wage monitoring activities of the Council on Wage and Price Stability. Its current staff of 80 people will be more than tripled. The Council will establish teams of experts to track wage and price developments in each major industry. The Council will meet with leaders from specific industries to secure their cooperation. Where necessary, we will ask large firms for pre-notification of significant price increases. We will investigate wage and price increases that seem out of line with the standards. I mean to apply those standards with vigor and toughness to both business and labor.

Our fourth area of action is energy.

The plain truth is that we will never be completely strong at home or secure abroad until we have at last solved our nation's excessive dependence on foreign oil.

The price of imported oil has more than doubled in the last 12 months. Last year's increase alone was greater than all other increases combined since the oil embargo of 1973.

We must forge ahead toward the goal I set last July -- cutting in half the amount of oil we import by 1990. To do this will require increased production of domestic oil, natural gas and coal -- unrelenting efforts for conservation -- and the rapid development of alternative energy sources.

For three years I have fought for a national energy policy to achieve each of these goals. Today, at last, we are close to enacting such a policy into law. We must not falter now.

I am asking the Congress to finish without delay the three essential pieces of the energy program -- the Windfall Profits Tax, the Energy Security Corporation, and the Energy Mobilization Board. These bills are cornerstones for our energy security, our national security, and our fight against inflation.

I have recently submitted a proposal to Congress to conserve energy in electric power plants and to convert them from oil to coal and other fuels. This too must be passed promptly.

But we can never solve our energy dependence unless we meet the problem of extravagant gasoline use.

Gasoline is the most important and most wasted petroleum product in the United States. It accounts for some 40 percent of all the petroleum we use. In almost every other industrial country, the average amount of gasoline used by each citizen is much lower than ours, and the average price is much higher. Americans have done well in the past year in gasoline conservation. But if we are going to reduce further our dependence on foreign oil, we must do more.

Therefore, I am exercising my Presidential authority to impose a gasoline conservation fee on imported oil. This will be applied solely to gasoline in an amount equal to about 10 cents a gallon. The fee will not add to the cost of any other oil product. It will not add to oil company profits. It should reduce imports by 100,000 barrels a day by the end of a year, and later by as much as 250,000 barrels per day.

MORE
I will submit to Congress a request for a specific gasoline tax which will replace the conservation fee.

The funds from the gasoline conservation charge will be held in reserve or used to reduce the national debt. I do not intend to use these revenues to balance the budget or as a substitute for necessary spending cuts. But these revenues, which will begin accruing immediately, will give the budget a margin of safety — ensuring that it remains in balance even if conditions or estimates change.

We can now set new targets for gasoline consumption nationwide which will reduce consumption by 400,000 barrels per day.

This action also underscores a commitment to greater conservation that our friends abroad — both producing and consuming nations — can join and support.

Finally, the Secretary of Energy is pursuing an intensified national energy conservation plan. Our aim is to involve every level of government, business, labor — in fact, every single citizen — in conserving American energy.

Our fifth area of action involves long-term structural changes to encourage productivity, savings, and research and development.

We have already begun to make progress in reforming government regulations which interfere with these goals. Since taking office, I have worked to root out unnecessary government regulations and to make cost-effective those which are necessary. I urge the Congress to pass the Regulatory Reform Act, which will strengthen our efforts.

As much as possible, we need to let the private enterprise system be free to compete. We have succeeded in deregulating airlines. I urge the Congress to speed passage of comprehensive bills to cut regulation of banking, trucking, railroads and communications.

We must also encourage savings. The single most important way we can do that is to phase out the ceilings that limit the return most small savers can earn. A financial institutions reform bill which makes this change has just been approved by a House-Senate Conference Committee. I urge its quick passage.

We must face the fact that over the last 10 years the pace of productivity growth in our country slowed sharply. Last year it actually declined.

This trend is an important long-term factor in inflation. It must be reversed.

I am asking my Presidential Commission on an Agenda for the 1980s as part of their work to develop specific recommendations for revitalizing our economy.

Our priority now is to balance the budget. But once these spending limitations have actually been achieved, we can then provide tax relief to encourage investment. Through fiscal discipline today, we can free up resources tomorrow for the productivity improving tax reductions our nation needs.

This discipline will not be easy. Our new budgets will be very tight. There are some things we cannot afford -- at least not now. But the most important thing we cannot afford is the national delusion we have been harboring about inflation. We cannot afford the fairy tale that inflation can be passed on to the next person -- or to the next generation.
The actions I have outlined involve costs. They involve pain. But the cost of acting is far less than the cost of not acting. The temporary pain of sacrifice and discipline is far less -- for all of us together -- than the still worse permanent pain of rising inflation. For all of us, but especially for the most needy, inflation is indeed the most cruel tax of all.

If we take these necessary steps against inflation, it will not result in a quick victory. Over the next several months, inflation is likely to continue at a high level. We must be patient and persistent.

I am confident that with the steps I am proposing today, the inflation rate will be declining later this year. As that happens, we may look forward to calmer financial markets and lower interest rates.

By taking control of this problem -- which involves taking control of ourselves -- we can put an end to the fear about the future that afflicts so many of our people and institutions.

In the fight against inflation, what is at stake is more than material wealth or material comfort. What is at stake is whether or not we Americans -- as a nation, as a people -- will control our own destiny.

In crises abroad, we have always shown our ability to respond with steadfastness and courage. We must now show the same determination in meeting the challenge of inflation.

With inflation, as with defense and energy, our responsibility is clear:

- to face the world as it is, and to be honest about the hard decisions that are necessary;
- to make those decisions and to carry them out; and
- to build together a strong and secure and hopeful future for every American.

With proper discipline we will prevail in our fight against inflation.
Persistent high inflation threatens the economic security of our country.

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In the last eight weeks, interest rates have surged to unprecedented heights and inflation has sharply intensified.

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The inflation we face today is deeply rooted. Its many causes have built up over more than a decade. The most important of these causes are soaring world oil prices, declining productivity growth and our failure in government, as individuals, and as a society to live within our means.

Inflation is a symptom of economic distress. The truth is that we have inflation because our economy is not productive enough to do all the things we demand of it. We want it to give us higher incomes, bigger profits and bigger government programs in our favorite area.

The federal government must stop spending money we do not have and borrowing to make up the difference.

Our whole society -- the entire American family -- must try even harder to live within its means. As individuals and as a nation, we must begin to spend money according to what we can afford in the long run -- not according to what we can borrow in the short run.

There are no quick answers to inflation and above all no painless answers. If there were any such solutions, they would have been implemented long ago. We cannot abolish inflation overnight by just passing a law against it. Only a long-term effort -- with the partnership of business and labor, individual citizens and all branches and levels of government -- can succeed in bringing this problem under control.

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-- Cut expenditures for personnel, operations and maintenance throughout the government.
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I urgently request from the Congress the savings and revenue measures in the budget I submitted in January. I want to stress particularly the legislation needed to hold down hospital costs, to reform federal pay, and to speed up collections of revenue.

When budget cuts demand sacrifices from many Americans, it is intolerable for some to evade prompt payment of taxes. I will send to the Congress legislation to make sure that taxes that are owed on interest and dividends are actually paid, and paid in a timely manner.
I will maintain my commitment to a strong defense and to the level of real growth in defense spending which we pledged to our NATO allies. But the Defense Department will not be immune from budget austerity. In particular, I will require that the Department make savings that do not affect our military readiness. I consider the proposed defense budget adequate to meet our nation's needs. We must maintain budget restraint and fiscal responsibility in all government agencies.

Based on our estimates of economic and budgetary developments, the actions I have described will produce a balanced budget in 1981.

In our system, Congress controls the power of the purse. The recent intense efforts of the Congressional leaders and my close consultation with them have convinced me that the Congress will indeed enact and maintain a balanced budget, as I am recommending. But to ensure that outcome I will use every power at my command:

-- As I did last week on a popular bill, I will veto any legislation that exceeds the spending limits consistent with a balanced budget.

-- I will use my full powers under the 1974 Budget Reform Act to hold down federal spending, including some expenditures which have previously been authorized.

-- If during the course of the year I judge that these actions and powers are not sufficient, I will ask the Congress for a temporary grant of extraordinary powers to ensure that spending is contained.

Cutting back federal spending to match revenue is not a cure-all -- but it is an essential first step. The sources of inflation are far too complex to be treated by a single remedy. But nothing will work until the federal government has demonstrated that it can discipline its own spending and borrowing -- not just as a one-year exercise, but as a long-term policy. Together, we will do just that. We will dispel the notion that deficits will always be with us.

I want to be absolutely honest about these budget cuts. We have been cutting out waste and fraud and trimming the bureaucratic fat. But this time, there will also have to be cuts in good, worthwhile programs -- programs which I support very strongly.

In this critical situation we must all look beyond some of our most worthwhile immediate aims to be the overriding permanent needs of the whole nation.

Our second area of action is restraining the growth of credit.

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These carefully targeted actions will not damage the productive capacity of our nation. By helping to curtail excessive uses of credit and dampening inflation, they should -- along with the budgetary measures I announced -- speed prospects for reducing the strains in financial markets.

In addition, I am taking steps to reduce the extension of credit by the federal government. Federal loans and loan guarantees will be cut by nearly $4 billion in fiscal 1981.

As a longer-run measure, I urge Congress to institute the credit budget I proposed in January. It will help us control more effectively the loans and loan guarantees provided by the federal government.

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I have recently submitted a proposal to Congress to conserve energy in electric power plants and to convert them from oil to coal and other fuels. This too must be passed promptly.

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I will submit to Congress a request for a specific gasoline tax which will replace the conservation fee.

The funds from the gasoline conservation charge will be held in reserve or used to reduce the national debt. I do not intend to use these revenues to balance the budget or as a substitute for necessary spending cuts. But these revenues, which will begin accruing immediately, will give the budget a margin of safety -- ensuring that it remains in balance even if conditions or estimates change.

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Finally, the Secretary of Energy is pursuing an intensified national energy conservation plan. Our aim is to involve every level of government, business, labor -- in fact, every single citizen -- in conserving American energy.

Our fifth area of action involves long-term structural changes to encourage productivity, savings, and research and development.

We have already begun to make progress in reforming government regulations which interfere with these goals. Since taking office, I have worked to root out unnecessary government regulations and to make cost-effective those which are necessary. I urge the Congress to pass the Regulatory Reform Act, which will strengthen our efforts.

As much as possible, we need to let the private enterprise system be free to compete. We have succeeded in deregulating airlines. I urge the Congress to speed passage of comprehensive bills to cut regulation of banking, trucking, railroads and communications.

We must also encourage savings. The single most important way we can do that is to phase out the ceilings that limit the return most small savers can earn. A financial institutions reform bill which makes this change has just been approved by a House-Senate Conference Committee. I urge its quick passage.

We must face the fact that over the last 10 years the pace of productivity growth in our country slowed sharply. Last year it actually declined.

This trend is an important long-term factor in inflation. It must be reversed.

I am asking my Presidential Commission on an Agenda for the 1980s as part of their work to develop specific recommendations for revitalizing our economy.

Our priority now is to balance the budget. But once these spending limitations have actually been achieved, we can then provide tax relief to encourage investment. Through fiscal discipline today, we can free up resources tomorrow for the productivity improving tax reductions our nation needs.

This discipline will not be easy. Our new budgets will be very tight. There are some things we cannot afford -- at least not now. But the most important thing we cannot afford is the national delusion we have been harboring about inflation. We cannot afford the fairy tale that inflation can be passed on to the next person -- or to the next generation.
The actions I have outlined involve costs. They involve pain. But the cost of acting is far less than the cost of not acting. The temporary pain of sacrifice and discipline is far less -- for all of us together -- than the still worse permanent pain of rising inflation. For all of us, but especially for the most needy, inflation is indeed the most cruel tax of all.

If we take these necessary steps against inflation, it will not result in a quick victory. Over the next several months, inflation is likely to continue at a high level. We must be patient and persistent.

I am confident that with the steps I am proposing today, the inflation rate will be declining later this year. As that happens, we may look forward to calmer financial markets and lower interest rates.

By taking control of this problem -- which involves taking control of ourselves -- we can put an end to the fear about the future that afflicts so many of our people and institutions.

In the fight against inflation, what is at stake is more than material wealth or material comfort. What is at stake is whether or not we Americans -- as a nation, as a people -- will control our own destiny.

In crises abroad, we have always shown our ability to respond with steadfastness and courage. We must now show the same determination in meeting the challenge of inflation.

With inflation, as with defense and energy, our responsibility is clear:

-- to face the world as it is, and to be honest about the hard decisions that are necessary;

-- to make those decisions and to carry them out; and

-- to build together a strong and secure and hopeful future for every American.

With proper discipline we will prevail in our fight against inflation.

#  #  #
THE WHITE HOUSE

ANTI-INFLATION PROGRAM

The President's anti-inflation program announced on March 14, 1980 involves five major parts:

(1) Increased Discipline in the Federal Budget
(2) Restraints on Credit
(3) Wage and Price Actions
(4) Greater Energy Conservation
(5) Economic Structural Changes to encourage productivity, savings, research and development.

Increased Discipline in the Federal Budget

In light of recent increases in the rate of inflation, the President has decided that it is necessary to balance the budget in FY 1981.

The FY 1981 balanced budget is achieved through:

--deferral, reduction or cancellation of most of the new or expanded programs originally proposed in FY '81 budget;
--a cut in expenditures for personnel, operations, and maintenance throughout the government;
--an immediate freeze in Federal civilian employment, and rigid maintenance of employment ceilings to ensure that there will be 20,000 fewer Federal employees by the end of 1980 than there are now;
--a reduction in ongoing spending programs throughout the Federal government;
--placing on an urgent basis the need to pass the savings and revenue measures submitted in the January budget, including hospital cost containment, Federal pay reform and cash management reforms;
--legislation to be sent to Congress authorizing withholding of interest and dividend payments in order to ensure that Federal income taxes owed on those interest and dividend payments are in fact paid;
--requiring the Defense Department, through efficiencies and savings that do not affect military readiness, to offset a large part of the cost increases the Department now faces;
--a commitment to veto any legislation that exceeds the spending limits consistent with a balanced budget;
--commitment to use the powers under the Budget Reform Act of 1974 available to the President to defer or rescind Federal spending;
--a willingness to seek from the Congress, if adequate steps are not being taken to achieve a balanced budget, a temporary grant of extraordinary powers.

Restraints on Credit

A. The President is using power granted him under the Credit Control Act of 1969 to authorize the Federal Reserve to impose new restraints on the growth of credit on a limited and targeted basis:
--Controls will be authorized for consumer loans other than those for homes, automobiles and other durable goods;
--Authority will be authorized to restrain credit extensions by commercial banks which are not members of the Federal Reserve System and by certain other money market lenders.

B. The Federal Reserve will announce a voluntary program, effective immediately, to restrain excessive growth in loans by large banks and other lenders.

C. Federal loans and loan guarantees will be cut by $4 billion in Fiscal 1981.

D. The President renewed his commitment to seek Congressional passage of a credit budget to enable the Federal government to control the loans and loan guarantees it provides more effectively.
Wage and Price Actions

A. Reaffirmed absolute opposition to wage and price controls.

B. Acceptance of pay standard recommendations of the Pay Advisory Committee -- standards which permit pay increases in the range of 7.5 to 9.5 per cent, with an average under normal conditions of 8.5 per cent; large firms with settlements over the 8.5 per cent midpoint will be asked to report to the Council on Wage and Price Stability (COWPS) with supporting information.

C. Continuation of the price standard established in final form by COWPS on November 1, 1979.

D. Lowering of the threshold for regular, formal reporting of price change information to COWPS from companies with $250 million or more in sales to those with $100 million or more in sales.

E. Selective prenotification of price increases by large firms, on a voluntary basis.

F. Increased COWPS staff to expand monitoring effort.

Greater Energy Conservation

A. Renewed appeal to the Congress to complete work on the Windfall Profits Tax, the Energy Security Corporation, and the Energy Mobilization Board, and to take prompt action on the recently proposed coal conversion legislation.

B. Imposition of a gasoline conservation fee on imported oil of $4.62 a barrel, which will be applied solely to gasoline in an amount equal to about 10 cents a gallon.

C. Submission to Congress of a motor fuels tax designed to replace the gasoline conservation fee.

D. Establishment of new targets for nationwide gasoline consumption at a maximum of 7 million barrels per day, or a 5.5 per cent decrease from 1979 level.

E. Development of intensified national energy conservation plan by the Secretary of Energy.

Long-Term Economic Structural Changes

A. Renewed appeal to Congress to enact the Regulatory Reform Act and comprehensive legislation to deregulate the banking, trucking, railroad and communications industries.

B. Renewed appeal to Congress to enact the Financial Institutions Reform Act, which will gradually lift the ceilings that limit the return most small savers can earn.

C. A request that the Presidential Commission for a National Agenda for the Eighties develop specific recommendations for revitalizing our economy's productivity.

D. Statement of intention to propose tax measures to spur productivity once the task of balancing the budget and assuring overall fiscal discipline is achieved.

More detail on the following items of the President's program is set forth below:

(1) Overview of the Inflation Situation
(2) Budgetary Actions/Hiring Limitation
(3) Pay and Price Standards
(4) Gasoline Conservation Fee
(5) Motor Fuels Tax
(6) State Gasoline Targets
(7) Withholding of Interest and Dividends

MORE
More detailed information on credit restraints will be set forth in a separate release provided by the Federal Reserve.

OVERVIEW OF THE INFLATION SITUATION

We have just come out of a decade of economic turmoil; a decade which saw

-- a tenfold increase in the price of oil,
-- a twenty-fold increase in the U.S. oil import bill,
-- the deepest recession in 40 years,
-- inflation which averaged eight per cent over the whole decade, and
-- a sharp slowdown in productivity growth.

Thus as we enter the 1980's, economic policy has to concentrate on three major priorities:

(1) reducing inflation,
(2) adjusting to a world of sharply higher energy prices and reducing our vulnerability to OPEC price and supply decisions, and
(3) improving the efficiency and productivity of our economy.

In recent weeks this first priority has become even more important. Citizens across the country have become worried that our economy is out of control. This worry affects their expectations about inflation and thus their behavior.

There are real causes for concern.

-- The early months of 1980 have seen another explosion in energy prices and the passthrough of increased energy costs in other goods, and a wholesale price index rising at an annual rate of 20 per cent:
-- Interest rates are skyrocketing; and
-- The bond market is in disarray.

Strong and decisive action is necessary to turn the tide around. We cannot let a continued worsening of inflationary expectations and an erosion of confidence undermine a basically sound economy.

What caused this worsening of inflationary expectations? A number of things:

Our economy has shown greater strength than expected. The widely-expected recession has not materialized.

-- Retail sales have remained strong as consumers continued to hold down their savings rate to spend;
-- Employment is still up and the unemployment rate is steady at roughly six per cent;
-- Restraint in financial markets has not bit deeply except in housing;
-- Strong markets have made it easier for businesses to raise prices.

Inflation has accelerated sharply.

-- In January and February the Producer's Price Index increased at an annual rate of about 20 per cent;
-- In January the CPI increased at the rate of 1.4 per cent (an annual rate of 18 per cent);
-- These dramatic increases come from another round of energy price increases (7.5 per cent in February alone), from the passthrough of energy price increases into the prices of goods made with and transported with energy, and from the passthrough of other costs swallowed last year.

Misinterpretation of the budget.

-- The increase in nominal expenditures for FY 1980 between January 1979 and January 1980 was a result of inflation -- but it was perceived by some as backing away from the commitment to fiscal restraint;

MORE
The $16 billion deficit in the 1981 budget was not widely recognized as being a result of the administration's forecast of a weak economy. (With a six per cent unemployment rate, the budget proposed in January would be in surplus.)

Concerns about a defense boom.

And, finally, concern about the growth of money supply and business loans.

**BUDGETARY ACTIONS**

Throughout his administration, the President has emphasized the need for fiscal restraint. Given the recent increases in our nation's rate of inflation, he has determined that a balanced budget in FY 1981 is imperative.

To implement this decision, the President will place before the Congress a package of substantial expenditure cuts in almost every major program area not vital to national security. These cuts are real, and have been allocated fairly. The President recognizes the sacrifice he will be asking people to make through these reductions. However, he has decided that balancing the budget now is a major step toward restoring confidence in our economy.

**Budget Totals**

When submitted in January, the FY 1981 budget had a projected deficit of about $16 billion. Since January, changes in the economic outlook and technical revisions have combined to raise both outlays and revenues for FY 1981, narrowing the FY 1981 deficit by a small amount (about $2.3 billion).

The President's proposed expenditure cuts will bring the budget to balance. Beyond that, the imposition of a measure to reduce gasoline consumption and oil imports, and the proposal to apply withholding to existing taxes on interest and dividends (a measure to reduce tax evasion) will together generate new revenues of about $14 billion, providing an overall surplus for the budget.

The budget estimates are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. OUTLAYS</strong> (in billions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January Budget plus: revisions</td>
<td>564</td>
<td>9 to 10</td>
</tr>
<tr>
<td>less: budget cuts</td>
<td>6</td>
<td>-13 to -14</td>
</tr>
<tr>
<td>equals: Revised Outlays</td>
<td>568 to 569</td>
<td>610 to 613</td>
</tr>
</tbody>
</table>

| **II. REVENUES** (in billions) |        |        |
| January Budget plus: revisions Withholding on Interest and Dividends Contingency Allowance (Revenues from gasoline conservation fee) | 524    | 600    |
|                               | 5      | 11 to 12 |
|                               | 0      | 3      |
|                               | (3)    | (10)   |
| equals: Revised Revenues (including contingency allowance) | 529    | 614 to 615 |

| **III. DEFICIT (-) OR SURPLUS (+)** (in billions) |        |        |
| January budget Withholding on Interest and Dividends Contingency Allowance Revised Estimate After Contingency | -40    | -16    |
| (Contingency Allowance) | -39 to -40 | 0 to +3 |
|                         | (+3)    | (+10)  |
|                         | (-36 to -37) | (+10 to +13) |
Proposed Spending Cuts

The President will propose reductions in virtually every area of the budget to eliminate the deficit in FY 1981. He will defer less essential spending. He will rescind budget authority in 1980. He will propose reductions in appropriations for the FY 1981 budget. He will seek legislative reforms lowering expenditures. The President intends to use fully the authorities he has at hand to achieve budget balance.

These recommendations are the product of an unprecedented joint effort with the Congress. The President's senior advisors and members of Congress have identified and reviewed the actions which are necessary to balance the 1981 budget. There is substantial agreement concerning specific reductions in major programs and in the general pattern of reductions in other areas.

Both the Administration and the Congress intend to work closely together to see these proposals enacted.

Reductions in New Initiatives

The President has decided to eliminate, reduce or postpone many of his new initiatives. Among those initiatives affected are:

Outlay Reductions 1981 (in millions)

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Reduction (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New EDA development financing program (DOC)</td>
<td>212</td>
</tr>
<tr>
<td>Solar and Conservation Bank (HUD)</td>
<td>76</td>
</tr>
<tr>
<td>Territorial Tax Matching (DOI)</td>
<td>22</td>
</tr>
<tr>
<td>The State Share of General Revenue Sharing (Treasury)</td>
<td>1,700</td>
</tr>
<tr>
<td>Welfare Reform Initiatives (DOL, HHS)</td>
<td>859</td>
</tr>
<tr>
<td>Mass Transit Capital Grants (July energy program)</td>
<td>265</td>
</tr>
</tbody>
</table>

The budgetary proposals will also include substantial cuts in numerous on-going programs virtually across the government. Selected examples are:

Operating and administrative expenses (all agencies)
Water and sewer grants and loans (USDA)
Agricultural Conservation Program (USDA)
Foreign Aid (AID, Treasury)
Coastal Energy Impact Fund (DOE)
Water project construction (Corps of Engineers, USDA)
Energy Impact Assistance (DOE)
Mental Health and Alcohol Services (HHS)
Health Services Grants (HHS)
Rehabilitation Loan Program (HUD)
Land and Water Conservation Fund (DOI)
Urban Park Grants (DOI)
LEAA (DOJ)
Welfare Reform Demonstration Project (DOL)
Public Service Employment (State)
UN Voluntary Contribution (State)
Coast Guard facilities (DOT)
Airport programs (DOT)
Highway construction (DOT)
Waste Treatment Construction Grants (EPA)
Facilities construction (NASA)
Space Science (NASA)
Facilities construction (VA)
Export Loans (ExIm Bank)
Business Loan and Investment Fund (SBA)
Applied Research (NSF)

The details concerning reductions in these and other federal programs will be made public along with the budget revisions at the end of this month.
Executive Branch Hiring Limitation

The limitation on Executive Branch hiring will take effect immediately and its duration is indefinite. Agencies are restricted in filling full-time permanent positions to no more than 50 per cent of vacancies that occur after February 29, 1980. Vacancies that existed prior to that date may be filled, but only by using the allowed 50 per cent of vacancies occurring after February 29.

For purposes of illustration, a 50 per cent hiring limitation will result in a reduction of 6,500 full-time permanent positions per month. Over a 90-day period, this would mean that about 19,500 vacancies would not be filled, producing savings of up to $57 million.

PAY AND PRICE STANDARDS

Pay Standard for Second Program Year

The Pay Advisory Committee's recommendation for a 7.5 per cent to 9.5 per cent range of permissible increase has been adopted as the second year pay standard under the voluntary program.

Although the Administration has adopted a range rather than a single standard, it is expected, nonetheless, that wage settlements nationwide will average about the midpoint of the range, 8.5 per cent.

All businesses with more than 1,000 employees that settle on pay increases above 8.5 per cent will be asked to report such settlements to the Council on Wage and Price Stability, along with supporting statistical information.

The Pay Advisory Committee's recommendation for a second year 7.5 per cent Cost of Living Adjustment evaluation has been adopted.

Price Standard for Second Program Year

The price standard for the second program year issued in final form by the Council on Wage and Price Stability on November 1, 1979, will be continued.

Intensified and Expanded Pay and Price Monitoring

The threshold for regular (quarterly), formal reporting of price change information to the Council on Wage and Price Stability will be lowered from companies with $250 million or greater in annual sales to companies with $100 million or greater in annual sales. This will more than double the number of business firms intensively monitored by CWPS (from about 1200 to about 2500).

Pre-notification of price changes will be selective -- where it appears to be needed and makes sense. There will be no standard requirement for pre-notification by all businesses that are affected by the regular reporting requirement.

Expansion of the Council on Wage and Price Stability

The staff capability of the Council on Wage and Price Stability will be more than doubled to administer the intensified program. Most of the added people will support price and pay monitoring activity. Audit capability will be added. Price monitoring will be greatly strengthened. Initial review time will be reduced; CWPS will evaluate exceptions requests faster and reduce decision time.
GASOLINE CONSERVATION FEE

Nature of Fee

The fee will be $4.62 per barrel on imported crude oil. The cost of this fee will be shifted entirely to the production of gasoline. The expected effect of the fee on gasoline prices will be about 10 cents a gallon. Imports of gasoline will also be subject to a charge, equal in amount to the expected average impact of the fee on gasoline of 10 cents a gallon, or $4.20 per barrel.

The conservation fee is temporary; the President will submit to the Congress legislation to establish a tax on motor fuels. When that tax is enacted the fee will be removed. Such tax legislation would have the same favorable effect of reducing petroleum imports but would eliminate the need for the complex administrative regulations to shift the cost of the import fee to gasoline.

The fee is effective for gasoline produced or imported and crude oil imported after 12:01 a.m., March 15, 1980. A Presidential Proclamation providing the framework for the detailed mechanisms of the plan will be issued in the next few days, effective March 15, 1980.

These actions are taken under authority of Section 232(b) of the Trade Expansion Act, and of the Emergency Petroleum Allocation Act (EPAA). The Trade Expansion Act gives the President authority to take action to adjust levels of imports that threaten national security. Such adjustments can be made through the imposition of an import fee, and the establishment of a program to shift the fee to gasoline. The EPAA provides the President with authority to impose price and allocation controls on crude oil and refined products.

In accordance with the Trade Expansion Act, the Secretary of the Treasury conducted an investigation last year into the Nation's dependence on oil imports and concluded that the levels of such imports threaten national security.

Shifting the entire cost of the fee to gasoline will focus the fee on the product which provides the greatest conservation potential without unduly affecting the economy. The expected effect of the conservation fee followed by the motor fuels tax, is to reduce gasoline and diesel consumption and imports by approximately 100,000 barrels a day by the end of the first year, and up to 250,000 barrels by the end of the third year.

The fee will raise the price of gasoline by about 10 cents per gallon, effective May 15, 1980. The direct effect of this increase will raise overall consumer prices by about 1/2 percentage point. The majority of this increase will be reflected in the CPI during May and June. Over the following year additional (but much smaller) indirect effects will be felt elsewhere in the economy, as gasoline costs are passed on. In total, these direct and indirect effects will increase the CPI by about 3/4 of one percentage point.

There are certain offsetting factors, however. To the extent we can reduce our appetite for imported oil and bring supply and demand into balance, pressure on OPEC to raise prices will decrease. This fee will not only produce additional demand restraint, it demonstrates the willingness of the United States to make sacrifices to curtail gasoline use. This is an important element in securing the international cooperation that is vital if we are truly to bring the oil price explosion under control.

The program will not cause the price of uncontrolled domestic crude oil to rise, since the entitlements program will shift the entire fee to gasoline producers and reimburse crude oil importers to the extent that they do not produce gasoline.

The measure will also increase federal revenues by just over $10 billion annually.

(MORE)
How the Cost of the Fee Will be Shifted from Crude Oil Imports to Gasoline Production

The entire burden of the crude oil import fee will be shifted from importers to gasoline producers. This will be accomplished through a mechanism similar to, but separate from, the current Entitlements Program -- a system of payments among refiners designed generally to equalize their crude oil costs.

The mechanism will require importers of crude oil to pay the import fee to the Government. At the same time, however, the importers will be reimbursed for this expense by gasoline producers, who will be required, for each barrel of gasoline produced (whether from domestic or imported crude oil), to purchase an "entitlement" to produce gasoline from any firm which imports crude oil. As a result of the entitlement program, refiners and regions that are dependent upon imported oil will not be disproportionately affected by the new import fee.

TAX ON MOTOR FUELS

Determination of Tax Rate

The President will send to Congress legislation establishing a tax on gasoline and diesel motor fuel, starting at 14 cents per gallon. (The present 4 cents a gallon tax would be repealed.) The rate of tax will be adjusted, not more than quarterly, in accordance with changes in the price indices of producers (refiners) prepared by the Department of Labor.

In that way, the tax will be the equivalent of an ad valorem tax at a constant fixed percentage of producers' average selling prices. The indices will be those for refiners' sales of gasoline and diesel motor fuel to commercial consumers. The gasoline index used will be that for unleaded fuel. Changes in the tax rate will be announced by the Treasury Department. No changes will be made unless the change in an index will result in a tax change of at least one half cent a gallon.

Payment of Taxes

The new taxes will be paid by those who now must pay the 4 cents per gallon tax on gasoline and diesel fuel.

Exemptions, Credits, and Refunds

Many of the existing exemptions, such as for sales to State and local governments, will be retained. In other cases, the magnitude of the exemption, credit, or refund will not be less than under present law.

Floor Stocks Taxes and Refunds

Tax increases or decreases will not be collected or paid on tax-paid products in inventory at the time of change.

Highway Trust Funds

Revenues from the new taxes will be transferred to the Highway Trust Fund in amounts not less than the equivalent of the revenues from a tax of 4 cents a gallon on gasoline and diesel fuel.

Revenue

Each 1 cent of the equivalent tax will raise $1.2 billion annually at 1981 income levels.

Effective Date

The new ad valorem equivalent tax on Motor Fuels is to be effective with the ending of the import fee. Gasoline importers and producers will receive a credit against the new gasoline tax for the import fee or entitlement obligation already paid on gasoline in stock. For diesel fuel, the tax is to be effective the day after the import fee is terminated.
STATE GASOLINE TARGETS

The National Target

The annual national gasoline conservation target will be set at 7.0 million barrels per day, measured according to the Federal Highway Administration (FHWA) data series. These data measure gasoline sales in individual states throughout the nation.

This target is about 5 1/2 per cent below average daily consumption for 1979. Individual states' targets, based on the national target, are being set for the second quarter of 1980. Next week, letters will be sent to the states specifying second quarter targets.

Consultations with the States on Methodology

During the last few weeks, the Department of Energy (DOE) has reviewed a revised methodology for setting individual states' voluntary gasoline conservation targets with officials from the states, Puerto Rico, and the District of Columbia. The comments received indicate the methodology to be basically sound, although DOE will continue to evaluate the revised formula.

The new methodology uses a sum of 12 months of state gasoline sales data -- rather than monthly gasoline tax data used in developing state targets for the first quarter of 1980. Monthly shares are then computed based on prior consumption and prior conservation efforts, and take into account recommendations submitted by state officials for allocating the annual allotment as monthly shares.

The new method of calculating targets is more realistic because monthly data were found to have several reporting variations. It also gives additional weight to the recent lower gasoline consumption which has occurred because of conservation and economic factors.

Monthly Energy Review (EIA) Data Compared to FHWA Data

Two different data series have been used to measure gasoline consumption. The two series are DOE's Monthly Energy Review (MER) and the Federal Highway Administration (FHWA) data series. The FHWA data, because of the inclusion of gasoline which is not imported or produced at domestic refineries, but comes rather from secondary sources, are about 350,000 barrels per day higher than MER data.

For 1979 DOE's MER data reported national gasoline use ("product supplied") at 7.029 million b/d. The corresponding figure reported by FHWA is 7.4 million b/d. Because only the FHWA data system provides information on a state-by-state basis, the national target of 7.0 million b/d is set in terms of FHWA statistics. This national target would likely correspond to an MER "product supplied" figure for 1980 of 6.65 million b/d.

Average Gasoline Consumption in the Last Five Years

<table>
<thead>
<tr>
<th>Year</th>
<th>FHWA Data (Approximate)</th>
<th>Monthly Energy Review Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>6.81</td>
<td>6.68</td>
</tr>
<tr>
<td>1976</td>
<td>7.13</td>
<td>6.98</td>
</tr>
<tr>
<td>1977</td>
<td>7.37</td>
<td>7.18</td>
</tr>
<tr>
<td>1978</td>
<td>7.63</td>
<td>7.41</td>
</tr>
<tr>
<td>1979</td>
<td>7.40*</td>
<td>7.03</td>
</tr>
</tbody>
</table>

*estimated

Mandatory Targets

It is expected that the target set by the President today will be achieved through voluntary compliance efforts by the States. In his State of the Union address, the President said, "After consultation with the governors, we will set gasoline conservation goals for each of the 50 states, and I will make them mandatory if these goals are not met."

(MORE)
The President has authority to make the targets mandatory pursuant to Section 211 of the Emergency Energy Conservation Act of 1979 (Public Law 96-102, 93 Stat. 749 (1979)) whenever he finds, with respect to the energy source involved, that "a severe supply interruption exists or is imminent." This criterion is defined in Section 202 of the Act, which in effect empowers the President not only to determine the existence of an interruption, but to act in anticipation of a potential interruption.

If the targets were made mandatory, the States would be required to submit emergency conservation plans within 45 days. If no such plan were submitted, or if disapproved, or if the plan fails substantially to meet the conservation target within a reasonable period of time (but not less than 90 days) and the required statutory shortfall exists or is expected, a standby Federal conservation plan may be ordered implemented in the State.

The standby Federal conservation plan was published in the Federal Register on February 7, 1980, and is currently the subject of public hearings. The comment period ends on April 7, 1980, and a final plan will be issued thereafter.

WITHHOLDING ON INTEREST AND DIVIDENDS

Currently no tax is withheld on payments of interest and dividends to domestic taxpayers, although taxes are withheld from wage recipients. Payors of certain categories of interest and dividends are required to report to the IRS and the recipients the amount of interest and dividends paid.

The President will propose legislation to change the current payment practice. Under the legislation, payors who now report taxable interest and dividends to both IRS and recipients would be required to withhold 15 per cent of such payments. Individuals who reasonably believe they will owe no tax, and exempt organizations, would not be subject to withholding if they file exemption certificates with the interest or dividend payor. This system of reporting and withholding would be extended to interest on other taxable instruments where practical.

A recent IRS report estimated that between $5.4 and $9.4 billion of additional interest income and between $2.1 and $4.7 billion of additional dividend income should have been reported on individual income tax returns in 1976. While only 2-3 per cent of wages and salaries went unreported, the comparable figure for interest and dividends was 9-16 per cent. The use of information documents and audit procedures cannot by themselves effectively close this reporting gap because of the difficulty of following up on millions of interest and dividend transactions.

Withholding at a 15 per cent rate will not result in undue hardship because the lowest rate bracket at present is 14 per cent. Thus, few individuals would be deprived of the use of over-withheld funds until they receive a refund of tax. In addition, under the proposal, persons who reasonably believe they will owe no tax may file exemption certificates and avoid withholding altogether.

Withholding would increase tax collections by $2.5 billion or more per year beginning in fiscal 1981. Practically all this revenue comes from increased compliance, except in the first year, in which much of this increased revenue would come from the acceleration of payments.

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Increased compliance</th>
<th>Change in timing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>1.0</td>
<td>2.4</td>
<td>3.4</td>
</tr>
<tr>
<td>1982</td>
<td>2.2</td>
<td>0.3</td>
<td>2.5</td>
</tr>
<tr>
<td>1983</td>
<td>2.5</td>
<td>0.3</td>
<td>2.8</td>
</tr>
</tbody>
</table>