AMERICA'S NEW BEGINNING:

A PROGRAM FOR ECONOMIC RECOVERY

FEBRUARY 18, 1981

NOTICE

Embargoed for Wire Transmission Until
4:00 p.m. (E.S.T.)
and Embargoed for Release Until
9:00 p.m. (E.S.T.)
Wednesday, February 18, 1981

The White House
Office of the Press Secretary

America's New Beginning :

A Program for Economic Recovery

Contents

I. Presidential Message to the Congress

THE WHITE HOUSE

WASHINGTON

February 18, 1981

TO THE CONGRESS OF THE UNITED STATES:

It is with pleasure that I take the opportunity this evening to make my first major address to the Congress. The address briefly describes the comprehensive package that I am proposing in order to achieve a full and vigorous recovery for our economy. The key elements of that package are four in number:

-- A budget reform plan to cut the rate of growth in Federal spending;

-- A series of proposals to reduce personal income tax rates by 10 percent a year over three years and to create jobs by accelerating depreciation for business investment in plant and equipment;

-- A far-reaching program of regulatory relief;

-- And, in cooperation with the Federal Reserve Board, a new commitment to a monetary policy that will restore a stable currency and healthy financial markets.

Taken together, I believe these proposals will put the Nation on a fundamentally different course -- a course leading to less inflation, more growth, and a brighter future for all of our citizens.

To aid the Congress in acting promptly on these proposals, I am today forwarding the attached documents which describe the program in greater detail than I can in my address to you. Specifically, you will find the following documents in this package:

(1) An economic report -- issued as a White House paper -- that outlines all four of the elements in my program and sets forth the background to those elements.

(2) A lengthy report on my initial budget cut proposals that has been prepared by the Office of Management and Budget. It should be noted that this report will be followed by a complete budget submission to the Congress, addressing fiscal years 81 and 82. That report will be sent to you on March 10th.

(3) A report on my proposals for tax reduction issued by the Department of the Treasury.

It is my hope that this combination of transmittals will allow the Congress to proceed in accordance with timetables established in the Congressional Budget Act and will permit rapid consideration of this entire program.

My Cabinet and other members of my Administration have worked intensively and cooperatively with me in developing this program for economic recovery. All of us are now eager to work with the Congress as partners in an undertaking that is vital to the future of the Nation.

RONALD REAGAN

II. A White House Report

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I. A Program for Economic Recovery

Today the Administration is proposing a national recovery plan to reverse the debilitating combination of sustained inflation and economic distress which continues to face the American economy. Were we to stay with existing policies, the results would be readily predictable: a rising government presence in the economy, more inflation, stagnating productivity, and higher unemployment. Indeed, there is reason to fear that if we remain on this course, our economy may suffer even more calamitously.

The program we have developed will break that cycle of negative expectations. It will revitalize economic growth, renew optimism and confidence, and rekindle the Nation's entrepreneurial instincts and creativity.

The benefits to the average American will be striking. Inflation — which is now at double digit rates — will be cut in half by 1986. The American economy will produce 13 million new jobs by 1986, nearly 3 million more than if the status quo in government policy were to prevail. The economy itself should break out of its anemic growth patterns to a much more robust growth trend of 4 to 5 percent a year. These positive results will be accomplished simultaneously with reducing tax burdens, increasing private saving, and raising the living standard of the American family.

The plan is based on sound expenditure, tax, regulatory, and monetary policies. It seeks properly functioning markets, free play of wages and prices, reduced government spending and borrowing, a stable and reliable monetary framework, and reduced government barriers to risk-taking and enterprise. This agenda for the future recognizes that sensible policies which are consistently applied can release the strength of the private sector, improve economic growth, and reduce inflation.

We have forgotten some important lessons in America. High taxes are not the remedy for inflation. Excessively rapid monetary growth cannot lower interest rates. Well-intentioned government regulations do not contribute to economic vitality. In fact, government spending has become so extensive that it contributes to the economic problems it was designed to cure. More government intervention in the economy cannot possibly be a solution to our economic problems.

We must remember a simple truth. The creativity and ambition of the American people are the vital forces of economic growth. The motivation and incentive of our people — to supply new goods and services and earn additional income for their families — are the most precious resources of our Nation's economy. The goal of this Administration is to nurture the strength and vitality of the American people by reducing the burdensome, intrusive role of the Federal Government; by lowering tax rates and cutting spending; and by providing incentives for individuals to work, to save, and to invest. It is our basic belief that only by reducing the growth of government can we increase the growth of the economy.

The U.S. economy faces no insurmountable barriers to sustained growth. It confronts no permanently disabling tradeoffs between inflation and unemployment, between high interest rates and high taxes, or between recession and hyperinflation. We can revive the incentives to work and save.

We can restore the willingness to invest in the private capital required to achieve a steadily rising standard of living. Most important, we can regain our faith in the future.

The plan consists of four parts: (1) a substantial reduction in the growth of Federal expenditures; (2) a significant reduction in Federal tax rates; (3) prudent relief of Federal regulatory burdens; and (4) a monetary policy on the part of the independent Federal Reserve System which is consistent with those policies. These four complementary policies form an integrated and comprehensive program.

It should be clear from the most cursory examination of the economic program of this Administration that we have moved from merely talking about the economic difficulties facing the American people to taking the strong action necessary to turn the economy around.

The leading edge of our program is the comprehensive reduction in the rapid growth of Federal spending. As shown in detail below, our budget restraint is more than "cosmetic" changes in the estimates of Federal expenditures. But we have not adopted a simple-minded "meat ax" approach to budget reductions. Rather, a careful set of guidelines has been used to identify lower-priority programs in virtually every department and agency that can be eliminated, reduced, or postponed.

The second element of the program, which is equally important and urgent, is the reduction in Federal personal income tax rates by 10 percent a year for 3 years in a row. Closely related to this is an incentive to greater investment in production and job creation via faster tax write-offs of new factories and production equipment.

The third key element of our economic expansion program is an ambitious reform of regulations that will reduce the government-imposed barriers to investment, production, and employment. We have suspended for 2 months the unprecedented flood of last-minute rulemaking on the part of the previous Administration. We have eliminated the ineffective and counterproductive wage and price standards of the Council on Wage and Price Stability, and we have taken other steps to eliminate government interference in the marketplace.

The fourth aspect of this comprehensive economic program is a monetary policy to provide the financial environment consistent with a steady return to sustained growth and price stability. During the first week of this Administration its commitment to the historic independence of the Federal Reserve System was underscored. It is clear, of course, that monetary and fiscal policy are closely interrelated. Success in one area can be made more difficult — or can be reinforced — by the other. Thus, a predictable and steady growth in the money supply at more modest levels than often experienced in the past will be a vital contribution to the achievement of the economic goals described in this *Report.* The planned reduction and subsequent elimination of Federal deficit financing will help the Federal Reserve System perform its important role in achieving economic growth and stability.

The ultimate importance of this program for sustained economic growth will arise not only from the positive effects of the individual components, important as they are. Rather, it will be the dramatic improvement in the underlying economic environment and outlook that will set a new and more positive direction to economic decisions throughout the economy. Protection against inflation and high tax burdens will no longer be an overriding motivation. Once again economic choices — involving working, saving, and investment — will be based primarily on the prospect for real rewards for those productive activities which improve the true economic well-being of our citizens.

II. The Twin Problems of High Inflation and Stagnant Growth

The policies this Administration is putting forward for urgent consideration by the Congress are based on the fact that this Nation now faces its most serious set of economic problems since the 1930s. Inflation has grown from 1 to 1-1/2 percent a year in the early 1960s to about 13 percent in the past 2 years; not since World War I have we had 2 years of back-to-back double digit inflation. At the same time, the rate of economic growth has been slowing and the unemployment rate creeping upward. Productivity growth — the most important single measure of our ability to improve our standard of living — has been declining steadily for more than a decade. In the past 3 years our productivity actually fell.

The most important cause of our economic problems has been the government itself. The Federal Government, through tax, spending, regulatory, and monetary policies, has sacrificed long-term growth and price stability for ephemeral short-term goals. In particular, excessive government spending and overly accommodative monetary policies have combined to give us a climate of continuing inflation. That inflation itself has helped to sap our prospects for growth. In addition, the growing weight of haphazard and inefficient regulation has weakened our productivity growth. High marginal tax rates on business and individuals discourage work, innovation, and the investment necessary to improve productivity and long-run growth. Finally, the resulting stagnant growth contributes further to inflation in a vicious cycle that can only be broken with a plan that attacks broadly on all fronts.

The Role of the Government in Causing Inflation

Surges of inflation are not unusual in history; there were price explosions after both World Wars, as well as smaller outbursts in the 1920s and late 1930s. Therefore, in spite of the role played by food and energy prices in recent inflationary outbursts, it is misleading to concentrate on these transitory factors as fundamental causes of the inflationary bias in the American economy. Even when prices in these markets have been stable, inflation has continued with little relief.

What is unusual about our recent history is the *persistence of inflation.* Outbursts of high inflation in the last 15 years have not been followed by the customary price stability, but rather by long periods of continued high inflation. This persistence of inflation has crucially affected the way our economy works. People now believe inflation is "here to stay"; they plan accordingly, thereby giving further momentum to inflation. Since there are important long-term relationships between suppliers and customers and between workers and management, long-term contracts, sometimes unwritten, are often based on the view that inflation will persist. This robs the economy of flexibility which might otherwise contribute to reducing inflation.

The Federal Government has greatly contributed to the persistence of high inflation. Overly stimulative fiscal and monetary policies, on average, have financed excessive spending and thus pushed prices upward. Since government accommodation is widely expected to continue, inflation has become embedded in the economy.

When inflationary outbursts occur, policymakers all too often have made a quick turn toward restraint. Such turnabouts, however, have been short-lived and their temporary nature has increasingly been anticipated by savers, investors, and workers. Subsequent declines in employment and growth inevitably call forth stimulative policies before inflation can be brought under control. Such "stop-and-go" policies have only resulted in higher unemployment and lower real growth.

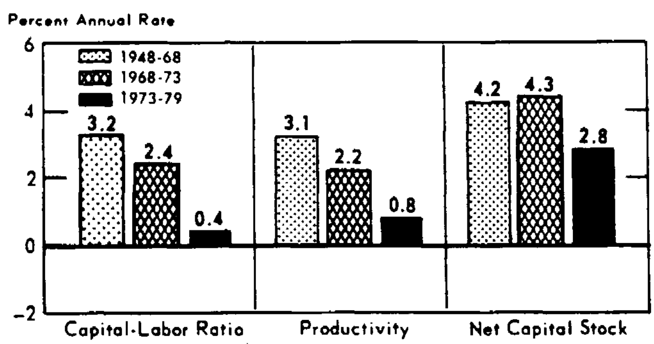
Finally, but equally important, government policies have increased inflation by reducing the potential of our economy to grow — directly through the increasing burdens of taxes and regulations, and indirectly through inflation itself. The result is a vicious circle. Its force can be measured by the statistics of our productivity slowdown, but it is seen more dramatically in the anxiety and concern of our people.

Government Contributes to the Productivity Slowdown

Productivity, popularly measured as output per worker-hour, is an indicator of the efficiency of the economy and consequently of our ability to maintain the rate of improvement in our standard of living. Over the past 15 years, the rate of productivity improvement has slowed, and now virtually halted.

Government policies have been a major contributor to the slowdown but they can be an even more important contributor to the cure. The weight of regulation and the discouragement that results from high marginal tax burdens are key factors, but inflation itself also plays an important role. Reduced capital formation is the most important and visible, but not the only, channel by which this occurs.

Rates of Growth in the Capital-Labor Ratio, Productivity, and Real Net Capital Stock



Note: Capital-labor ratio is real net capital stock (gross stock less replacement requirements and pollution abatement expenditures) in the private business sector divided by employment.

Productivity is output per hour of all persons in the private business sector.

Source: Departments of Commerce and Labor and Council of Economic Advisers.

By increasing uncertainty about the future, inflation discourages investors from undertaking projects that they would have considered profitable but which, with today's inflationary environment, they consider too risky. Inflation also diverts funds from productive investments into hedging and speculation.

Although recent statistics show that the share of our economy's production devoted to investment is high by historic standards, the magnitude is illusory — an illusion fostered by inflation. Accelerating prices, and the high interest rates and shifting economic policy associated with them, have contributed to an unwillingness to make long-lived investments. As a result, our stock of productive plant and equipment depreciates faster, so that more investment is needed simply to stand still.

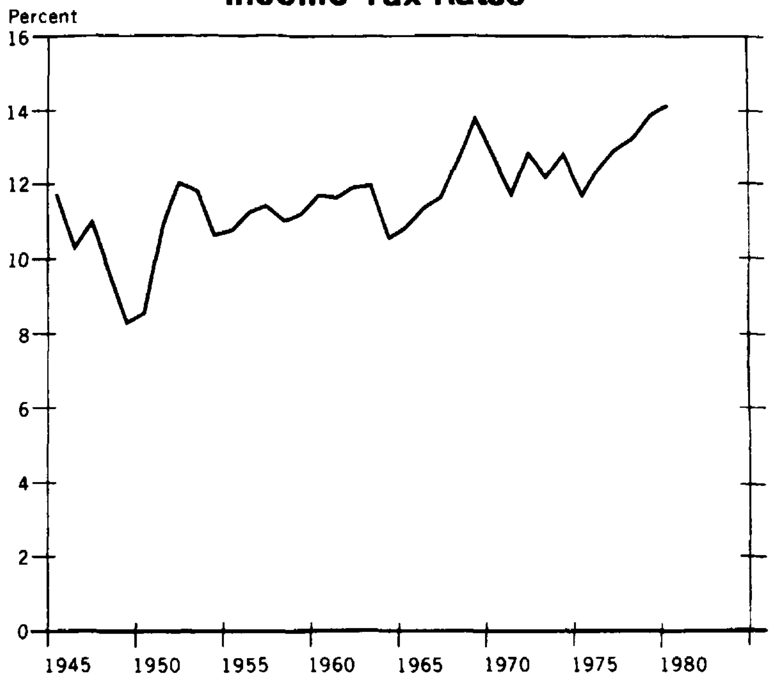
The regulatory requirements imposed by the government have likewise served to discourage investment by causing uncertainty in business decisionmaking. In addition, investments to meet regulatory requirements have diverted capital from expanding productive capacity. Some estimates have put regulation-related investment at more than 10 percent of the total level of business investment in recent years. The expanding intrusiveness of the government into the private sector also inhibits innovation and limits the ability of entrepreneurs to produce in the most efficient way.

Inflation, Growth, and the Tax System

The role of the tax system in reducing our past growth, and its potential for improving the prospects for future growth, deserve special attention. By reducing the incentives for investment and innovation, both by individuals and by businesses, the tax system has been a key cause of our stagnation. Restoring the proper incentives will make a major contribution to the long-run vitality of our economy.

The progressivity of the personal income tax system levies rising tax rates on additions to income that merely keep pace with inflation. Households therefore find that even if their gross incomes rise with inflation, their after-tax real income declines. Some households respond to these higher marginal tax burdens by reducing their work effort. "Bracket creep" also encourages taxpayers to seek out "tax shelters," sources of income that offer higher after-tax returns but not necessarily higher before-tax returns than more productive squrces, again contributing to economic inefficiency. In the last two decades the Congress has reduced personal income taxes seven times. Nevertheless, *average effective tax rates are now about 30 percent higher than their mid-1960's low.* (See Chart.) Marginal tax rates have climbed in tandem with average rates.

Effective Federal Personal Income Tax Rates

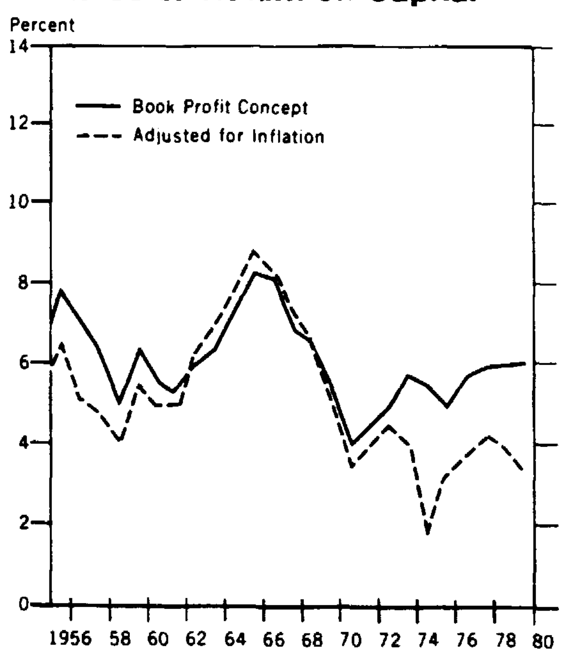


Note: Federal personal taxes as a percent of taxable income

Source: Department of Commerce and Council of Economic Advisers

Due to inflation, the rate of return on corporate assets, after tax, and the level of corporate earnings have been seriously eroded over the past decade and a half. That was a major factor stunting

Rates of Return on Capital



Note: Rates of return on net stocks of reproducible capital for non-financial corporations

Source: Departments of Commerce and Treasury capital spending from what it otherwise would have been. The tax treatment of depreciation has been an important contributor to this lowering of returns. We now allow write-offs at the cost of purchase, rather than at more realistic prices. This creates phantom profits upon which taxes are paid.

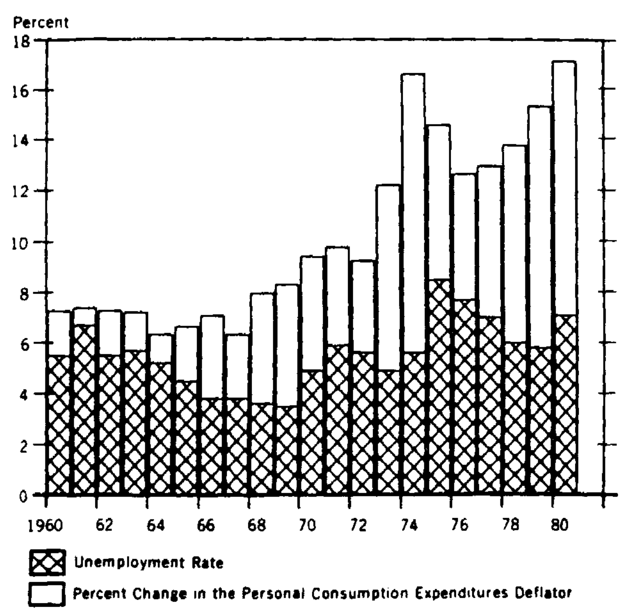
Finally, unless the Congress takes frequent actions to offset the revenue-generating effect of inflation on the progressive personal tax system, the Congress has available for spending unlegislated increases in funds. Inflation in tandem with the tax system thereby impairs the fiscal discipline of the budget process and facilitates higher levels of government spending than would result if the Congress were forced to vote on each tax increase. This offers further encouragement to inflation.

The Economy as a Whole has Suffered

Because past policies have not reduced unemployment, even as they have encouraged rising inflation — the economy as a whole has suffered. Over the past two decades, we have seen the "misery index" — the sum of the inflation and unemployment rates — more than double, rising from 7.3 in 1960 to 17.2 in 1980. While unemployment rates have fluctuated over the business cycle, there has been no long-run tradeoff between unemployment and inflation. The upward movements in inflation have not brought us falling unemployment rates, nor has high unemployment brought lower inflation.

Misery Index

(Unemployment Rate Plus Inflation)



Source: Based on data from Departments of Commerce and Labor

Thus, trends of the past are clearly disturbing in that they have sapped our Nation's economic vitality. Of greater significance, however, is the danger we face if the policies of the 1970s are continued.

For the first time in American history financial markets reflect the belief that inflation will not retreat significantly from current high levels. The Nation's economy and financial system are on a dangerous course — one which, if not reversed, would lead to a prolonged stagnation of economic growth and employment, ever higher inflation and interest rates, and potentially a financial crisis. The solution to this growing economic threat calls for bold actions designed to reduce — dramatically and sharply — inflationary expectations. These policies must restore fiscal integrity; increase incentives for saving, investment, and production; attain monetary and financial stability; and enhance the role of the marketplace as the principal force in the allocation of resources.

III. Slowing the Growth of Government Spending

The uncontrolled growth of government spending has been a primary cause of the sustained high rate of inflation experienced by the American economy. Perhaps of greater importance, the continued and apparently inexorable expansion of government has contributed to the widespread expectation of persisting — and possibly higher — rates of inflation in the future.

Thus, a central goal of the economic program is to reduce the rate at which government spending increases. In view of the seriousness of the inflationary pressures facing us, the proposed reductions in the Federal budget for the coming fiscal year are the largest ever proposed.

Despite the tendency to refer to "cutting" the budget, it is clear that an expanding population, a growing economy, and a difficult international environment all lead to the need for year-to-year rises in the level of government spending. Thus, the badly needed effort to "cut" the budget really refers to reductions in the amount of increase in spending requested from one year to the next.

The magnitude of the fiscal problem facing the United States can be seen when we realize that, despite the $49.1 billion of savings including $5.7 billion in off-budget outlays that is being recommended for fiscal 1982, the total amount of Federal outlays for the year is likely to be $41 billion higher than the current year. (A separate document is being issued by the Office of Management and Budget that outlines the major spending reductions in considerable detail.)

It is essential to stress the fundamental principles that guided the development of that program.

First, and most importantly, all members of our society except the truly needy will be asked to contribute to the program for spending control.

Second, we will strengthen our national defense.

Finally, these fundamental principles led to nine specific guidelines that were applied in reducing the budget:

- Preserve "the social safety net."
- Revise entitlements to eliminate unintended benefits.
- Reduce subsidies to middle- and upper-income groups.
- Impose fiscal restraint on other national interest programs.
- Recover costs that can be clearly allocated to users.
- Stretch-out and retarget public sector capital investment programs.
- Reduce overhead and personnel costs of the Federal Government.
- Apply sound economic criteria to subsidy programs.
- Consolidate categorical grant programs into block grants.

The application of these guidelines has required great care, judgment, and sensitivity. However, we are putting forward over 80 proposals that will carry out these guidelines and affect virtually every segment of our economy except the truly needy. The Administration's insistence on this fundamental principle has meant that programs benefiting millions of truly needy beneficiaries have not been affected by the spending control effort. These programs include social insurance benefits for the elderly, basic unemployment benefits, cash benefits for the chronically poor, and society's obligations to veterans.

The selection of specific reductions has been a difficult task involving the entire Administration as well as much consultation with representatives of business, labor, agriculture, minority groups, and State and local governments.

The spending reduction plan will shift Federal budget priorities so that Federal resources are spent for purposes that are truly the responsibility of the national government. As the table below indicates, our budget plans reflect the increased importance attached to national defense, maintain the Federal Government's support for the truly needy, and fulfill our responsibilities for interest payments on the national debt. The spending reductions will restrain Federal involvement in areas that are properly left to State and local governments or to the private sector.

SHIFT IN BUDGET PRIORITIES

	1962	1981	1984
Dollar Amounts (in billions)			
DOD - Military	46.8	157.9	249.8
Safety net programs	26.2	239.3	313.0
Net interest	6.9	64.3	66.8
All other	26.9	193.2	142.0
Total	106.8	654.7	771.6
Outlay Shares (percent)			
DOD - Military	43.8	24.1	32.4
Safety net programs	24.5	36.6	40.6
Net interest	6.4	9.8	8.6
All other	25.2	29.5	18.4
Total	100.0	100.0	100.0

Carrying out this program of budget restraint will also halt and begin to reverse the tendency of government to take an ever-larger share of our economic resources. From a high of 23 percent of the gross national product (GNP) in fiscal 1981, Federal outlays are now scheduled to decline to 21.8 percent in fiscal 1982 and to reach approximately 19 percent beginning in 1984.

THE FEDERAL BUDGET AND GNP

Fiscal Year	Outlays as Percent of GNP
1981	23.0
1982	21.8
1983	20.4
1984	19.3
1985	19.2
1986	19.0

In conjunction with the tax program that is being proposed, the present excessively high deficit in the budget will be reduced and, in a few years, eliminated. Because of the legacy of fiscal commitments that were inherited by this Administration, balancing the budget will require tough action over several years.

From a deficit of $59.6 billion in 1980 — and of a similar deficit this year if past policies had continued — Federal expenditures are now estimated to exceed revenues by $45.0 billion in 1982, and $23.0 billion in 1983. By fiscal 1984 — under the policy recommendations presented in this document — the Federal budget should be in balance. And that will not be a one-time occurrence. As shown in the table below, the Federal budget will actually generate a surplus in 1985 and 1986, for the first time since 1969.

Federal Revenues and Outlays

Fiscal Year	Revenues	Outlays	Deficit (–) or Surplus (+)
	(in billions of dollars)		
1981	600.2	654.7	–54.5
1982	650.5	695.5	–45.0
1983	710.1	733.1	–23.0
1984	772.1	771.6	+ 0.5
1985	851.0	844.0	+ 7.0
1986	942.1	912.1	+30.0

The Federal Budget and the Economy

The rewards that the economy will reap with enactment of the spending control plan are many and substantial. In the past, excessive deficit spending has been a major contributor to the initiation and persistence of inflation. Not only have Federal budget deficits at times of expanding private sector activity fueled inflationary pressures, but government's tendency to stop fighting inflation with the first signs of a slackening economy has persuaded firms and workers that they need not fear pricing themselves out of business with inflationary wage and price increases. With the plans for controlling government spending, the Federal budget will become a weapon against inflation, rather than one of its major causes.

During the decade of the 1970s, the Federal budget was in deficit every year. In 1970 the deficit was a relatively modest $2.8 billion; in 1980 it was nearly $60 billion. Outlays soared by almost 200 percent. When this Administration began, the prospect was for a continuation of these alarming trends.

Fiscal Year	Receipts	Outlays	Deficit (–)
	(in billions of dollars)		
1970	193.7	196.6	–2.8
1971	188.4	211.4	–23.0
1972	208.6	232.0	–23.4
1973	232.2	247.1	–14.8
1974	264.9	269.6	–4.7
1975	281.0	326.2	–45.2
1976	300.0	366.4	–66.4
1977	357.8	402.7	–44.9
1978	402.0	450.8	–48.8
1979	465.9	493.6	–27.7
1980	520.0	579.6	–59.6

Many of the program reductions that are being proposed will contribute to a more efficient use of resources in the economy and thereby higher levels of production and income. No longer will the average American taxpayer be asked to contribute to programs that further narrow private interests rather than the general public interest. In many cases, such services are more appropriately paid for with user charges. By consolidating a variety of categorical grant programs into a few block grant programs, the resources spent will provide greater benefits because the levels of government closer to the people can better recognize their needs than can Washington. And by reducing Federal deficits and off-budget Federal financing we will ensure that Federal borrowing requirements do not crowd more productive private activities out of the market.

The budget that is being proposed will restore the Federal Government to its proper role in American society. It will contribute to the health of the economy, the strength of our military, and the protection of the less fortunate members of society who need the compassion of the government for their support. Many special interests who had found it easier to look to the Federal Government for support than to the competitive market will be disappointed by this budget, but the average worker and businessman, the backbone of our Nation, will find that their interests are better served.

IV. Reducing Tax Burdens

An integral part of the comprehensive economic program is a set of tax proposals to improve the after-tax, after-inflation rewards to work, saving, and investment. Inflation inevitably increases the burden of taxes on individuals by pushing them into higher and higher marginal rates. In businesses, inflation makes the purchase of new equipment progressively more difficult by reducing the amount of cash flow available for capital investment. The tax package addresses both of these problems.

Tax Relief for Individuals

Any increase in nominal income moves taxpayers into higher tax brackets, whether the increase is real or merely an adjustment for higher costs of living. As a consequence, taxes rise faster than inflation, raising average tax rates and tax burdens. In fact, every 10 percent increase in income — real or nominal — produces about a 15 percent increase in Federal personal income tax receipts. An average family requiring a $1,500 cost-of-living increase to maintain its standard of living must have $1,900 in wage increases to keep even after taxes.

Individual tax liabilities rose from 9.2 percent of personal income in 1965 to 11.6 percent last year. The average tax burden would have risen far more had not much of the inflation-related tax increases been offset by periodic tax cuts. Marginal tax rates, however, have been allowed to rise sharply for most taxpayers. In 1965, 6 percent of all taxpayers faced marginal rates of 25 percent or more. Today nearly one of every three taxpayers is in at least the 25 percent bracket.

As taxpayers move into higher brackets, incentives to work, save, and invest are reduced since each addition to income yields less after taxes than before. In the late 1960s and the early 1970s, Americans saved between 7 to 9 percent of personal disposable income. In 1979 and 1980, the saving rate was between 5 to 6 percent. The combination of inflation and higher marginal tax rates is undoubtedly a major factor in the lower personal saving rate.

To correct these problems and to improve the after-tax return from work and from saving, the President is asking the Congress to reduce the marginal tax rates for individuals across the board by 10 percent per year for the next 3 years starting July 1, 1981. This would reduce rates in stages from a range of 14 to 70 percent to a range of 10 to 50 percent effective January 1, 1984. These rate reductions will contribute materially above those which would be attained under present laws. At these higher income levels, the reductions in Federal tax revenues, compared with those which would be obtained under present law, are $6.4 billion in fiscal 1981, $44.2 billion in fiscal 1982, and rise to $162.4 billion in fiscal 1986.

The effect of these tax cuts on a 4-person family whose 1980 income is $25,000 would be a $153 tax reduction this year, and a $809 tax reduction for 1984, assuming no increase in income. If the family's nominal earnings rise to $30,300 in 1984, their tax reduction would be $1,112 in that year.

The Administration's proposals will bring down average individual tax receipts to 10.8 percent of personal income in 1984, still 1.6 percentage points above where it was in 1965. Without these marginal tax rate cuts, however, individual taxes would rise to 14.7 percent of personal income by 1984. Failure to enact these proposals is thus tantamount to imposing a tax increase on the average American taxpayer.

Tax Incentives for Investment

Since the late 1960s the rate of net capital formation (excluding spending mandated to meet environmental standards) has fallen substantially. For the 5 years ending in 1979, increases in real net business fixed capital averaged just over 2 percent of the Nation's real net national product, or one-half the rate for the latter part of the 1960s.

One of the major tasks facing the U.S. economy in the 1980s is to reverse these trends and to promote more capital investment. To combat the decline in productivity growth, to hasten the replacement of energy-inefficient machines and equipment, to comply with government mandates that do not enhance production, we must increase the share of our Nation's resources going to investment. Both improvements in productivity and increases in productive jobs will come from expanded investment.

Inflation and an outdated capital equipment depreciation system have combined to lower the after-tax real rate of return on capital investments by business. High inflation causes a large discrepancy between the historic and the current replacement costs of physical assets of business. Thus, corporate financial records, utilizing historic costs and current dollar sales figures, significantly overstate nominal profits and understate true economic costs.

In 1980 alone, the replacement cost of inventories exceeded by over $43 billion the cost of the inventories claimed for tax purposes. Depreciation charges based on historical cost fell short of the replacement cost of capital assets consumed by another $17 billion. These arose from a failure to record inventory and capital assets at their true replacement cost.

On an inflation adjusted basis, many firms are now paying out more than their real income in the form of taxes and dividends. The result is that real investment in equipment, maintenance, modernization, and new technology is falling further behind the needs of our economy. Clearly, present incentives for business capital formation are inadequate.

As a consequence, the President is asking the Congress to provide for an accelerated cost recovery system for machinery and equipment and certain structures according to the following classes:

- Ten years on an accelerated write-off schedule for long-lived public utility property (with a 10 percent investment credit) and factories, stores, and warehouses used by their owners (no investment credit, consistent with present law).

- Five years on an accelerated write-off schedule (plus 10 percent investment credit) for all other machinery and equipment except long-lived utility property.

- Three years on an accelerated write-off schedule (plus 6 percent investment credit) for autos and light trucks and capital costs for research and development.

In addition, audit-proof recovery periods would be established for other depreciable real estate:

- Fifteen years straight line (and no investment credit) for other nonresidential buildings and low-income housing.

- Eighteen years straight line (and no investment credit) for other rental residential structures.

A 5-year phase-in of the accelerated recovery rates for the 5-year and 10-year classes is proposed, but the effective date would be January 1, 1981, so that no pending investment plans are deferred in anticipation of the new system. These tax changes will make important contributions to raising economic activity above the levels of which would be attained under present laws. At this higher income, Federal tax revenues would be less than those which would be obtained under present law, by $2.5 billion in fiscal 1981, $9.7 billion in fiscal 1982, and $59.3 billion in fiscal 1986.

DIRECT REVENUE EFFECTS OF PROPOSED TAX REDUCTIONS
(in billions of dollars)

	(Fiscal Years)					
	1981	1982	1983	1984	1985	1986
Individual						
30 Percent Phased Rate Reduction	−6.4	−44.2	−81.4	−118.1	−141.5	−162.4
Business						
Accelerated Cost Recovery System After Interaction with Individual Tax	−2.5	−9.7	−18.6	−30.0	−44.2	−59.3
TOTAL	−8.8	−53.9	−100.0	−148.1	−185.7	−221.7

These changes will simplify accounting procedures and raise after-tax profits of businesses. For example, a manufacturer of glass products that buys new machinery for $100,000 in 1982 will, as a result of these new cost recovery allowances, reduce its tax liability by $1,798 in that year, $2,517 in 1983, and additional amounts in later years.

The basic differences between the present accelerated depreciation law and proposed accelerated capital cost recovery system are shown in the following chart:

PRESENT LAW DEPRECIATION AND ACCELERATED COST RECOVERY SYSTEM
Comparison of Major Features

ITEM	PRESENT LAW DEPRECIATION	ACCELERATED COST RECOVERY SYSTEM
General Applicability	Option of "facts and circumstances" or guidelines (ADR).	Mandatory.
Recovery periods:		
Tangible personal property	Guidelines allow 2-1/2 to 50 years depending on asset type or activity, with optional 20 percent variance for each.	3 years (autos, light trucks, and machinery and equipment used for research and development), 5 years (most machinery and equipment), or 10 years (long-lived public utility property).
Real Estate	Determined by facts and circumstances or by guidelines ranging from 25 to 60 years depending on the type of building.	10 years for owner-occupied factories, stores, and warehouses; 15 years for other nonresidential and for low-income housing; 18 years for other residential.
Recovery method:		
Tangible personal property	Straight line; or for new property, taxpayer may elect declining balance up to 200 percent, or sum-of-years digits.	Accelerated write-off built into tables.
Real Estate	Same for new residential; up to 150 percent declining balance for new, nonresidential; up to 125 percent declining balance for used residential; straight line for used nonresidential.	Same for 10-year property. Straight line for other.
Recapture provisions:		
Tangible personal property	Ordinary income recapture up to prior allowances (section 1245).	Ordinary income recapture up to prior allowances (section 1245).
Real Estate	Ordinary income recapture up to excess over straight line (section 1250).	Same for 10-year real property. No recapture for others.
Asset accounting:		
General	Vintage accounting.	Vintage accounting.
First year	Ratably, or choice of conventions.	Half-year convention built into tables.
Investment tax credit	3-1/3 percent for machinery and equipment written-off or held for 3-5 years, 6-2/3 percent for 5-7 years, 10 percent if longer.	6 percent for 3-year class and 10 percent for 5-year and 10-year eligible property.
Carryovers	Choice of 20 percent shorter or longer lives; straight line or accelerated methods, where allowed. Deductions may add to net operating loss which can be carried over 7 years.	Extends net operating loss and investment credit carryover period from 7 to 10 years.
Timing of eligibility	When placed in service.	When placed in service, or for property with at least a 2 year construction period, as acquired.

V. Providing Regulatory Relief

The rapid growth in Federal regulation has retarded economic growth and contributed to inflationary pressures. While there is widespread agreement on the legitimate role of government in protecting the environment, promoting health and safety, safeguarding workers and consumers, and guaranteeing equal opportunity, there is also growing realization that excessive regulation is a very significant factor in our current economic difficulties.

The costs of regulation arise in several ways. First, there are the outlays for the Federal bureaucracy which administers and enforces the regulations. Second, there are the costs to business, nonprofit institutions, and State and local governments of complying with regulations. Finally, there are the longer run and indirect effects of regulation on economic growth and productivity.

The most readily identifiable of the costs are the administrative outlays of the regulatory agencies, since they appear in the Federal budget. These costs are passed on to individuals and businesses directly in the form of higher Federal taxes. Much larger than the administrative expenses are the costs of compliance, which add $100 billion per year to the costs of the goods and services we buy. The most important effects of regulation, however, are the adverse impacts on economic growth. These arise because regulations may discourage innovative research and development, reduce investment in new plant and equipment, raise unemployment by increasing labor costs, and reduce competition. Taken together, these longer run effects contribute significantly to our current economic dilemma of high unemployment and inflation.

In many cases the costs of regulation can be substantially reduced without significantly affecting worthwhile regulatory goals. Unnecessarily stringent rules, intrusive means of enforcement, extensive reporting and recordkeeping requirements, and other regulatory excesses are all too common.

During this Administration's first month in office, five major steps have been taken to address the problem of excessive and inefficient regulation. Specifically, we have:

- Established a Task Force on Regulatory Relief chaired by Vice President George Bush,
- Abolished the Council on Wage and Price Stability's ineffective program to control wage and price increases,
- Postponed the effective dates of pending regulations until the end of March,
- Issued an Executive order to strengthen Presidential oversight of the regulatory process, and
- Accelerated the decontrol of domestic oil.

Presidential Task Force on Regulatory Relief

Previous efforts to manage the proliferation of Federal regulation failed to establish central regulatory oversight at the highest level. On January 22, the President announced the creation of a Task Force on Regulatory Relief to be chaired by the Vice President. The membership is to include the Secretary of the Treasury, the Attorney General, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Management and Budget, the Assistant to the President for Policy Development, and the Chairman of the Council of Economic Advisers.

The Task Force's charter is to:

- Review major regulatory proposals by executive branch agencies, especially those that appear to have major policy significance or involve overlapping jurisdiction among agencies.

- Assess executive branch regulations already on the books, concentrating on those that are particularly burdensome to the national economy or to key industrial sectors.

- Oversee the development of legislative proposals designed to balance and coordinate the roles and objectives of regulatory agencies.

Termination of CWPS's Wage–Price Standards Program

The Council on Wage and Price Stability (CWPS) was created in 1974, and like many government agencies, rapidly grew in size and scope. But the CWPS program of wage–price standards proved to be totally ineffective in halting the rising rate of inflation.

On January 29, the President rescinded the CWPS's wage–price standards program. As a result, taxpayers will save about $1.5 million, employment in the Executive Office of the President will decline by about 135 people, and Federal requirements that businesses submit voluminous reports will end.

Postponing Pending Regulations

On January 29, the President also sent a memorandum to cabinet officers and the head of the Environmental Protection Agency (EPA), requesting that, to the extent permitted by law, they postpone the effective dates of those regulations that would have become effective before March 29 and that they refrain from issuing any new final regulations during this 60-day period.

This suspension of new regulations has three purposes: First, it allows the new Administration to review the "midnight" regulations issued during the last days of the previous Administration to assure that they are cost–effective. Second, the Administration's appointees now can become familiar with the details of the various programs for which they are responsible before the regulations become final. Lastly, the suspension allows time for the Administration, through the Presidential Task Force, to develop improved procedures for management and oversight of the regulatory process.

The Executive Order on Federal Regulation

The President has signed a new Executive order designed to improve management of the Federal regulatory process. It provides reassurance to the American people of the government's ability to control its regulatory activities. The Office of Management and Budget is charged with administering the new order, subject to the overall direction of the Presidential Task Force on Regulatory Relief.

The order emphasizes that regulatory decisions should be based on adequate information. Actions should not be undertaken unless the potential benefits to society outweigh the potential costs, and regulatory priorities should be set on the basis of net benefits to society. The order requires agencies to determine the most cost-effective approach for meeting any given regulatory objective, taking into account such factors as the economic condition of industry, the national economy, and other prospective regulations.

As part of the development of any important regulation, the order also requires that each agency prepare a Regulatory Impact Analysis to evaluate potential benefits and costs. The Task Force will oversee this process; OMB will make comments on regulatory analyses, help determine which new and existing regulations should be reviewed, and direct the publication of semiannual agendas of the regulations that agencies plan to issue or review.

Decontrolling Domestic Oil Prices

The President has also ordered the immediate decontrol of domestic oil prices, instead of waiting until October as originally scheduled. This has eliminated a large Federal bureaucracy which administered a cumbersome and inefficient system of regulations that served to stifle domestic oil production, increase our dependence on foreign oil, and discourage conservation.

Integrating the Goals of Regulatory Relief with Paperwork Reduction

Our program to reduce regulatory burdens will dovetail with the efforts under the Paperwork Reduction Act of 1980. Lamentably, present regulations will require Americans to spend over 1.2 billion hours filling out government forms during 1981. This is equivalent to the annual labor input for the entire steel industry.

The Congress responded to the need for consistent management of Federal paperwork and regulatory issues by passing the Paperwork Reduction Act of 1980. The act creates an Office of Information and Regulatory Affairs within OMB with the power to review Federal regulations that contain a recordkeeping or reporting requirement and directs this agency to reduce the paperwork burden by 15 percent..

Future Targets for Regulatory Review

The program of regulatory relief is just getting under way. Future regulatory reform efforts will be directed not only at proposed regulations, but also at existing regulations and regulatory statutes that are particularly burdensome. This process has already begun: in the first month of the Administration several cabinet departments and agencies—on their own initiative and in coordination with the Task Force—have taken action on particularly controversial rules. For example, rules mandating extensive bilingual education programs, passive restraints in large cars, the labeling of chemicals in the workplace, controls on garbage truck noise, and increased overtime payments for executives have been withdrawn or postponed. The actions taken already are expected to save the American public and industry almost $1 billion annually. The Administration will be reviewing a host of other regulations in the near future.

Legislative Changes

Not all of our regulatory problems can be resolved satisfactorily through more effective regulatory management and decisionmaking. Existing regulatory statutes too often preclude effective regulatory decisions. Many of the statutes are conflicting, overlapping, or inconsistent. Some force agencies to promulgate regulations while giving them little discretion to take into account changing conditions or new information. Other statutes give agencies extremely broad discretion, which they have sometimes exercised unwisely.

The Administration will examine all legislation that serves as the foundation for major regulatory programs. This omnibus review, spearheaded by the Presidential Task Force on Regulatory Relief, will result in recommendations to reform these statutes. The Task Force will initially concentrate its efforts on those laws scheduled for Congressional oversight or reauthorization, such as the Clean Air Act.

VI. Controlling Money and Credit

Monetary policy is the responsibility of the Federal Reserve System, an independent agency within the structure of the government. The Administration will do nothing to undermine that independence. At the same time, the success in reducing inflation, increasing real income, and reducing unemployment will depend on effective interaction of monetary policy with other aspects of economic policy.

To achieve the goals of the Administration's economic program, consistent monetary policy must be applied. Thus, it is expected that the rate of money and credit growth will be brought down to levels consistent with noninflationary expansion of the economy.

If monetary policy is too expansive, then inflation during the years ahead will continue to accelerate and the Administration's economic program will be undermined. Inflationary psychology will intensify. Wages, prices, and interest rates will reflect the belief that inflation — and the destructive effects of inflation — will continue.

By contrast, if monetary policy is unduly restrictive, a different set of problems arises, unnecessarily aggravating recession and unemployment. At times in the past, abruptly restrictive policies have prompted excessive reactions toward short-term monetary ease. As a result, frequent policy changes can send confusing signals, and the additional uncertainty undermines long-term investment decisions and economic growth.

With money and credit growth undergoing steady, gradual reduction over a period of years, it will be possible to reduce inflation substantially and permanently. In this regard, the Administration supports the announced objective of the Federal Reserve to continue to seek gradual reduction in the growth of money and credit aggregates during the years ahead. Looking back, it seems clear that if a policy of this kind had been successfully followed in the past, inflation today would be substantially lower and would not appear to be so intractable.

Until recently, the Federal Reserve had attempted to control money growth by setting targets for interest rates, particularly the rate on Federal funds. Experience here and abroad has shown repeatedly that this interest rate management approach is not sufficient to achieve reliable control. Mistakes in predicting movements in economic activity or tendencies on the part of policymakers to avoid large interest rate fluctuations can lead to undesirable gyrations in the rate of money growth.

Under new procedures the Federal Reserve adopted in October 1979, the Federal Reserve sets targets for growth of reserves considered to be consistent with the desired expansion in the monetary aggregates. Interest rates are allowed to vary over a much wider range in response to changes in the demand for money and credit. A number of factors — such as the introduction of credit controls and their subsequent removal and frequent shifts in announced fiscal policies — have contributed to pronounced fluctuations in interest rates and monetary growth over the past year. At the same time, we need to learn from the experience with the new techniques and seek further improvements. The Federal Reserve has undertaken a study of last year's experience. We look forward to the results and encourage them to make the changes that appear warranted.

In that connection, success in meeting the targets that the Federal Reserve has set will itself increase confidence in the results of policy. Otherwise, observers are likely to pay excessive attention to short-run changes in money growth and revise anticipations upward or downward unnecessarily. Without confidence in the long-term direction of policy, such short-run changes may lead to unwarranted but disturbing gyrations in credit, interest rates, commodity prices, and other sensitive indicators of inflation and economic growth.

Better monetary control is not consistent with the management of interest rates in the short run. But, with monetary policy focusing on long-term objectives, the resultant restraint on money and credit growth would interact with the tax and expenditure proposals to lower inflation as well as interest rates.

The Administration will confer regularly with the Federal Reserve Board on all aspects of our economic program. The policies that are proposed in the program will help to advance the efforts of the independent Federal Reserve System. In particular, the substantial reductions of the Federal Government's deficit financing and the achievement of a balanced budget in 1984 and the years that follow should enable the Federal Reserve System to reduce dramatically the growth in the money supply.

To that end, the economic scenario assumes that the growth rates of money and credit are steadily reduced from the 1980 levels to one-half those levels by 1986.

With the Federal Reserve gradually but persistently reducing the growth of money, inflation should decline at least as fast as anticipated. Moreover, if monetary growth rates are restrained, then inflationary expectations will decline. And since interest rate movements are largely a mirror of price expectations, reduction in one will produce reduction in the other.

VII. A New Beginning for the Economy

This plan for national recovery represents a substantial break with past policy. The new policy is based on the premise that the people who make up the economy — workers, managers, savers, investors, buyers, and sellers — do not need the government to make reasoned and intelligent decisions about how best to organize and run their own lives. They continually adapt to best fit the current environment. The most appropriate role for government economic policy is to provide a stable and unfettered environment in which private individuals can confidently plan and make appropriate decisions. The new recovery plan is designed to bring to all aspects of government policy a greater sense of purpose and consistency.

Central to the new policy is the view that expectations play an important role in determining economic activity, inflation, and interest rates. Decisions to work, save, spend, and invest depend crucially on expectations regarding future government policies. Establishing an environment which ensures efficient and stable incentives for work, saving, and investment now and in the future is the cornerstone of the recovery plan.

Personal tax reductions will allow people to keep more of what they earn, providing increased incentives for work and saving. Business tax reductions will provide increased incentives for capital expansion, resulting in increased productivity for workers. Spending reductions and elimination of unneeded regulation will return control over resources to the private sector where incentives to economize are strongest. Stable monetary policy, combined with expanding productive capacity, will bring about a reduction of the inflation rate.

Inflation control is best achieved with a two-edged policy designed both to limit the rate of increase in the money stock and to increase the productive capacity of the economy. Neither policy can be expected to achieve adequate results alone.

A stable monetary policy, gradually slowing growth rates of money and credit along a preannounced and predictable path, will lead to reductions in inflation. At the same time, the effects of supply-oriented tax and regulatory changes on work incentives, expansion and improvement of the capital stock, and improved productivity will boost output and create a "buyers' market" for goods and services.

As a result of the policies set forth here, our economy's productive capacity is expected to grow significantly faster than could be achieved with a continuation of past policies. Specifically, real economic activity is projected to recover from the 1980-81 period of weakness and move to a 4 to 5 percent annual growth path through 1986, as shown in the table below. Concurrently, the general rate of inflation is expected to decline steadily to less than 5 percent annually by 1986 from the current 10 percent plus rate.

ECONOMIC ASSUMPTIONS

(CALENDAR YEARS)

	1981	1982	1983	1984	1985	1986
Nominal Gross National Product (billions)	$2,920.0	$3,293.0	$3,700.0	$4,098.0	$4,500.0	$4,918.0
(Percent Change)	11.1	12.8	12.4	10.8	9.8	9.3
Real Gross National Product (billions, 1972 dollars)	1,497.0	1,560.0	1,638.0	1,711.0	1,783.0	1,858.0
(Percent Change)	1.1	4.2	5.0	4.5	4.2	4.2
Implicit Price Deflator	195.0	211.0	226.0	240.0	252.0	265.0
(Percent Change)	9.9	8.3	7.0	6.0	5.4	4.9
Consumer Price Index * 1967 = 100	274.0	297.0	315.0	333.0	348.0	363.0
(Percent Change)	11.1	8.3	6.2	5.5	4.7	4.2
Unemployment Rate (Percent)	7.8	7.2	6.6	6.4	6.0	5.6

*CPI for urban wage earners and clerical workers (CPI-W).

In contrast to the inflationary demand-led booms of the 1970s, the most significant growth of economic activity will occur in the supply side of the economy. Not only will a steady expansion in business fixed investment allow our economy to grow without fear of capacity-induced inflation pressures, but it will also increase productivity and reduce the growth of production costs by incorporating new and more high-efficient plants, machinery, and technology into our manufacturing base. The result will be revitalized growth in the real incomes and standards of living of our citizens and significantly reduced inflationary pressures. As our economy responds to a new era of economic policy, unemployment will be significantly reduced.

The Administration's plan for national recovery will take a large step toward improving the international economic environment by repairing domestic conditions. Improving expectations and slowing inflation will enhance the dollar as an international store of value and contribute to greater stability in international financial markets. As interest rates come down and faster U.S. growth contributes to rising world trade, economic expansion in other countries will also accelerate. This Administration will work closely with the other major industrial countries to promote consistency in economic objectives and policies so as to speed a return to noninflationary growth in the world economy. Finally, rising U.S. productivity will enhance our ability to compete with other countries in world markets, easing protectionist pressures at home and thus strengthening our ability to press other countries to reduce their trade barriers and export subsidies.

The economic assumptions contained in this message may seem optimistic to some observers. Indeed they do represent a dramatic departure from the trends of recent years — but so do the proposed policies. In fact, if each portion of this comprehensive economic program is put in place — quickly and completely — the economic environment could improve even more rapidly than envisioned in these assumptions.

But, if the program is accepted piecemeal — if only those aspects that are politically palatable are adopted — then this economic policy will be no more than a repeat of what has been tried before. And we already know the results of the stop-and-go policies of the past.

Indeed, if we as a Nation do not take the bold new policy initiatives proposed in this program, we will face a continuation and a worsening of the trends that have developed in the last two decades. We have a rare opportunity to reverse these trends: to stimulate growth, productivity, and employment at the same time that we move toward the elimination of inflation.

III. President's Budget Reform Plan

THE WHITE HOUSE

Office of the Press Secretary

BUDGET REFORM PLAN

NOTICE

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 4:00 P.M. (E.S.T.)
AND FOR RELEASE UNTIL 9:00 P.M. (E.S.T.)
Wednesday, February 18, 1981

James Scott Brady
Assistant to the President
and Press Secretary

INTRODUCTION

This budget reform plan is one of several essential parts of the President's overall plan for economic recovery. Other elements include:

-- a 3-year 30% reduction in all individual income tax rates designed to restore incentives and promote renewed economic growth;

-- significant modification of depreciation schedules for plant and equipment in order to promote investment, job creation, and industrial revitalization;

-- a far-reaching regulatory reform program that will alleviate excessive cost and compliance burdens and remove unnecessary barriers to economic expansion; and

-- a new partnership designed to achieve a monetary policy that will reduce excessive rates of money growth and restore a stable currency and healthy financial markets.

These elements are discussed in more detail in the materials being released with this document.

The budget reform plan outlines a comprehensive, multi-year program for ending the recent unsustainable upward spiral of Federal spending and borrowing. It is an essential cornerstone of the President's overall economic program. Its full implementation is crucial to achieving a sustained reduction in inflation and interest rates, and to restoring financial stability to the U.S. economy. Major features include:

-- A $41.4 billion reduction in 1982 outlays compared to the current policy base, together with $2.0 billion in user charges and $5.7 billion in off-budget outlay reductions for a total of $49.1 billion in fiscal savings.

-- A dramatic downward shift in Federal spending growth rates, bringing the 16% trend of the recent period to about 7% over the next several fiscal years.

-- A steady reduction in the Federal deficit, resulting in a balanced budget in 1984 and modest surpluses thereafter.

-- The first comprehensive proposal in more than a decade to overhaul the Nation's overgrown $350 billion entitlements system. Proposed revisions of food stamps, extended unemployment benefits, trade adjustment assistance, student loans, various secondary social security benefits, medicaid, and other entitlement programs would save $9.4 billion in 1982, with savings growing to $18.9 billion by 1986.

-- Substantial cutbacks or actual elimination of unessential or ineffective Federal programs including CETA, Amtrak, energy research and development programs, impact aid, and Federal support for the arts.

-- Proposed consolidation of nearly 100 narrow categorical grant programs into a few flexible block grants for State and local support of education, health and social services. Savings by 1983 would exceed $4 billion.

-- Sharp reductions in Federal subsidies for synfuels development, Export-Import Bank activities, and the dairy industry, along with a substantial stretch-out of funding for highways, airports, sewage treatment plants and water projects.

-- Increased user fees for barge operators, airway system users, and commercial and recreational vessels.

As a result of these broadly based cutbacks in lower priority Federal activities and sharply constrained overall spending levels, internal budget priorities will shift dramatically. The highest priority will be granted to necessary funding growth for defense, social security benefits, including cost-of-living protection, and other essential social safety net programs. As a result, the defense share of Federal spending will rise from 24% at present to 32% by 1984; social safety net spending will increase from 37% to 41%; all other Federal programs will decline from 29% of the budget to 18%, and debt service will also fall somewhat.

HISTORICAL SETTING

The last 25 years have been characterized by unsustainable increases in Federal spending. This upward momentum in program growth has far exceeded the growth in our tax base. Tax increases -- both legislated increases and automatic increases that occur as income growth moves taxpayers into higher tax brackets -- have been imposed to finance this program growth. Even these tax increases, which have been a fundamental cause of the economic stagnation that this country has experienced, have been insufficient to finance the large spending growth that has occurred. As a result, this country has experienced unprecedented peacetime budget deficits in recent years and now labors under nearly a trillion dollar national debt.

The sharp upward spiral in Federal spending is shown in Table 1. The rate of growth of Federal spending has accelerated sharply over the last quarter century and, in the absence of decisive and unprecedented budget control actions, threatens to continue to accelerate. From 1955 to 1964, spending increased at an annual average rate of about 6%. This rate accelerated to about 10% in the 1964-76 period and is estimated to be close to 12% for the 1976-81 period, or double the rate of 1955-64. In the most recent period, spending is estimated to increase at a 16% annual rate over 1979-81.

Table 1.--GROWTH IN FEDERAL SPENDING

	1955-64	1976-81	1979-81
Annual Rate of Growth (Percent):			
National defense................	2.9	11.9	17.0
Nondefense......................	9.9	12.0	15.5
Total.....................	6.3	11.9	15.9
Average Outlay Share of GNP:			
National defense................	9.4	5.3	5.3
Nondefense......................	9.3	16.8	17.0
Total.....................	18.7	22.1	22.3

As a share of gross national product (GNP), the nondefense sector of the budget has increased dramatically since the pre-1964 period. During this period, many of the Great Society and newer entitlement programs came into full bloom. This rapid growth in nondefense spending occurred partly at the expense of sharp reductions in the defense share of GNP and partly at the expense of an increase in total Federal spending as a share of GNP.

It is also significant that while in the first period Federal revenues averaged just 18.0% of GNP, budget surpluses were frequently achieved and net additions to the national debt amounted to only $33 billion, or an average of about $3 billion per year. During the 1976-81 period, the Federal tax share of GNP increased sharply, yet net additions to the national debt totaled $390 billion, or better than $60 billion per year.

PRELIMINARY BUDGET OUTLOOK

The President's overall economic plan cannot succeed without a sharp reduction in the spending growth trend built into current law and policy. As shown in Table 2, the policy base inherited from the previous Administration entails annual spending growth of 8.1% during the 1981-86 period. 1/ Moreover, the current policy base includes a substantial underfunding of national defense. When allowance is made for funding improved readiness and a steady buildup of conventional and strategic forces to levels commensurate with present world conditions, total spending growth rates would reach even more inflationary levels. Outlays would grow at double digit rates, hitting the one trillion dollar spending mark by 1986.

The President has therefore determined that in order to restore confidence in financial markets and achieve rapid and sustained reduction in present double digit inflation and interest rates, Federal spending growth must be held to 6% in 1982 with similar restraint in future fiscal years.

To achieve this critical objective, Federal outlays must be held to $696 billion in 1982, $733 billion in 1983 and to similarly restrained levels in future years. These substantially reduced rates of increase relative to the current policy base constitute a sharp reversal of recent trends: rather than increasing faster than the growth rate of nominal GNP and the Federal tax base, Federal spending would grow substantially slower -- an essential pre-condition for ending inflation.

This document presents a preliminary estimate of the budget savings measures required to achieve the President's spending limitation goals. More refined estimates will be sent to the Congress on March 10 when the present intensive Administration review and revision of the 1982 budget is completed.

Nevertheless, Table 2 provides a clear indication of the magnitude of the unavoidable task ahead. To stay within the proposed 1982 spending ceiling, current policy outlays, including an additional $7.2 billion for defense, must be reduced by $41.4 billion or by 6%. To maintain future year ceilings will require even larger reductions from the current policy base. These savings reduction targets are now estimated at $80 billion in 1983 and slightly in excess of $100 billion by 1984.

Due to the huge lead time built into the Federal budget process between spending policy changes and actual reductions in cash outlays it is imperative that legislative and executive action

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1/ The current policy base used in this document generally reflects estimates of what budget amounts would be if no changes were made to current program or service levels using current economic assumptions. However, defense purchases and foreign aid are included in the base in the amounts in the Carter administration's budget.

Table 2.--BUDGET SAVINGS PLAN
(Outlays in billions of dollars)

	1981	1982	1983	1984	1986	1986
Existing Budget Status:						
Current policy base................	657.8	729.7	792.1	849.0	911.4	972.8
Added defense funds 1/............	1.3	7.2	20.7	27.0	50.2	63.1
Current policy base with adequate defense..................	659.1	736.9	812.8	876.0	961.6	1035.9
President's Budget Plan:						
Proposed spending ceiling.........	654.7	695.5	733.1	771.6	844.0	912.1
Budget savings target.............	4.4	41.4	79.7	104.4	117.6	123.8
President's Budget Savings Proposals:						
Actions recommended now or to be included in March revisions:						
Budget outlay reductions.......	4.8	41.4	58.5	73.7	86.6	95.8
Off-budget outlay reductions...	(0.7)	(5.7)	(7.4)	(9.2)	(11.1)	(13.1)
User charges (receipts)........	(---)	(2.0)	(2.6)	(3.0)	(3.5)	(3.9)
Subtotal....................	(5.5)	(49.1)	(68.5)	(85.9)	(101.2)	(112.8)
Budget savings to be presented subsequently.....................	---	---	21.2	30.7	31.0	28.0

1/ These increased amounts do not include the savings for defense specified later in this document. They represent an outside estimate of potentially necessary defense increases after taking savings into account. These amounts will be fully reviewed and may be revised for the March budget submission.

commence immediately on the scores of entitlement, legislative and appropriation measures that will be required to achieve the President's budget savings goals. Section II of this document itemizes 83 of the measures the President is now proposing for early consideration by the Congress. When fully implemented, these 1981-1982 measures would achieve the required $41.4 billion of savings in next year's budget. Implementing legislation in the form of entitlement changes, block grant legislative proposals and proposed appropriation rescissions, deferrals and revised 1982 authority requests will be forwarded to Congress at the earliest possible date.

In addition, the President has urgently instructed all agency heads and other executive branch policy makers to develop further proposals and plans for reducing overhead costs, programmatic expenditures, and other savings in unessential government spending. These additional savings measures will be presented in the 1982 budget revisions during the second week in March and in additional messages to the Congress in the weeks and months ahead.

For these reasons, the estimates in this document are necessarily preliminary. They are derived by repricing base figures available in the January 1982 budget. More precise amounts will be presented in the March revisions.

RECEIPTS WITH TAX REDUCTION PROGRAM

Table 3 demonstrates the currently estimated impact of the President's tax reduction proposals on both Federal receipts and on the tax burden borne by workers and businesses. Under current law, receipts would continue to exhibit the debilitating growth rates of the recent past, rising at a 14% annual rate through 1986. Moreover, the Federal tax share of GNP would hit an historic high at 22.0% in 1982 and would continue to rise to over 24% by 1986. This contrasts markedly, with the average 18% tax share of GNP during the high GNP growth period of the mid-1960's.

The President's tax reduction program eliminates these prospective increases and lowers overall Federal tax burdens to levels more compatible with vigorous private sector growth and renewed economic incentives. Nevertheless, despite substantial tax rate reductions and the steadily falling inflation rates assured in the Administration economic scenario 1/, Federal receipts, including modest amounts from the President's user fee proposals, would grow by nearly 10% annually. The expected $342 billion rise in Federal receipts over the 1981-86 period is more than adequate to fund planned outlay levels and to eliminate future budget deficits.

1/ Detailed economic assumptions are contained in the plan for economic recovery and in the last section of this document.

Table 3.--CURRENTLY ESTIMATED RECEIPTS
WITH PRESIDENT'S TAX REDUCTION PROGRAM AND USER FEE PROPOSALS
(dollar amounts in billions)

	1981	1982	1983	1984	1985	1986
Current law receipts 1/..............	609.0	702.4	807.6	917.2	1033.2	1159.8
Individual income tax reduction......	-6.4	-44.2	-81.4	-118.1	-141.5	-162.4
Depreciation reform..................	-2.5	-9.7	-18.6	-30.0	-44.2	-59.3
Proposed user charges................	---	2.0	2.6	3.0	3.5	3.9
Receipts with new tax policy.........	600.2	650.5	710.2	772.1	850.9	942.0
Share of GNP:						
Current law 1/....................	21.4	22.0	22.4	22.9	23.5	24.1
After tax reduction program.......	21.1	20.4	19.7	19.3	19.3	19.6

1/ Includes extension of highway trust fund taxes scheduled to expire September 30, 1984, and additional receipts needed to maintain the highway trust fund on an accrual basis.

CURRENTLY ESTIMATED BUDGET OUTLOOK WITH PRESIDENT'S BUDGET SAVINGS AND TAX REDUCTION PROGRAMS

The official budget estimates reflecting the President's tax and budget savings proposals will be forwarded to the Congress along with the 1982 budget revisions on March 10. The table below, however, provides a preliminary estimate of the renewed fiscal balance that can be achieved if these measures are fully implemented. Firm adherence to the proposed outlay ceilings will steadily reduce Federal spending as a share of GNP. It would also result in rapid reduction of the Federal deficit and the achievement of balance by 1984, with modest surpluses thereafter. Reduced Federal borrowing pressures on credit markets would, in turn, facilitate a steady reduction in money supply growth and re-inforce the anti-inflationary impact of sharply lower spending growth rates.

NEW PRIORITIES

Achieving the President's budget savings target will require that the indiscriminate proliferation of new Federal programs must come to an end. The ever-widening reach of Federal economic and social responsibilities must be reversed. Numerous poorly conceived or unessential programs initiated during recent decades must be eliminated or severely reduced.

In lieu of the fiscal sprawl and disarray that characterizes the Federal budget, the President's plan establishes two firm and overriding priorities:

-- sufficient budget resources to rebuild the Nation's inadequate defense capacities; and

-- adequate funding of essential social safety net programs, including cost-of-living protection for the elderly.

Beyond these dual and urgent priorities, all other Federal activities and programs will be subject to thorough scrutiny and widespread reduction. As is shown in Table 5, the President's budget savings plan will dramatically re-order internal budget allocations. By 1984, the defense share will rise from the present 24% share to 32%. This is a substantial expansion, but still less than the defense budget shares of the 1950's and 1960's. Social safety net expenditures will also increase their budget share, demonstrating that the required defense buildup will not be financed at the expense of vital income support programs.

Table 4.--CURRENTLY ESTIMATED BUDGET OUTLOOK
WITH PRESIDENT'S BUDGET SAVINGS AND TAX REDUCTION PROGRAM
(dollar amounts in billions)

	1981	1982	1983	1984	1985	1986
Target outlay ceilings....................	654.7	695.5	733.1	771.6	844.0	912.1
Estimated receipts after tax reduction plan..................................	600.2	650.5	710.2	772.1	850.9	942.0
Target deficit (-) or surplus...	-54.5	-45.0	-22.9	+0.5	+6.9	+29.9
Share of GNP:						
Outlays..............................	23.0	21.8	20.4	19.3	19.2	19.0
Receipts.............................	21.1	20.4	19.7	19.3	19.3	19.6

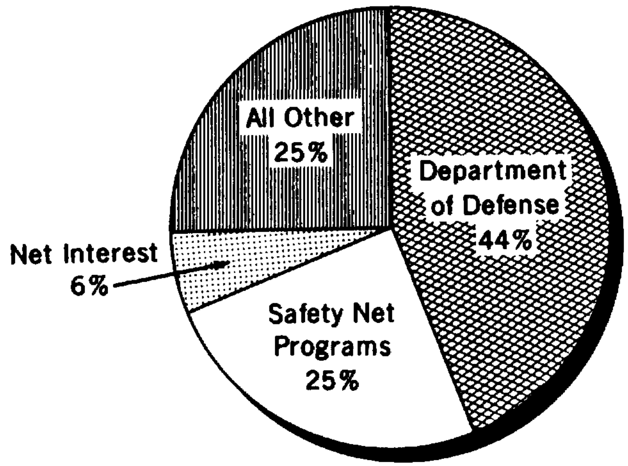
Table 5.--SHIFT IN BUDGET PRIORITIES UNDER PRESIDENT'S PLAN
(dollar amounts in billions)

	1962	1981	1984
Department of Defense-Military	$46.8	$157.9	$249.8
Social safety net programs	26.2	239.3	313.0
Net interest	6.9	64.3	66.8
All other	26.9	193.2	142.0
Total	106.8	654.7	771.6
Outlay Shares (Percent)			
Department of Defense-Military	43.8	24.1	32.4
Social safety net programs	24.5	36.6	40.6
Net interest	6.4	9.8	8.6
All other	25.2	29.5	18.4
Total	100.0%	100.0%	100.0%

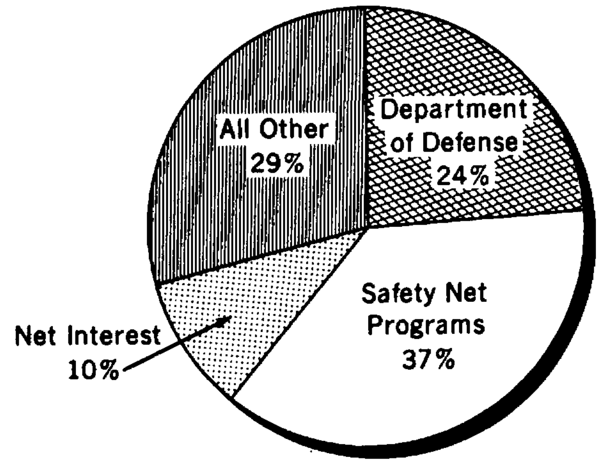
In response to sharply improved economic and financial conditions, the debt service share will fall somewhat. As a consequence, the share accounted for by all other programs, ranging from subsidized energy projects, to categorical aids for education, to subsidies for business and agriculture will shrink dramatically.

Shift in Budget Priorities

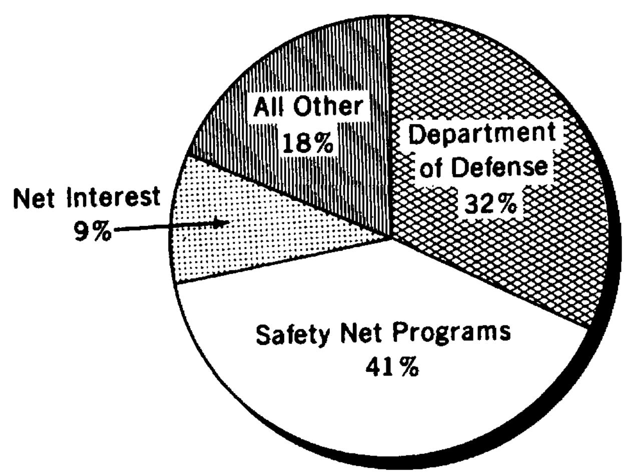
(Percent Composition of Outlays)



1962



1981



1984

BUDGET REFORM CRITERIA

The drastic fiscal retrenchment required by the President's economic plan will be achieved through the imposition of a set of clear, consistent, and economically sound policy criteria. Spending has achieved runaway momentum in recent years because such criteria were largely absent in both the executive and legislative branches. During this fiscal "open season," almost no demand for Federal assistance from any sector of the economy, region of the Nation, other unit of Government, or the non-profit sector was considered invalid. As a consequence, Federal programs today are funding everything from windmills to luxury hotels, empty passenger trains, sewer collector lines, municipal payrolls, and a wide variety of educational and social services.

The initial round of budget savings detailed in this document correspond to the new criteria that the President has established for evaluating claims for Federal support. In the weeks and months ahead, these criteria will be further applied vigorously to all areas of the budget in an effort to achieve substantial further expenditure savings.

These criteria are:

-- preservation of the social safety net;

-- revise entitlements to eliminate unintended benefits;

-- reduce middle-upper income benefits;

-- recover clearly allocable costs from users (increase in governmental receipts);

-- apply sound criteria to economic subsidy programs;

-- stretch out and retarget public sector capital improvement programs;

-- impose fiscal restraint on other programs of national interest;

-- consolidate categorical grant programs into block grants; and

-- reduce overhead and personnel costs of the Federal government.

The discussion below outlines these budget reform criteria and provides illustrations of program reductions resulting from their application. Full details of proposed budget policy changes are provided in the following sections.

Preservation of the Social Safety Net

During the century's first great crisis of the American economy, a new system of income security measures was erected in the 1930's to protect the elderly, unemployed, and poor from that era's severe economic burdens. During the subsequent four decades, these programs were maintained and improved, and became the core of the Nation's permanent social safety net. These essential commitments now transcend differences of ideology, partisanship, and fiscal priorities.

Thus, as we seek to resolve the second great economic crisis of this century, in part through severe budget reductions, the President believes that the essential social safety net must be maintained. Indeed, the President's budget reform plan is animated by and must be understood in terms of its motivation to preserve and maintain those social safety net programs that represent the accrued permanent consensus of the American people over the past five decades.

Not every program defended in the name of the disadvantaged can or should be considered part of the essential social safety net. But the President has determined that, at a minimum, the programs described in Table 6 merit the highest priority. Only modest revisions are proposed for these programs, with savings amounting to one percent of 1982 outlay levels.

As the table indicates, the dollar commitment to these core social safety net programs will be substantial over the next 5 years. Any significant retreat from proposed reductions elsewhere in the budget will pose a threat to the Nation's fiscal capacity to maintain the above commitments.

In addition to the core components of the social safety net, the President has determined that certain other important programs can now be maintained at present levels. Thus, the Head Start program, serving 375,000 children at an annual cost of over $800 million; the summer youth employment program, providing summer jobs to 800,000 to 900,000 low-income youths at an annual cost of about $800 million; and subsidized school nutrition programs for low-income children and programs to provide meals for the elderly, with an annual cost of $2.1 billion can presently be spared the sharp reductions that have necessarily been required of all other programs.

The above discussion makes clear that the dollar requirements to maintain the social safety net are and will continue to be substantial. Hard choices and difficult tradeoffs have not been avoided by the President in devising the budget reform plan. In defending and seeking to maintain the social safety net, however, the President has articulated a sense of priorities that is both clear and widely shared.

Table 6.--SOCIAL SAFETY NET PROGRAMS
(dollar amounts in billions)

	1981	1982	1983	1984	1985	1986
Social insurance benefits for the elderly.	184.0	209.2	233.1	256.3	280.4	305.1
Basic unemployment benefits...............	20.3	17.2	15.2	15.2	14.7	14.4
Cash benefits for dependent families, elderly, and disabled....................	15.1	15.4	16.7	16.0	17.3	17.9
Social obligation to veterans.............	20.0	22.1	23.9	25.5	27.4	28.8
Outlays for social safety net..........	239.3	263.9	288.8	313.0	339.9	366.1
Social safety net as percent "target outlay ceiling".........................	36.6	37.9	39.4	40.6	40.3	40.1

Revise Entitlements to Eliminate Unintended Benefits

The Nation's social safety net consists primarily of legislatively established entitlements to fixed social insurance or means-tested benefits. While posing serious problems for short-run fiscal management, such entitlements are the only practical way to ensure reliable and regular payment of benefits to millions of American citizens.

During the last 20 years, however, the Federal entitlements structure and related income security programs have exhibited rapid, nearly uninterrupted real growth. Total payments for individuals increased at a rate nearly double that of overall budget growth and 2.5 times faster than GNP. Moreover, the share of total budget outlays accounted for by these benefit payments rose dramatically.

Table 7.--GROWTH OF ENTITLEMENT AND INCOME SECURITY PAYMENTS (dollar amounts in billions)

	Current Dollars	1972 Dollars	Share of Federal Budget
1960	24.3	34.1	26.0%
1965	33.7	44.4	28.4
1970	66.0	71.9	33.6
1975	156.6	124.4	48.0
1981	333.0	153.3	50.3

Much of this growth represents increased coverage of workers in the social security system and real benefit increases. But a substantial proportion is due to the creation of numerous new entitlements and benefits since 1970 or major expansion of earlier programs. As is shown in the following table, these newer income security programs have exhibited explosive growth patterns -- increasing tenfold in a single decade.

Table 8.--OUTLAYS FOR RELATIVELY NEW OR EXPANDED FEDERAL ASSISTANCE PROGRAMS
(in millions of dollars)

	1970	1981
Food stamps	577	10,950
Black lung (coal miner benefits)	10	1,718
Extended unemployment benefits	---	4,094
WIC (food supplements)	---	904
Low-income energy assistance	---	1,896
Supplemental security income	1,812*	7,305
Housing assistance	480	6,861
Trade adjustment assistance	3	2,743
School nutrition	383	3,485
Social security disability	2,352	16,978
Total	5,617	56,934

* Predecessor programs.

The growth patterns of the past two decades have stemmed from multiple sources. At times, programs were developed in response to new perceptions of need; at other times to new types of problems. The substantial expansion of the food assistance programs in the early 1970's in response to evidence of national hunger and malnutrition is an example of the former; the low-income energy assistance payments reflect the latter.

Other sources of growth have included:

-- Expansion or liberalization of social insurance coverage as represented by the near doubling of the social security disability caseload since 1970 and the $2 billion cost of social security student payments, created in 1965.

-- Statutory, administration, and judicial liberalization of eligibility criteria for means-tested programs. In many cases, the true measure of income for purposes of establishing eligibility is badly distorted. There has been a steady expansion of deductions to income, including shelter allowances, child care costs, work-related expenses, medical and various types of irregular income. The "pyramiding" of these deductions frequently creates a wide gap between a reasonable measure of a recipient's gross income and "countable" income used for benefit determination. These practices expand the eligibility base, escalate program costs, and result in unneeded benefits.

-- Failure to integrate multiple benefits, especially in-kind transfers. Many households that benefit from food stamps, for example, receive medicaid, free school lunches and breakfasts, housing subsidies, and low-income energy assistance payments. Yet only cash transfers, such as AFDC, are counted in determining food stamp allotments.

-- Subsidy payments and reimbursement schemes for in-kind benefits such as subsidized housing, medical assistance, and child care services encourage expansion of the quantity or cost of services to the limit of available Federal dollars, without regard for the most efficient provision of benefits. Thus, section 8 housing requires $2,236 per unit in annual subsidies, medicaid services are frequently over-utilized, and standards and staffing ratios for day care centers have increased steadily.

These considerations and unsustainable growth trends contain an unmistakable lesson: our society's commitment to an adequate social safety net contains powerful, inherently expansionary tendencies. If left unchecked, these forces threaten eventual fiscal ruin and serious challenges to basic social values of independence and self-support. The Federal Government has created so many entitlements for unnecessary benefits that it is essential to begin paring them back.

Proposals for reform: The President's budget reform plan begins this long overdue effort. For 1982, more than $9.0 billion in budget savings can be achieved by an initial set of entitlement revision proposals. These savings will grow to $16.0 billion by 1985. Further proposals will be developed by the Administration in the months ahead.

In all cases, these recommended changes are designed to eliminate excesses, overlaps, and unintended benefits that have developed during the recent period of unbridled expansion. If approved by the Congress, these reforms will refocus benefits on the truly needy and retarget programs on their intended purposes. They will bring the cost and coverage of the Federal entitlement and income support system back into conformity with the Nation's essential social safety net commitments.

Thus, proposals to limit food stamp eligibility to families with gross incomes below 130% of poverty and to employ retrospective income accounting will help return the program to its original goal: ensuring adequate nutrition levels for all households. Under current rules and practice, the food stamp program has become, in fact, an indirect transfer payment program for many people not truly in need -- a policy effect never intended.

Similarly, the extended national unemployment benefit feature of unemployment insurance was intended to provide extra support during periods of severe cyclical unemployment. But changes in the labor force and the increasingly uneven geographic distribution of unemployment have made obsolete the notion that these benefits should be triggered by the national unemployment rate. The proposed shift to State triggers at modestly higher threshold levels will redirect extended benefits to areas where they are needed while removing incentives for prolonging unemployment benefits in growth areas of the Nation where job opportunities are available.

The proposed reforms of the black lung program for coal miners contain a similar objective: to refocus benefits on those disabled by black lung; to curtail tendencies to expand the program into what would, in effect, be a special pension program for miners; and to assure that the coal industry bears the cost of disabilities caused by work in the mines. The President's plan also seeks to curtail sharply the trade adjustment assistance program, which has now become a secondary and overlapping unemployment insurance program, a development clearly incompatible with its original intent.

The President's budget reform plan also calls for elimination of two secondary social insurance benefits -- the social security student and special minimum benefits -- because more efficient means-tested benefit programs are now available to support needy recipients. These changes will save a net of $2.6 billion by 1984 and will modestly improve the actuarial balances of the trust fund.

Finally, these initial reform proposals seek to limit the runaway growth of two of the major in-kind benefit programs -- medicaid and lower-income rental (section 8) housing assistance -- through interim stabilization measures. These measures will produce budget savings of $4.3 billion per year by 1984 and permit time to develop alternative approaches that avoid the inherent cost and service escalation and benefit overlaps built into existing programs.

Taken together, these initial reforms constitute a careful, discriminating, and equitable effort to restructure the Nation's overgrown entitlement system. They also demonstrate that achieving fiscal control and maintaining the Nation's essential social safety net are compatible objectives.

Reduce Middle to Upper Income Benefits

Given the need to sharply reduce Federal spending growth and resulting inflationary pressures, subsidies to those with middle to upper incomes represent an obvious focal point for the budget reform plan.

The sharp subsidy reductions proposed by the plan are, however, clearly balanced by the President's commitment to lower tax rates and budget balance. No groups are more acutely affected by inflation, high tax levels, and bracket creep than the Nation's middle income taxpayers; accordingly, the President's overall program will, in some cases, immediately and should, in most cases, rapidly compensate for any dislocations occasioned by program subsidy reductions.

There is yet another aspect to the middle to upper income subsidy reductions and eliminations proposed by the budget reform plan. Once enacted by the Congress, the plan will arrest what has heretofore been an unfortunate national drift toward the universalization of social benefits. Extension of social safety net programs designed for the poor to all citizens is a prescription for inflation, high taxes, low growth, and federally imposed mandates. Hence, the specific proposals in the President's reform plan dealing with middle to upper income subsidies should, when adopted, arrest divisive debate over such manifestly unsustainable programs as national health insurance, middle income housing subsidies, universal college aid, and similar initiatives.

An examination of the two principal middle to upper income subsidy programs that the President's plan proposes to reform demonstrates the clear need for immediate action.

Unneeded lunch subsidies: Under the President's plan, families of four with annual incomes above $15,630 may be required to pay an extra $60 more per child per year for school lunches. It is a measure of the extent to which middle to upper income subsidization has occurred in the Federal budget that adoption of the President's plan regarding the school nutrition program will alone generate more than $2 billion in savings annually by 1986. Moreover, adequate funding would remain to support free school lunches for 10 million poor children, 3 million of whom will also continue to receive free school breakfasts.

Student loans: Another broad area of subsidy reduction to middle and upper income families that is proposed by the budget reform plan deals with student loans and grants. The plan proposes significant changes (designed to target benefits on actual student financial needs) in both the guaranteed student loan (GSL) and Pell grant programs, at savings of more than $9.2 billion from 1981-86.

In the continuing budget review now taking place, other middle to upper income benefit programs similar to those that the plan proposes to reduce and eliminate will be considered for similar reduction and elimination.

Recover Allocable Costs with User Fees

Most Government programs are designed to benefit the Nation as a whole, or provide special assistance to needy or vulnerable groups. Some activities, however, provide direct economic benefits to a specific and known group of individuals or enterprises. While it is often necessary or desirable for these activities to be conducted by the Federal Government, it is clearly inequitable for the general taxpayer to bear the burden of services that provide special benefits for specific users. The budget reform plan provides for shifting the cost of some such activities to those who directly benefit.

The President is proposing user fees to eliminate the subsidies on inland waterways, recover half of the Coast Guard costs directly associated with activities that benefit users of boats and yachts, and fully finance the air traffic control system by reinstating and adequately funding the airport and airway trust fund. Additional proposals will be developed to apply this principle on a more extensive scale.

Eliminating subsidies for airport and airway users: The actual users of the aviation system -- commercial and general aviation -- receive most of its benefits. Not requiring users to bear the full cost of their activities provides an unwarranted subsidy and encourages uneconomic use of the system. Passenger ticket taxes and general aviation fuel taxes sufficient to finance the entire cost of the air traffic control system will be proposed in lieu of a general revenue subsidy. (This subsidy was $1.9 billion in 1980.)

Boat and yacht user fees: Coast Guard operating expenses in 1982 will exceed $1.3 billion. A substantial portion of its services -- including licensing, inspection, vessel documentation, operation of aids to navigation, rescue and towing assistance, icebreaking, and water pollution monitoring and cleanup -- are provided without charge. Yet they benefit a small segment of the public -- some 9 million individuals and firms. To remedy this unnecessary subsidy, legislation will be submitted for a graduated system of fees for Coast Guard services to be phased in over the next 4 years. About half of the costs, except those related to law enforcement and military readiness, would be included.

As is the case with many Federal activities for which fees are already collected (e.g., use of park campgrounds, cattle grazing on Federal lands), boat and yacht owners and the maritime industry will be charged relatively small fees in relation to the value of benefits they receive.

Eliminate inland waterway subsidies: The Administration will seek to eliminate the subsidy on inland waterways, beginning in 1983, by increasing taxes for barge fuel. The Federal Government now spends over $325 million per year to operate and maintain inland waterways for commercial traffic that until this year has paid no tax or fee for system use. This year a new tax of 4 cents per gallon on barge fuel will repay only 11% of that cost. Under this proposal, fuel taxes will increase from 6 cents per gallon to about 30 cents per gallon in 1983. This will cover the full amount that the Government spends on the operation and maintenance of the waterways. It is estimated that the increase in cost to shippers will be less than 0.4 cents per ton mile. There will be future tax increases to pay for increased expenses on existing waterways and to pay for the construction, operation, and maintenance of new waterways.

Apply Sound Criteria to Economic Subsidy Programs

The past decade of deteriorating national economic performance has been accompanied by a rapid build-up of Federal grants and other subsidies designed to alleviate the effects of that deterioration on specific segments of the population and economy. Federal programs have thus been created and expanded in the name of stimulating growth, jobs, exports, and new technologies; and to assist declining industries and firms and in other ways to alter and fine-tune the level and composition of national economic activity.

Many of these programs, however, have served to distort the market economy and have thereby contributed as much to the problems they were intended to address as to their solution. Such subsidy policy commitments have largely resulted from overly permissive fiscal policies, from an absence of hard economic analysis, and from failure to use limited tax resources on a cost-effective basis.

The President's budget and comprehensive economic plan approach the real problems associated with deteriorating economic performance from a fundamentally different premise: that sound budget control, tax reduction, regulatory reform, and appropriate monetary policies represent the only real hope for renewed, non-inflationary growth and prosperity.

Accordingly, the President's plan contemplates severe reductions in make-work job programs, governmental programs to stimulate new energy technologies, and regional and community development subsidies, as well as a host of other misdirected spending and subsidy programs. In the context of a healthy expanding economy, stable financial markets and a revival of savings, investment, and entrepeneurship, normal market forces will be relied upon to achieve present program goals. Thus, by way of example, the steady reduction of interest rates and elimination of inflationary cost pressures from the national economy will do more to stimulate exports and international competitiveness than current Export-Import Bank subsidies to a selected group of large corporations.

Similarly, the budget reform plan contemplates redirection of below-market loans by the Farmers Home Administration to the very poor and to those of the Nation's smallest and poorest communities that truly lack access to financial markets. The budget reform plan also sharply restricts highly subsidized Rural Electrification Administration (REA) loans for power-generating and telephone system improvements, as well as REA access to the Federal Financing Bank.

On the grounds that present dairy subsidies are needlessly large, the budget reform plan proposes immediate elimination of mandatory dairy price support increase currently scheduled to take effect on April 1, 1981. Long-term reforms affecting the dairy industry will be addressed in the Administration's comprehensive farm program, which will be submitted to the Congress during the current legislative session.

Many obsolete or inherently inefficient Federal subsidies to specific sectors of the economy will also be eliminated. For example, passenger fares on Amtrak's routes cover only about 40% of total operating costs, thereby requiring unjustifiably large subsidies. If the current route structure is to be maintained, Amtrak passengers or State and local governments must pay a greater proportion of the total operating costs.

The budget reform plan also proposes other significant reductions in Federal activity that is neither justified by cost-effective use of tax resources nor by the President's commitment to a market-directed policy. Accordingly, the budget reform plan proposes the phase-out of operating subsidies for local transit systems, Conrail, certain local airline services, and the Postal Service.

Stretch-Out and Re-Target Public Sector Capital Investment Programs

The Federal Government has undertaken a number of desirable public sector capital investment programs. Under normal conditions of low inflation and strong economic growth, the current rate of many of these activities would be justified. However, given the instability of the U.S. economy, the budget reform plan requires that in the short run these investments be stretched out or delayed. The immediate need to improve the health of the economy as a whole overrides the merits of rapid completion of such projects individually. Specific proposals include water resource projects, waste treatment facilities, highways, mass transit, and airports.

Water resource projects: The Administration will propose an 11% reduction in the planned construction program of the Corps of Engineers, Civil; Water and Power Resources Service; and Soil Conservation Service. This reduction will defer only some less critical parts of projects, such as the development of recreation areas and some rural flood control and irrigation water distribution systems. The stretch-out of about 70 of the more than 300 projects underway will reduce Federal expenditures by $1.6 billion over the next 5 years.

Waste treatment grants: The application of the deferral principle to the municipal waste treatment grant program will reduce near-term outlays for capital investments by $0.1 billion in 1982, $1.0 billion in 1983, and $2.0 billion in 1986. In addition, major reforms will be proposed that will relieve the burden on the Federal Government for financing projects that improve the environment only marginally or not at all.

Highway construction grants: The Administration's highway program proposal will involve stretching out and slowing down construction of lower priority highway projects. Both the primary system and the Interstate highway system in particular will, however, continue to receive a high level of Federal funding. Some lower priority Interstate highway projects will be eliminated to allow final completion of the system by the 1990 statutory deadline. The proposed changes in the Federal highway program will produce budget savings of approximately $12.6 billion by 1986.

Mass transit capital grants: The reduced funding levels for mass transit capital grants are primarily achieved by reducing the amount of funds for constructing new rail transit systems and extending existing systems. Grants to purchase buses and update existing rail systems -- particularly in large, concentrated urban areas -- will be continued. The construction of new rail transit systems or extensions has not proved, however, to be as cost-effective as other, less capital intensive projects. The five rail system construction projects now underway that receive Federal assistance (Washington, Miami, Buffalo, Baltimore, and Atlanta) require approximately $75 million per mile for construction and equipment.

Reduction of airport construction grant program: The Administration will propose legislation to reduce the annual funding available for airport construction grants during 1981-1986 by 33%. The need to expand airport capacity is no longer so critical as it was when aviation traffic increased significantly on an annual basis and the development of new aircraft required wider and longer runways. The effects on aviation safety will be negligible since almost no aviation accidents are related to the physical features of airports.

Impose Fiscal Restraint on Other Programs of National Interest

In normal circumstances, the Federal budget can carry programs that are in the national interest but cannot be accorded an urgent priority. For example, while no one can deny that our lives are made richer by museums, the arts, and humanities, it is also true that they cannot claim the same urgency or priority that must be assigned to programs providing the truly needy with the fundamentals of life. In times such as these, the arts and humanities must place greater reliance on the role of private philanthropy and State and local support. The budget reform plan would reduce support for the arts and humanities endowments to an outlay level of approximately $100 million.

The merit of research and development is without question. However, in times of fiscal austerity even some promising investments in science and technology must be restrained and new undertakings postponed.

Thus, the previously planned growth in outlays for the National Science Foundation and NASA will be moderately reduced. In the latter case, trimming back lower priority programs will enable us to proceed with the Space Shuttle program and to continue essential R&D programs in areas of space science, space applications, and aeronautics.

The National Institutes of Health will receive moderate funding increases that are designed to allow the continuation of essential biomedical research; however, the increases will be insufficient to fund non-urgent activities such as extraordinary overhead fees paid to institutions for federally supported trainees.

Finally, beyond these programs that clearly have merit, there are a number of others whose fundamental merit is debatable. Such programs must be severely cut back or even eliminated. A broad variety of additional Federal programs have been the subject of intense debate as to their underlying merit. Even recognizing the views of the inherent worth of such programs that are offered by their proponents, continued support for them can no longer be justified under the President's budget reform plan -- the operating premise of which is that Federal support must now be restricted to programs of fundamental national priority. Accordingly, the plan calls for termination of the National Consumer Cooperative Bank, the Solar Energy and Energy Conservation Bank, and the HUD planning assistance program. It further calls for a rapid phasing out of the Professional Standards Review Organization (PSRO) program, and the closure of the eight remaining Public Health Service hospitals.

Further, programs that do not meet stringent priority tests of the President's budget reform plan will be considered for reduction and termination in the continuing budget review process.

Consolidate Categorical Grant Programs into Block Grants

There is a growing consensus among State and local government officials that as many narrow categorical grants as possible should be consolidated into a few block grants, particularly if Federal funding must be reduced in the effort to curb inflation.

The widely acknowledged benefits of block grants are that they allow the reduction of overhead because there are fewer people processing papers, and that they permit State and local officials to allocate funds to the most urgent areas of need. Thus, a block grant program funded at a lower level can provide as many benefits for the State and local recipients as a higher level of funding for a multiplicity of narrow categorical grants.

In conjunction with this request for the conversion of categorical grants to block grants, State and local officials asked that federally mandated cost requirements -- which Mayor Koch of New York has called "the mandate millstone" -- and other regulations be relaxed, again so that reduced Federal dollars could have the same impact on real needs. The elimination of unnecessary regulations is a key part of the reform plan.

In Washington, the objection most often raised to block grants is that the Federal Government will lose control over the effective use of the taxpayer's dollars. But the point is that the Federal Government unnecessarily controls detailed State and local priorities. States and localities are not alien organizations inimicable to the best interest of the citizens they represent. They consist of those legislators and executives who cope with the real problems of the citizens they serve. People at the State and local level should be making decisions with respect to the social and community services that are required in their localities. It may turn out that one jurisdiction needs more money for child welfare services than for legal services.

One lesson is clear from the past: the only real loser in converting categorical grants to a block grant are the bureaucratic middlemen -- the grantsmen -- who use up funds for the needy. Many of the roughly 550 categorical grants programs should be converted to block grants. At this time, the President is proposing two major block grants: one for health and social services and the other for education.

Health and social services: The present array of about 40 categorical grants for health and social services mostly serve narrow population groups defined by various income, health status, age, residence, and job categories. Over the years, these programs have become ensnared in a staggering degree of waste, complexity, and bureaucratic overhead. The programs proposed for consideration encompass 437 pages of law and 1,200 pages of regulation. These programs administer 6,800 separate grants and approximately 24,000 grant sites. Once awards are made, over 7 million man hours of State and local government and community effort are used just in filling out federally required reports each year. In addition, the Nation supports over 3,300 Federal employees to administer the grant programs proposed for consolidation.

The needy often must go to several different agencies for different services and different family members may receive care from different providers. Follow-up and continuity of care are neglected. Moreover, there has been a proliferation of separate regulations, out-reach and linkage requirements, grant application and review processes, and audit/record requirements. This proliferation has created barriers to effective coordination among States, communities, and other institutions that provide services. Unnecessary overhead expenses have resulted. Finally, many of these programs are very small, though all require extensive regulations.

The President's block grant proposal addresses these problems. It is intended to enable States to plan and coordinate their own service program, establish their own priorities, and exercise effective control over the resources provided to localities and nonprofit organizations. This approach reduces the multiplicity of rules and regulations -- hence, Federal direction -- under which service agencies must currently operate. Furthermore, overlapping funding from different programs for the same services could be eliminated.

Education: The Department of Education currently administers over 45 narrow categorical grant programs that provide resources to State and local governments to support a wide variety of educational objectives. The President is proposing to collapse these programs into two programs -- one block grant to the States and the other to local educational agencies (LEA's).

These block grants will shift control over education policy away from the Federal Government and back to State and local authorities -- where it constitutionally and historically belongs. The Federal role is to supply necessary resources, not to specify in excruciating detail what must be done with these resources.

Under these block grants, there will be no requirements for matching funds and no demands that Federal funds "supplement rather than supplant" local funding. There will be no endless byzantine squabbles over myriad accounting regulations that aid bureaucrats, not children. Approximately 13% of the Federal funds in programs to be consolidated are now used for administrative expenses by State and local agencies. This overhead will be drastically reduced under the consolidation proposal.

The LEA block grant includes programs that are presently for students judged to have special educational needs: the economically disadvantaged, the physically or mentally handicapped, children with limited proficiency in English, children in school districts undergoing racial desegregation, and illiterate adults. The grant to the States combines programs that (a) provide direct educational services for handicapped, neglected, and delinquent children; (b) improve the staffing and services of the State educational agencies; and (c) support improved school services in a variety of ways, including assistance to school libraries, curriculum development, and provide technical assistance. Because many of these programs overlap services to disadvantaged students, the block grant system will allow localities to eliminate conflicting and duplicative regulations and reporting requirements.

Budget authority for the block grants in 1982 will be 80% of the sum of the combined programs in 1981. The Administration anticipates that the reduced funding levels will be offset by more efficient management generating from the increased latitude given to State and local governments to tailor education programs to suit the particular needs of children in their districts.

In summary, the creation of these two block grants will be a major contributor to the budget reform plan. More block grant proposals will be made to the Congress by this Administration.

Reduce Federal Overhead, Personnel Costs, and Program Waste and Inefficiency

Federal Government activity is rarely subjected to the test of the marketplace. As a result, there has been a tendency to build up overhead, personnel, and regulatory costs without regard to the measurement of benefits. The budget reform plan provides for reductions in these areas. It will also systematically reduce regulatory intervention in private sector activities so as to promote economic efficiency and output.

This process is already underway. The President has placed a complete freeze on Federal hiring and ordered limits on procurement of office equipment, consulting services, and Government travel.

For 1982 and beyond, every aspect of Federal management and administrative practice will be evaluated and tightened. As a successor to the present hiring freeze policy, the President is proposing a 5-year plan to steadily reduce Federal employment. By 1986, Federal payrolls would decline by 7% at a savings of $1.5 to $3.9 billion annually and current pay levels. Vigorous, systematic plans to eliminate program waste and fraud and to speed Federal debt collection are also under development. The President will also propose major reform of the Federal pay comparability system in order to bring salary schedules and annual adjustment costs into line with actual private sector levels.

Finally, the substantial additional resources required for defense readiness and strengthening strategic and conventional capabilities will not exempt the Defense Department from rigorous requirements to eliminate wasteful practices and programs. The President's budget reform plan calls for $2.9 billion in defense cost savings in 1982, rising to $7.5 billion by 1986. Procurement reform, realignment of the domestic basing structure, and future year personnel reductions will all contribute to these savings.

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1. REVISE ENTITLEMENTS TO ELIMINATE UNINTENDED BENEFITS

Department of Agriculture

TARGETED REFORM OF FOOD STAMPS

In accord with the Administration's efforts to target assistance to the most needy families, and to restrain the uncontrolled growth of entitlement spending, major changes will be proposed in the food stamp program.

For a family of four, eligibility will be limited to those whose gross income is less than $11,000 per year -- about $900 per month. Under current law, similar families with incomes in excess of $14,000 annually are eligible for food stamps. Overlapping school meal and food stamp subsidies will be eliminated. Benefit calculations will be based on actual recent earnings or payments rather than projected earnings or payments. A recipient's initial allotment will be pro-rated to ensure that the benefits provided are more equivalent to the number of days in the month for which assistance is needed. Liberalized allotment levels and income deductions scheduled to take effect in the next fiscal year will be repealed. Tightened administration and program monitoring will yield additional savings through reduced overhead costs, and through the elimination of payment errors and food stamp fraud.

These changes will help to refocus the food stamp program on its original purpose -- to ensure adequate nutrition for America's needy families. The combined effect of food stamp's current prospective income test and high deductions from income has been to divert the food stamp program away from this original purpose toward a generalized income transfer program, regardless of nutritional need. By restructuring food stamps to complement other nutrition programs and targeting funds on those whose low incomes prevent them from maintaining an adequate diet, significant savings can be achieved while ensuring that needy families have the resources to meet their nutritional needs.

These changes are also designed to eliminate anomalies found in the present program, where families with high annual incomes are nevertheless eligible for food stamps during short, temporary periods of unemployment. The present program also permits those with relatively high incomes to take higher offsets for shelter and child care expenses than lower-income families. The Administration's program would remove 400,000 such households from the rolls. At the same time, a family of four with income below $10,985 would receive the full nutritional benefit -- only modified to account for duplicated nutrition subsidies.

These reforms to efficiently target benefits to actual need will also help to restrain the rate of increase of Federal spending. As a result, Federal food stamp costs will be $1.8 billion lower in 1982 than under current law. Over the 5-year period through 1986, costs will be reduced by about $11.7 billion.

Proposals will be advanced to change the food stamp program in several ways:

-- Set gross income limits on food stamp eligibility at 130% of the poverty level -- about $11,000 per year for a family of four -- in 1982. In calculating benefits for households with earned income, the current 20% earned income deduction would be kept to encourage continued workforce participation. Other deductions from gross income would continue to be used to establish benefit levels for each household. These deductions would no longer be indexed to price changes. The combined effect of these changes would prevent those who are temporarily out of work due to seasonal or voluntary periods of unemployment from receiving benefits, unless their income was low over a sustained period. Similarly, families whose higher living standards allow them to take disproportionate advantage of excess shelter cost deductions would no longer be eligible. Of the 9 million food stamp recipients whose major source of income is income transfer payments and in-kind benefits such as housing assistance, the income ceiling would have less of an exclusionary effect as the value of in-kind benefits would continue to be excluded.

-- Eliminate overlapping food stamp and free school meal subsidies. The monthly food stamp benefit is based on the assumption that all meals for the family are eaten at home. For students from families with incomes below $11,640, free school meals will remain available in more than nine-tenths of the Nation's schools. These school meals are intended to meet one-third of a student's daily nutritional needs. For students who receive both food stamps and free school meals, the Federal Government subsidizes four rather three meals each school day. To eliminate this subsidy overlap, food stamp allotments will be adjusted for households with students in primary and secondary schools to reflect the value of free school meals. Families with students without access to subsidized school meals and those who cannot eat meals at school for religious or dietary reasons will not have their allotments changed.

-- Calculate eligibility on the basis of household income in the prior period. States now have the option to either estimate future income or use the prior month's income to determine household income eligibility. Estimating future income can easily result in erroneous payments or inaccurate eligibility determinations. In addition to preventing overpayments due to errors in income reporting, this proposal has the added advantage of ensuring that families cannot take advantage of food stamps during temporary periods of voluntary or foreseeable unemployment unless their available income is truly low. Because both eligibility and benefit determinations would be based on annualized average income during the prior period, the longer-term unemployed would become eligible for benefits as their funds run out.

-- Pro-rate first month's benefits to reflect the portion of the month for which assistance is needed. Under current law, a recipient who is certified and issued food stamps late in the month receives a full monthly allotment. Under this proposal, those who need help for less than a full month when they first apply for food stamps would receive a pro-rated allotment.

-- Repeal provisions scheduled for 1982 that will increase future food stamp costs. The 1980 Food Stamp Amendments allow the Secretary of Agriculture, beginning in 1982, to project price changes in calculating food stamp allotments and income deductions. The Administration recommends that automatic benefit increases be based on a 12-month period of actual price changes which avoids the uncertainty of projecting food costs. In addition, specialized deductions for 1982 added in the recent amendments will be proposed for repeal. Itemized deductions complicate food stamp administration and help to cause erroneous payments to food stamp recipients.

-- Improve overall management and monitoring to ensure compliance. While recent legislative changes permit States to improve beneficiary tracking and income verification and make other management improvements, not all States are fully applying available techniques to identify, prevent, and correct payment errors and recover overpayments. Shifting to retrospective income accounting will also improve routine income verification and sampling techniques. These measures will ensure that benefits are paid only to the truly needy, that fraudulent claims are detected and deterred, and that all applications, interviews, and transactions are conducted in the most efficient and speedy manner.

The proposal is expected to result in the following change:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	11,084	12,570	13,171	13,607	13,990	14,160
Outlays.............	10,950	12,473	13,070	13,503	13,883	14,051
Policy reduction:						
Budget authority....	-150	-1,828	-2,012	-2,462	-2,636	-2,771
Outlays.............	-150	-1,822	-2,004	-2,451	-2,624	-2,759
Proposed budget:						
Budget authority....	10,934	10,742	11,159	11,145	11,354	11,389
Outlays.............	10,800	10,651	11,066	11,052	11,259	11,292

ELIMINATING THE SOCIAL SECURITY MINIMUM PAYMENT AMOUNT

Since the enactment of social security, a number of unearned benefits have been added to the core old-age and survivor's insurance program. In recent years, these add-ons have threatened the continued solvency of the basic social security program. While fundamental program reforms will be needed to prevent the insolvency of the social security trust funds, eliminating these add-on payments in 1981 can achieve significant savings, enhancing the ability of the social security system to meet our national commitment to provide adequate social security income to our Nation's retired workers.

One major payment add-on has been the so-called "minimum benefit." Regardless of the amount of social security benefits that a retiree is eligible for based on his earnings history in covered employment, the minimum payment provision raises the basic benefit to at least $122 per month.

The original purpose of this provision -- first enacted in 1939 at a $10 per month level -- was to increase retirement income for those with very low wage histories, and for those whose employment was primarily before social security covered their work in the system's early years. Since 1974, however, the supplemental security income program (SSI) has provided cash assistance to such retirees. In fact, the main effect of the minimum payment for these workers is to offset, dollar for dollar, the amount of SSI assistance they would receive were they not receiving elevated social security benefits.

Now that most employment has been covered under social security for at least 30 years, the main beneficiaries of the minimum payment provision are those with short work histories in social security-covered employment, chiefly due to long periods of Federal civilian employment. Such retirees, of course, also receive generous Federal pensions. In 1978, in fact, the average Federal annuitant receiving social security minimum payments had Federal pension income of $900 per month. Another 10% of minimum benefit recipients have working spouses earning at least $14,000 per year.

Because these recipients receive social security payments far in excess of the level to which their spotty contributions entitle them, they represent a serious drain on the social security trust funds. Eliminating the "minimum benefit" would stop this drain, without reducing benefits for truly needy retirees at all; their benefits would be replaced, dollar for dollar, by increased SSI income. Only 17% (500,000) of minimum benefit recipients, however, are truly needy; GAO has found that at least 74% do not "depend primarily" on their social security for retirement income.

	Outlays (in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base.....	138,022	157,837	175,515	191,134	206,579	221,573
Policy reduction.	-50	-1,000	-1,100	-1,100	-1,100	-1,100
Proposed budget..	137,972	156,837	174,415	190,034	205,479	220,473

NOTE: Savings assume the changes will be effective August 1, 1981, take into account associated increases in other Federal assistance programs, and are sensitive to economic assumptions.

	(in millions of dollars)				
	1981	1982	1983	1984	1985
Net savings from proposal.	-50	-1,000	-1,100	-1,100	-1,100
Social security savings from proposal.........	(-60)	(-1,300)	(-1,400)	(-1,500)	(-1,500)
SSI increase from proposal..............	(10)	(300)	(300)	(400)	(400)

ELIMINATING SOCIAL SECURITY PAYMENTS TO ADULT STUDENTS

Social security faces a growing solvency threat. As one element of assuring basic benefits to retired or disabled workers and their survivors, the Administration plans to eliminate the additional benefits presently paid to students whose parents are social security benificiaries. Payments to students from social security are unrelated to educational cost or need and duplicate more appropriate Federal student assistance programs. Without social security, low and middle income adult students would be eligible for Federal student assistance tailored to their educational costs and need. Eliminating social security for students would add $7 billion to the social security trust funds by 1986 -- without higher tax burdens.

Adult student payments were added as a marginal benefit to social security in 1965, when the trust funds had considerable reserves and social security benefits were much lower. Student social security is inappropriate and inefficient as a component of social insurance. Old-age, survivors and disability insurance protects against loss of income from risks that are beyond the worker's control (old age, disability, and death). Social security should not universally insure a student's choice to go to school beyond age 18, especially since established Federal programs better target student assistance.

Student payments have grown from $165 million in 1965 to over $2 billion in 1981, with average per capita payments going up one-third faster than the CPI. While the number of adult students on social security rose by only 25% in the past 10 years, the cost of student payments went up 240%. These payments from old-age, survivors, and disability insurance are now a significant drain on the trust funds, one which the General Accounting Office recommends should be ended (Reports HRD 79-108, August 30, 1979, and HRD 81-37, December 31, 1980).

Student payments from social security currently average $255 per month, but range from $20 to $700. Students whose parents had low earnings get low payments from social security, while those with high-earning parents get high payments, making student social security payments inversely related to need.

In contrast, most other Federal student assistance is based on need. Non-social security Federal student assistance has increased over 20-fold, from $284 million in 1965 to $7 billion in 1981. Of the 800,000 students on social security, approximately 250,000 would become newly eligible for basic educational opportunity (Pell) grants, with other students needing Federal assistance eligible for insured student loans, national defense student loans, etc.

This proposal would eliminate the student payments. No new recipients would be eligible, and current student payments would be reduced by 25% annually until the student reaches age 22.

	Outlays (in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base.....	138,022	157,837	175,515	191,134	206,579	221,573
Policy reduction.	-20	-700	-1,200	-1,500	-1,700	-1,700
Proposed budget..	138,002	157,137	174,315	189,634	204,879	219,873

NOTE: Savings assume the changes will be effective August 1, 1981, take into account associated increases in other Federal assistance programs, and are sensitive to economic assumptions.

TIGHTENING ELIGIBILITY FOR DISABILITY INSURANCE

The Administration will reduce rapidly growing disability insurance costs by tightening administration and ending misdirected benefits. A new management team will take action to eliminate ineligible payments, and the Administration will propose legislation to relate disability benefits more closely to a disabled worker's prior earnings.

Disability insurance benefits replace lost earnings for disabled workers and their families, allowing recipients to maintain an adequate living standard despite their inability to work to support their families. This is the purpose of social insurance.

In January of 1981, however, the General Accounting Office (GAO) reported that:

> "there may be as many as 584,000 beneficiaries not currently disabled but still receiving disability benefits. These beneficiaries represent over $2 billion annually in Trust Fund costs."

Social Security Administration (SSA) studies confirm that huge sums are paid incorrectly to individuals misclassified as disabled. As a result, DI caseloads have risen by 80% since 1970, and costs have climbed by 500%. Under the direction of this Administration, the SSA will begin to intensively review cases to insure that only the truly disabled receive disability benefits.

Overly-generous benefit levels induce some individuals to remain on disability insurance long after any true disability has been overcome. This frequently occurs when a recipient's DI benefits exceed the wage level of his customary work, especially now that indexing in recent years has driven up the value of DI benefits. In addition, DI beneficiaries may receive both disability and workers' compensation from plans sponsored by employers or the States. To remove this work disincentive, a "megacap" will be established on benefits that DI beneficiaries receive to ensure that disability income from all sources never exceeds the worker's prior earnings, adjusted for inflation. This proposal will prevent DI recipients with multiple sources of disability payments from receiving overly-generous benefits.

The Administration will also propose legislation to more closely tie eligibility for DI to those who have paid their fair share of contributions to the social security system. Under current law, people who have not paid social security taxes in the past 5 years are eligible for disability benefits. Requiring disability insurance beneficiaries to have had a more recent attachment to the workforce -- measured by working 6 out of the last 13 quarters -- would more closely link benefits to the replacement of lost (covered) earnings.

The net effect of these proposals will be to ensure that only those who are truly deserving of support are added to the benefit rolls, and to eventually eliminate those who are capable of self-support. These reforms will reduce the drain on the disability insurance trust fund as follows.

	Outlays (in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base...........	17,400	19,173	20,621	21,884	23,233	24,734
Policy reduction:						
Improve administration.....	-50	-200	-500	-700	-900	-1,100
Institute a "megacap"..........	-5	-50	-75	-100	-125	-150
Tighten recency-of-work test..........	-10	-300	-600	-900	-1,200	-1,500
Proposed budget........	17,335	18,623	19,446	20,184	21,008	21,984

NOTE: Savings assume the changes will be effective July 1, 1981, take into account associated increases in other Federal assistance programs, and are sensitive to economic assumptions.

Background.--Disability insurance benefits are paid to disabled workers and their families when a disabled worker is:

-- "currently insured," which generally requires having social security earnings in 20 of the previous 40 calendar quarters;

-- determined by State disability determination service adjudicators to suffer from a totally disabling condition expected to persist at least one year; and

-- unable to engage in "substantial gainful activity."

The costs of disability insurance have grown by leaps and bounds, as shown below:

	Number of Disabled Workers Receiving Benefits	Annual Benefits ($ millions)	Average Monthly Benefits
1965.......	988,074	1,159	98
1970.......	1,492,948	2,352	131
1975.......	2,488,774	6,747	226
1981.......	2,869,000	16,978	410
1985.......	2,991,000	24,000	655

COST REDUCTION AND IMPROVED MANAGEMENT OF WELFARE PROGRAMS

The President plans to propose several reforms to the aid to families with dependent children (AFDC) and child support enforcement (CSE) programs, which are administered by HHS. These changes are designed to determine welfare needs more accurately, improve program administration, reduce fraud and abuse, and decrease Federal and State costs.

AFDC provides Federal funds to States on a matching basis to pay cash welfare benefits to needy families with dependent children. CSE finances 75% of States' costs of enforcing and collecting child support from liable absent parents.

While efforts have been made in the past to tighten AFDC eligibility and prevent fraud and abuse, much more remains to be done. Anomalies in the present system often result in the payment of cash welfare grants to high-income families. For example, grants are made to mothers and children without regard for the presence of a working stepparent in the home. As a result, cash assistance is provided to families whose total available income is more than adequate to ensure the family's support. Similarly, cash assistance is often provided to families whose income would be more than adequate if the absent parents paid their child support obligations.

Changes are needed to assure that the resources available to a family are fully taken into account in determining the family's need for a public assistance cash payment, to standardize and simplify program requirements and administration (which will help reduce errors, waste, and abuse), to increase child support collections which will reduce the amount of welfare payments needed, and to provide a more equitable balance between the State and Federal shares of CSE costs and collections. The major changes include the following:

Aid to Families With Dependent Children

-- Counting the income of a child's stepparent as a source of support in determining the child's AFDC eligibility and benefits. The effect would be to reduce the welfare benefit of or even drop from the welfare rolls those families who receive cash assistance in addition to the ample income of the working stepparent. This change will go a long way toward ensuring that only the truly needy receive assistance.

-- Counting a family's earned income tax credit (EITC) on a current basis in determining the monthly AFDC benefit to reflect better the family's actual, current need for assistance. The EITC may now be counted as a lump sum after year's end, which results in higher welfare costs. The EITC now provides substantial income support -- totaling $1.9 billion in 1982 -- to lower-income families. The proposed change will prevent this assistance from being duplicated.

-- Limiting deductible child care costs and standardizing other work-related expenses (which offset earned income in determining AFDC benefits) and reforming other earned income disregards. Earned income reduces the family's need for welfare and is subtracted from the welfare grant except to the extent offset by these disregards. Current law provides that a family may offset earned income by unlimited child care expenses and other work-related expenses, and by certain other disregards. Open-ended disregards permit a disproportionate benefit for higher-income working families. While offsets of earned income due to work expenses and child care costs eliminate some work disincentives, they allow families with relatively high incomes to remain on AFDC. For example, a family of four that receives $500 in monthly cash benefits if it has no other income could offset an additional $500 a month in earnings by charging off large child care and other "work-related expenses." The family would then continue to receive its full $500 monthly AFDC grant plus its $500 monthly earnings, for an annual total income of $12,000. These changes will establish a maximum limit on the allowable costs associated with earning income.

-- Requiring States to determine a family's AFDC eligibility and benefits based on previous actual income and circumstances. Most States now base eligibility and benefits on projections of a family's future income and circumstances. In the frequent instances where family estimates are either erroneous (and fail to be reported) or misleading, substantial overpayments can be made, which may require several months to correct, if they are detected at all.

-- Prohibiting AFDC payments below $10/month to simplify and reduce the costs of administration for marginal cases that may be on and off the rolls from month to month.

<u>Child Support Enforcement</u>

-- Charging an applicant fee in non-AFDC cases to reimburse CSE costs of States and the Federal Government, which have no direct stake in such cases and do not otherwise share in such collections. This proposal would ensure more adequate resources for investigations and collections in AFDC cases.

-- Financing incentive payments out of the State as well as the Federal share of collections. In the case of CSE collections for AFDC recipients, the Federal Government and the States receive shares of the collections in the same ratio that they finance AFDC benefit costs. CSE incentive payments, which are made to political jurisdictions that cooperate in making child support collections for other political jurisdictions, are now financed entirely from the Federal share of collections. Sharing the costs of incentivess introduces greater equity in the sharing of CSE administrative costs between the Federal Government and the States.

-- Extend CSE activities to include the collection of alimony. In certain States, alimony and child support payments are not differentiated by law in the absent parent's support obligation. Financing the collection of combined child support and alimony will increase CSE collections -- and consequently reduce AFDC costs -- in these States.

-- Mandating that the Internal Revenue Service intercept Federal income tax returns to collect child support arrearages from liable absent parents where a court judgment has already been obtained.

To achieve these program reforms, the President will be proposing legislation to amend the Social Security Act.

As a result of these changes, Federal and State AFDC costs will decline as more of a family's available resources are taken into account, and as program administration is improved. More individuals liable for child support would contribute such support, and on a more regular basis, with a consequent reduction in families' public assistance needs. Beneficiaries of CSE collection efforts in non-AFDC cases would begin to bear part of CSE collection costs. Federal and State CSE costs could then be concentrated on those cases which would reduce the public welfare burden.

These proposals are expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	7,719	6,159	8,294	8,457	8,662	8,828
Outlays.............	7,817	8,079	8,294	8,457	8,662	8,828
Policy reduction:						
Budget authority....	*	-520	-670	-722	-795	-824
Outlays.............	*	-520	-670	-722	-795	-824
Proposed budget:						
Budget authority....	7,719	5,639	7,624	7,735	7,867	8,004
Outlays.............	7,817	7,559	7,624	7,735	7,867	8,004

* $500,000 or less.

INCREASING THE COST-EFFECTIVENESS OF THE MEDICAID PROGRAM

As health care costs have risen dramatically over the last 15 years, the cost of maintaining health care entitlement benefits has escalated alarmingly. Costs under federally supported medical assistance programs for the needy have risen from $5.2 billion in 1970 to over $29 billion in this fiscal year. Combined Federal and State expenditures for medicaid now exceed $1,300 for each eligible beneficiary.

Federal and State regulatory efforts to date have failed to stem the increase in costs because they fail to affect the underlying cost-increasing bias in the health care system that results from the insulation of all parties in medical care markets from the cost consequences of their decisions. The Administration will propose comprehensive legislation to remedy these market distortions.

As an interim measure prior to the adoption of these Administration initiatives, the Administration will propose legislation to establish a limit on the medicaid program's unconstrained growth. As part of this proposal, Federal program requirements would be modified to allow States to amend their present programs to ensure that essential services are provided to needy families in a timely and cost-effective manner.

The medicaid program has been growing faster than 15% a year for the past 5 years, and the Federal Government now pays 50% to 78% of each State's medicaid expenditures. High Federal matching, excessive benefit provisions, and overly-generous eligibility have made the medicaid program a very poorly managed social program that fails to provide cost-effective services to those most in need. Eligibility errors alone, for example, are currently estimated to cost Federal and State governments approximately $1.2 billion per year.

Because under the interim cap Federal expenditures would no longer be open-ended, States would have additional incentives to reduce fraud, waste, and abuse in this State-administered program. In addition, the new flexibility granted States would enable them to reorganize their programs to deliver care more effectively and at lower cost.

The limit would be structured to reduce Federal expenditures $100 million below the current base estimate in 1981. Federal expenditures would be allowed to increase 5% in 1982. After 1982, Federal spending would rise only with the rate of inflation as measured by the GNP deflator. The Administration believes this degree of restraint can be achieved by States without reducing basic services for the most needy. The 1982 reduction, for example, is only about 3% of projected Federal/State spending. In the 1983-86 period, the Administration expects to institute comprehensive health financing and medicaid reforms to reduce the rate of health cost inflation and to improve medicaid. During the interim period, Federal expenditures will be allocated among States so that each State will maintain its current relative share of total medicaid spending.

Under the Administration proposal, States would not be forced to shoulder unreasonable additional burdens. Legislative changes would be sought to ensure that States have the flexibility to amend quickly the eligibility, benefits, and payment provisions of their State medicaid plans so as to allow them to meet the essential health care needs of their needy citizens at a lower cost. Under current law, excessive Federal mandates are an obstacle to cost control. The Administration proposal would ensure that States had the authority to reorient their program quickly toward essential services to those most in need. No State, however, would be prevented from providing whatever additional services it deemed appropriate out of its own resources.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	17,264	18,830	20,943	23,024	25,106	27,290
Outlays.............	16,480	18,213	20,441	22,529	24,593	26,732
Policy reduction:						
Budget authority....	-353	-1,237	-2,213	-3,166	-4,181	-5,318
Outlays.............	-100	-1,013	-1,986	-2,930	-3,916	-5,021
Proposed budget:						
Budget authority....	16,911	17,593	18,730	19,858	20,925	21,972
Outlays.............	16,380	17,200	18,455	19,599	20,677	21,711

REDUCED LEVEL OF ADDITIONAL SUBSIDIZED HOUSING

As part of the general effort to control long-term Federal government spending and thereby eliminate inflation and promote economic growth, the Administration will propose to reduce the planned number of additional subsidized housing units in 1982 by 13%, from 260,000 to 225,000 units. To permit an orderly transition to this lower 1982 level, the Administration will also propose a reduction in the 1981 program. After the reduction is taken into account, the Administration's 1982 subsidized housing program will still provide a 8.4% increase above the actual 1980 program level (206,000 units) of the previous administration.

There has been mounting concern over the past several years over the growing per unit costs and economic efficiency of HUD's subsidized housing program. A 1982 program level of 225,000 units addresses these concerns but allows continued growth of subsidized housing. It should be noted that the subsidized housing program has also been criticized as inequitable because it provides very deep subsidies to less than 9% of the total eligible households while the rest currently receive no subsidies at all.

To achieve this policy change, the President will propose a deferral of $1.3 billion in 1981 budget authority for the Department of Housing and Urban Development's subsidized housing program. The amount of budget authority deferred will then be used to further reduce the budget authority needed to support a 225,000 unit program level in 1982.

This proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base 1/:						
Budget authority....	29,502	27,123	28,464	30,354	31,660	33,343
Outlays.............	5,637	6,894	7,901	9,186	10,364	11,464
Policy reduction:						
Budget authority....	---	-3,536	-3,026	-3,440	-3,437	-3,624
Outlays.............	-1	-10	-39	-95	-223	-371
Proposed budget 2/:						
Budget authority....	29,502	23,587	25,438	26,914	28,223	29,719
Outlays.............	5,636	6,884	7,862	9,091	10,141	11,093

1/ The base numbers assume the enactment of an increase in maximum subsidized housing rent contributions from 25% to 30% of adjusted tenant income. (See separate fact sheet on tenant rent burden.)

2/ The Reagan budget totals include the combined effects of increasing tenant rent contributions and reducing the subsidized housing program level.

INCREASED RENT CONTRIBUTIONS FOR SUBSIDIZED HOUSING TENANTS

The Administration proposes to gradually increase the maximum allowable rent contribution paid by tenants living in federally subsidized housing from 25% to 30% of their adjusted incomes.

A similar, more limited proposal passed the Congress in 1979 but the authority has not been utilized. Under current regulations, tenants living in section 8 subsidized housing, public housing, and other HUD subsidized units thus pay not more than 25% of their adjusted incomes toward rent. The Federal government subsidizes the difference between the actual market rent charged for the unit (or, in the case of public housing, the per unit operating cost) and the tenant's rent contribution.

Many poor people do not live in subsidized housing; and more than 13 million renters at all levels of income have been paying a greater percentage of their incomes for rent in recent years. This increase in tenant rent contributions will reduce some of the inequity of providing very large subsidies to less than 9% of the total eligible households while the rest currently receive no subsidies at all. But even after the gradual phase-in of the increase in tenant rent contributions is completed in 1986, the 3.3 million households currently living in subsidized housing will continue to pay on the average a much lower percentage of their incomes for better housing than the 35 million lower income households who live in unsubsidized housing. It is estimated that the increased rent payment for subsidized tenants in 1982 will average less than $5 per month.

Currently, very needy households pay less than 25% of their incomes for rent in HUD subsidized housing projects. Since this proposal provides for the same rate of increase for all tenants, the differential for the very needy will be maintained for the next 5 years.

To achieve this policy change, HUD will implement the authority it already has to increase tenant rent contributions from 25% to 30% for new tenants with incomes above 50% of area median income. The President will propose the legislation required to apply the rent burden increases to current tenants and new tenants with incomes below 50% of area median income. The rent increase from 25% to 30% of income will be phased-in at 1% of income per year over the next 5 years.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base 1/:						
Budget authority....	28,973	32,044	33,197	36,031	37,719	39,611
Outlays.............	6,571	8,177	9,729	11,540	13,360	15,106
Policy reduction 2/:						
Budget authority....	-500	-4,916	-4,574	-5,587	-6,066	-6,269
Outlays.............	-9	-232	-538	-1,018	-1,748	-2,445
Proposed budget:						
Budget authority....	28,473	27,128	28,623	30,444	31,653	33,342
Outlays.............	6,562	7,945	9,191	10,522	11,612	12,661

1/ Combined totals for subsidized and public housing operating subsidy programs, excluding public housing modernization.

2/ Reflects not only the impact of rent increases, but also the net effect of rescissions and supplementals in 1981 and 1982.

EXTENSION OF TIMETABLE FOR COMPLETING PUBLIC HOUSING MODERNIZATION

The public housing modernization program is a public sector capital investment activity with long-term benefits. The comprehensive modernization effort for public housing authorized by the Congress last year should help ensure that all public housing projects meet minimum health and safety standards and are made more energy efficient and less costly to operate. Stretching out this program is part of this Administration's overall strategy to improve the performance of the U.S. economy. The original congressional funding for the program was so ambitious that it is questionable whether the funds could have been used effectively in any case. An improved U.S. economy will reduce inflation-caused increases in the cost of operating public housing and most of the basic objectives of the comprehensive modernization program will be accomplished by 1985 or 1986.

The stretch out of construction and renovation activity will be achieved by carrying over $300 million of the 1981 appropriation into 1982, and reducing the 1982 and future year appropriation level by 40%.

The 1981 appropriation language for the HUD subsidized housing programs will have to be amended slightly to permit $300 million of the $2.0 billion in budget authority earmarked for public housing in the 1981 appropriation act to be deferred until 1982. This $300 million deferral plus an amended 1982 appropriation of $1.2 billion will support a total 1982 program level of $1.5 billion for modernization.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	2,000	2,000	2,000	2,000	2,000	2,000
Program level.......	2,000	2,000	2,000	2,000	2,000	2,000
Outlays.............	246	296	371	471	571	671
Policy reduction:						
Budget authority....	(-300)*	-800	-800	-800	-800	-800
Program level.......	-300	-500	-800	-800	-800	-800
Outlays.............	---	---	---	-20	-60	-100
Proposed budget:						
Budget authority....	2,000	1,200	1,200	1,200	1,200	1,200
Program level.......	1,700	1,500	1,200	1,200	1,200	1,200
Outlays.............	246	296	371	451	511	571

* Deferral.

TARGETING UNEMPLOYMENT INSURANCE EXTENDED BENEFITS ON STATES WITH HIGH UNEMPLOYMENT

In order to prevent hardship in areas where high levels of unemployment make new jobs difficult to find for many unemployed workers, the Federal Government assists the States in providing an additional 13 weeks of unemployment insurance benefits ("extended benefits") beyond the basic 26 weeks of coverage provided by basic State programs. These additional benefits are triggered when a State's rate of unemployment among insured workers reaches 4% for 13 weeks, if the rate is at least 20% above the rate for the same period in each of the prior 2 years. States may (and many do) provide these extended benefits when the State's rate reaches 5% for 13 weeks, regardless of the rate in the prior 2 years. When the national rate of insured unemployment reaches 4.5%, the extended benefits program triggers on in all 50 States.

Structural shifts in the U.S. economy over the last 15 years have produced significant regional differentials in unemployment rates, regardless of general economic conditions. For example, in the depth of the 1974-75 recession, insured unemployment rates ranged from a high of 13.2% in Michigan to a low of 2.7% in Texas. Today, while insured unemployment is intolerably high in the industrial Northeast and Midwest, insured rates remain below 2% in a number of sun belt States.

The result is that the national trigger for extended benefits often provides extended benefit payments to workers in tight labor markets whenever the national trigger is "on". Over and above the unnecessary costs associated with the additional benefits, providing long-term benefits to unemployed workers in markets where labor is in short supply actually aggravates unemployment in these areas by providing a disincentive for unemployed workers to seek other jobs. In addition to the harmful effects of providing extended benefits in areas of low unemployment, the present extended benefits program suffers from technical flaws that make it unresponsive to changing needs. Under present law, recipients of extended benefits are counted in calculating the insured unemployment rates. Several anomalies have resulted from this method of calculation. The payment of extended benefits may be delayed when unemployment rises. Extended benefits may be paid in one State for several months while they are not paid in a second State with an identical overall unemployment rate. Extended benefits continue to be paid when overall unemployment is less than it was when the extra payments started.

To remedy these problems, the Administration proposes to recalibrate the extended benefits program in order to focus extended benefit payments only on those areas where high unemployment provides a real barrier to employment for unemployed workers. Legislation will be proposed to accomplish this program reorientation. The legislation would: (1) eliminate the national extended benefits program, which now requires payment of extended benefits in all States -- including those with low unemployment -- when the national insured unemployment rate reaches the level set by law; (2) remove claimants of extended benefits from the calculation of the insured unemployment rate, which determines when extended benefits are paid in each State; and (3) require a higher level of unemployment in individual States before extended benefits are paid. In addition, the new requirement in the 1980 Reconciliation Act that extended benefits claimants must accept offers of jobs that pay an amount equal to their UI benefits (at least the minimum wage) will be strictly enforced.

The Administration proposal would eliminate the national trigger and change the method of calculating the insured unemployment rate effective July 1, 1981. The proposal would also increase the State trigger rates to 5% insured unemployment (and 120% of the rate in the comparable period of the prior 2 years) or, at State option, to 6% (without regard to prior years). To permit necessary changes in State law, the increase in State trigger rates would take effect October 1, 1982.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	20,113	23,279	23,938	24,133	23,029	23,126
Outlays.............	4,094	2,483	837	543	423	338
Policy reduction:						
Budget authority....	-400	-700	-700	-100	-100	-200
Outlays.............	-523	-1,231	-477	-196	-284	-287
Proposed budget:						
Budget authority....	19,713	22,579	23,238	24,033	22,929	22,926
Outlays.............	3,571	1,252	360	347	139	51

NOTE: Total UI budget authority is shown because budget authority for UI extended benefits is not separately identifiable.

STOPPING UNEMPLOYMENT INSURANCE PAYMENTS TO PEOPLE WHO WILL NOT TAKE OTHER JOBS

The purpose of the unemployment insurance system is to provide a cushion for workers during temporary, involuntary periods of unemployment, and to ensure that unemployed workers have adequate resources to search for alternate employment commensurate with their skills and abilities. Regular unemployment insurance (UI) benefits are payable for up to 26 weeks in most States. Extended benefits, available during high unemployment periods, add half again as many weeks to a claimant's eligibility for a maximum (regular plus extended) total of 39 weeks.

Economic events of the past decade have produced significant structural shifts in the American economy, with employment in a number of major industries declining while newer industries grow. These shifts have produced major challenges for American workers as they seek to adjust to changing employment patterns. The present unemployment insurance laws exacerbate these problems. By allowing workers to draw up to 6 months of unemployment insurance benefits unless jobs in their occupations are available, the unemployment insurance system actually discourages workers from seeking employment in new industries which, while they pay lower wages initially, hold the prospect of growing employment and new careers.

In order to remedy this problem, the Administration will propose legislation requiring workers who have been unemployed for at least 3 months to seek employment that provides wages at least equal to their unemployment insurance benefit amount and the minimum wage. Those drawing their first 13 weeks of unemployment benefits, however, would be allowed to continue to search for work in their customary areas at prevailing wages.

Under current law, those who refuse to accept suitable work are denied UI benefits. However, suitable work is usually defined as a job similar to the claimant's previous employment. The proposal would apply to all regular UI claimants, after 13 weeks of benefits, the definition of suitable work that the 1980 Reconciliation Act requires be applied to all extended benefit claimants after April 1, 1981.

Those on seasonal or other temporary layoffs would continue to get UI, since their regular job is expected to resume. However, individuals whose prospects for returning to their previous line of work are still not good after 3 months of unemployment would be expected to adjust to changed economic conditions by accepting a job that may not pay as much as their previous job. This change will speed the transition from jobs that are not opening up again to jobs in sectors where workers are in demand.

The result is expected to be a change in work search practices by UI claimants and a more rapid assimilation of unemployed workers into the employed labor force. Both the workers and the economy will benefit from the decrease in the unproductive period of unemployment.

Individuals with good prospects for obtaining work in their customary occupation within a reasonably short period would remain subject to regular State requirements.

The provision would be applied to regular claimants after 13 weeks of benefits effective October 1, 1982, to give States time to enact necessary legislation. The Federal law would be amended to require the suitable work definition as a condition of Federal approval of State UI law. Such approval is required before employers may credit their State UI tax payments against their Federal UI tax liability.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Outlays.............	16,016	15,767	15,059	15,126	14,798	14,506
Policy reduction:						
Outlays.............	---	---	-285	-285	-272	-264
Proposed budget:						
Outlays.............	16,016	15,767	14,774	14,841	14,526	14,242

END OVERUSE AND EXCESSIVE BENEFITS UNDER THE FEDERAL EMPLOYEES INJURY COMPENSATION PROGRAM

As part of the general effort to improve entitlement programs, the Administration will overhaul the Federal employees injury compensation program. These changes are geared to removing (1) incentives to file questionable claims; (2) disincentives for injured workers to return to work when they are medically able to do so; and (3) inequities in compensation rates, which now permit higher-paid workers to receive more in compensation benefits than they received in take-home pay when working. The number of questionable claims will be reduced and workers will be restored to productive work more quickly.

The changes are being proposed because the number of claims being submitted for workers compensation benefits under the Federal Employee Compensation Act (FECA) has been growing at an alarming pace, bearing no relation to the number of Federal employees or the Government's safety record. The annual rate of claims received by this program has gone from 18,000 in fiscal year 1970 to over 30,000 in 1980. The increased use of this program is also reflected in the growth of benefit payments, from $151 million in 1970 to $785 million in 1980, to over $1.0 billion in 1982.

In an era where all sectors of society are being called on to restrain the growth of government, it is inequitable to provide Federal employees with an injury compensation system which, through poor design, overcompensates Federal employees relative to the compensation received by private sector employees for similar injuries. The following proposed reforms would ensure the efficient compensation of justifiable claims, while eliminating the overcompensation and other inequities that currently plague the Federal employees compensation program:

- increase the compensation rate to 80% of gross pay but make the entire amount subject to Federal income taxes;

- reinstate the 3-day waiting period before a claimant can receive compensation benefits;

- reduce the pay that a person can get for up to 45 days while a claim for compensation for a work-related injury is being processed from 100% to 80% of full salary; and

- convert FECA compensation recipients to the civil service annuity rolls after age 65, instead of the current practice of providing life-long compensation.

The legislation is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	316	344	389	431	481	512
Outlays.............	316	344	389	431	481	512
Policy reduction:						
Budget authority....	---	-102	-114	-126	-138	-151
Outlays.............	---	-102	-114	-126	-138	-151
Proposed budget:						
Budget authority....	316	242	275	305	343	361
Outlays.............	316	242	275	305	343	361

ELIMINATION OF UNEMPLOYMENT COMPENSATION FOR THOSE WHO VOLUNTARILY QUIT MILITARY SERVICE

In order to target unemployment compensation on those workers who are truly involuntarily unemployed, the Administration will propose that unemployment compensation for ex-servicemembers (UCX) not be paid to those who leave the military services voluntarily after July 1, 1981.

The change reflects the fact that military service is now entirely voluntary. Virtually every State currently provides for either temporary disqualification from benefits or a reduction in benefit amounts to civilian employees who quit their jobs voluntarily, and all States refuse benefits to those who refuse bona fide employment offers in their customary occupation. Federal law prohibits States from treating ex-servicemembers in the same manner. The change would treat all ex-servicemembers the same nationwide; those who quit the military voluntarily, refusing reenlistment offers, would be ineligible for benefits. Under the change, those with other than honorable or general discharges would remain ineligible for benefits.

The change is expected to result in a decrease of about 70% in program costs. Ex-servicemembers with at least one year of service who were involuntarily separated from the military, unless they received other than an honorable or general discharge, would continue to be eligible for benefits. Only ex-servicemembers who quit voluntarily would be affected.

In addition to the question of equity, the availability of liberal UCX benefits upon voluntary separation from the armed services aggravates military problems in retaining trained personnel. At a time when significant efforts are being made -- in the face of severe budgetary constraints -- to facilitate retention by upgrading military compensation, it makes little sense to spend additional funds to encourage present military personnel to leave the armed services.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	333	250	249	258	260	261
Outlays.............	333	250	249	258	260	261
Policy reduction:						
Budget authority....	-60	-175	-175	-181	-183	-183
Outlays.............	-60	-175	-175	-181	-183	-183
Proposed budget:						
Budget authority....	273	75	74	77	77	78
Outlays.............	273	75	74	77	77	78

ELIMINATING TRADE ADJUSTMENT ASSISTANCE PAYMENTS TO PEOPLE ALREADY RECEIVING UNEMPLOYMENT INSURANCE BENEFITS

The Administration will propose legislation to reform the trade adjustment assistance (TAA) program for workers by targeting benefits on those workers who have not been called back to work by their former employers and who have been unable to find other work by the time their unemployment insurance (UI) benefits run out. Furthermore, payment of TAA at the same time as unemployment insurance will be eliminated.

The original purpose of trade adjustment assistance was to assist workers in finding new employment when changing international competitive conditions caused the industries in which they were employed to decline. The program combines income support, retraining, and relocation assistance to provide displaced workers with the time and resources they need to adapt to changing conditions.

In the last 4 years, however, the effect of the program has been severely altered. Wholesale certification of workers in troubled basic industries has produced a situation where TAA cash payments are being made to thousands of workers regardless of their intent to seek alternate employment in new and growing industrial sectors. In addition to distorting the program relative to its original intent, this shift has produced a cost explosion. In March of 1980, fiscal year 1981 TAA costs were estimated at $450 million. By November, this estimate had ballooned to $2.7 billion, as workers in the auto and steel industries were certified as eligible. Immediate action is necessary to prevent the program from continuing to generate outlays far in excess of those needed to satisfy the intent of the law.

The purpose of the proposed reforms is to refocus the TAA program on its primary purpose -- adjustment to changed economic conditions. Cash benefits would be provided only to workers displaced from their jobs for extended periods who need more time to get training, relocate, or find new jobs. Workers certified as eligible for TAA would receive a weekly TAA payment equal to their weekly unemployment insurance benefit after they used up all their weeks of unemployment insurance. A displaced worker could receive up to a total of 52 weeks of unemployment insurance and TAA benefits. This change will integrate the TAA program with the regular UI system. The change would be effective for all present and future claimants as of October 1, 1981. All workers certified for TAA will continue to be eligible for special TAA job search and relocation allowances.

The proposed changes are based on a study and recommendations by the General Accounting Office and supported by findings of a second, independent study. Both studies found that more than two-thirds of the workers who received TAA had returned to their original employers after a temporary spell of unemployment. In many cases these TAA benefits, which are meant to help the worker over a period of unemployment, were paid in a lump sum after the worker had returned to his or her old job, or had taken a new one. The studies also found that the workers most in need of assistance were those who remained unemployed for a lengthy period and did not return to their original employer.

As a result of the proposed changes, lump sum payments of retroactive benefits to temporarily unemployed workers who have already returned to work will be reduced sharply. In the case of workers in the automotive industry, the payment computation mechanism has had the inadvertant effect of shifting costs that would otherwise be paid by the industry-financed supplemental unemployment benefits (SUB) funds to the Federal Treasury. Currently, industry SUB funds pay only the difference between Government unemployment compensation and the SUB fund income guarantee (up to 95% of wages). Thus, many workers, particularly those in the auto industry, do not receive more income because of TAA, but the SUB funds pay out less. In fact, SUB funds require recipients of retroactive TAA payments to pay all or part of those payments back to the SUB fund.

Under the current program, workers who experience unemployment caused at least in part by imports, as determined by the Secretary of Labor, are eligible for higher and lengthier benefits than those available to other unemployed workers in the same communities. Workers certified by the Secretary as eligible for TAA receive weekly benefits equal to 70% of their previous gross weekly wages, up to a maximum of the national average wage in manufacturing (currently $269 a week) for up to 52 weeks. Since these benefits are not taxable to employees with benefits below the taxability threshold on unemployment benefits in current law, the value of benefits received by higher-wage workers often exceeds the average manufacturing wage limit, when compared to taxable earnings.

After the change as of October 1, 1981, weekly TAA benefit amounts will be the same as the worker's weekly unemployment insurance benefit amount, and will be paid only to workers who have used up all their weeks of unemployment insurance.

This proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base						
Budget authority....	2,700	1,500	1,000	500	500	500
Outlays.............	2,743	1,500	1,000	500	500	500
Policy reduction:						
Budget authority....	---	-1,150	-760	-380	-380	-380
Outlays.............	---	-1,150	-760	-380	-380	-380
Proposed budget:						
Budget authority....	2,700	350	240	120	120	120
Outlays.............	2,743	350	240	120	120	120

PLACE THE BLACK LUNG TRUST FUND ON A SELF-SUSTAINING BASIS

The black lung disability trust fund (BLDTF) is rapidly sinking into insolvency, producing massive deficits that are presently financed from general revenues. At the end of fiscal year 1980, the trust fund owed the U.S. Treasury $956 million. Of the $922 million expected to be expended from the fund in 1981, only $275 million will be covered by revenues received from the coal tax. This will mean that another $647 million will have to be financed by Treasury loans. Under existing law, the trust fund will have a projected deficit of $9.2 billion by 1995.

The major source of the fund's insolvency is that lax statutory and administrative procedures have expanded the program from its original purpose -- to compensate people who are medically disabled because of black lung disease -- into a general coal miner's benefit program that approaches an automatic pension. Recent GAO sampling of eligibility certifications found that an astonishing 88% of all the claimants certified as eligible were either not disabled, or else could not be proved to have black lung disease.

In order to put the trust fund on a sound financial footing, the Administration will develop a reform proposal that will restore solvency by restricting benefit entitlements to those that are truly medically disabled by black lung, and ensure that the program is financed by a reasonable levy on the coal industry, rather than from general revenues. The objective of the proposals would be to eliminate questionable claims and reduce trust fund outlays to a level where the coal industry could finance benefits with a reasonable coal tax increase without drawing on the Treasury.

The BLDTF was created in 1978 to pay black lung benefits and the cost of administering the program. The fund was to be financed through a coal production tax, which is currently 50 cents per ton for underground coal and 25 cents for surface-mined coal. While the fund was expected initially to have a small deficit financed by borrowing from the U.S. Treasury, it was also expected that by the mid-1980's it would become and remain solvent. However, present experience shows that unless changes are made, the fund will not be solvent until the next century.

There is significant potential for tightening up the program's eligibility requirements that would reduce outlays without harming legitimate beneficiaries. Simply restoring the program to its original purpose -- to provide benefits to those certifiably disabled by black lung disease -- would result in major reductions in program outlays.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Outgo................	824	775	647	609	669	932
Income (-) a/.......	-275	-292	-321	-341	-364	-379
Deficit.......	549	483	326	268	305	553
Policy change (net)....	-30	-378	-354	-353	-382	-469
Proposed budget (net)..	519	105	-28b/	-85b/	-77b/	83

a/ These are governmental receipts and appear on the receipts side of the budget.
b/ Trust fund surplus.

NOTE: Outgo patterns vary from year to year because of estimates of the timing of lump-sum payments and reimbursements to the fund.

ANNUAL INDEXATION OF CIVIL SERVICE RETIREMENT ANNUITIES

Under present policy, virtually every Federal beneficiary group receiving assistance with automatic adjustments for the impact of inflation has its payments adjusted annually. Payments for food stamps, child nutrition, and social security are now adjusted annually. Retired civil servants, however, now have their pensions adjusted twice a year. This is clearly unfair. To assure equitable treatment for all recipients of assistance, bi-annual cost-of-living adjustments would be replaced with a single annual adjustment for civil service retirees.

Federal civilian retirees have been well protected against the impact of inflation and receive very generous annuities. In 1979, over half of the retired employees received retirement payments of over $8,400 per year. In fact, 25% of the retired employees received over $12,000 in 1979.

Ironically, these generous adjustments have meant that older retirees often receive greater benefits than recent retirees with comparable positions and length of Federal service. For example, a GS-5 typist retiring in 1965 at age 62 with 30 years of Federal service would currently receive an annual annuity of over $11,000, while a similar employee retiring last summer would receive less than $8,000 annually.

A similar proposal has been made for military retirement programs.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	27,658	30,157	32,362	34,237	35,941	37,409
Outlays.............	17,605	20,233	22,544	24,655	26,643	29,466
Policy reduction:						
Budget authority....	---	-558	-472	-430	-416	-417
Outlays.............	---	-510	-424	-389	-366	-367
Proposed budget:						
Budget authority....	27,658	29,599	31,890	33,807	35,525	36,992
Outlays.............	17,605	19,723	22,120	24,266	26,277	28,099

2. REDUCE MIDDLE-UPPER INCOME BENEFITS

Department of Agriculture

CHILD NUTRITION: ELIMINATION OF SUBSIDIES FOR MIDDLE AND UPPER INCOME HOUSEHOLDS

As part of the Administration's efforts to focus Federal assistance on the truly needy, the structure of Federal meal subsidies to schools and similar institutions will be altered. These changes will help to concentrate Federal resources where they are most needed -- in school districts with the highest proportions of needy families.

At present, the Federal Government provides subsidies in three different categories (cash, commodities, and special cash assistance) to school districts that agree to provide free meals to the lowest-income students (those below 125% of the poverty line), and reduced-priced meals to those with slightly higher incomes (between 125% and 185% of the poverty line). The basic cash and commodity subsidies are distributed to schools based on the total number of children participating in the meal program, regardless of income level. The result is a subsidy, equal to about 50% of the purchase price of meals served to middle- and upper-income students-- many of whom come from families with very high incomes. Given the need to focus Federal benefits on those truly in need, the Administration will propose legislation to restrict subsidies to the lower-income groups.

Under the Administration proposal, Federal subsidies for middle and upper income families of four with annual incomes above $15,630 will be eliminated. Students from these non-needy families now receive subsidies of about 32 cents per lunch. Students from families of four with incomes between $11,640 and $15,630 will continue to have their school meals partially subsidized. Next year, school districts would receive an average Federal subsidy of 64 cents for each meal served to this group of students. For students from families of four with incomes below $11,640, the present policy of full subsidization of meals will continue.

The 10.3 million children from poor families will continue to receive fully subsidized free school lunches and 3.0 million will also benefit from a fully subsidized breakfast at school. An additional 1.9 million less needy students will receive annual subsidies of $115 per year for lunch. Federal support will no longer continue for 14.5 million middle and upper income students whose school districts now receive meal subsidies of less than $60 per student each year. States or localities may choose to subsidize -- from their resources -- students with larger incomes, or parents of those students may buy school meals.

Other non-essential activities funded under this account will be terminated, including funds to purchase new school food service equipment, nutrition education and training grants to States, subsidized snacks, and all subsidies to schools with high tuitions. The base and special subsidies for both free and reduced price meals will be annually indexed in future years from 1982 levels for price changes in the currently authorized indices. Finally, schools should verify on a sample basis, the income eligibility of students claiming full or partial meal subsidies.

By focusing Federal meal subsidies on children from families in need, Federal costs will be reduced by over 35% next year, or by more than $9 billion by 1986. At the same time, continued full and partial Federal subsidies for lower income students will help to ensure that these students have access to adequate nutrition at school. Administratively, these changes will reduce the existing complexity of over 20 subsidy rates that vary by income level, type of meal, and type of institution claiming the subsidy. The elimination of activities collateral to funding nutrition subsidies for the needy is a step away from inappropriate Federal involvement in State and local school administration.

These proposals result in the following changes in budget estimates:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	3,464	4,155	4,582	4,926	5,258	5,579
Outlays.............	3,360	3,918	4,321	4,646	4,959	5,261
Policy reduction:						
Budget authority....	-145	-1,657	-1,800	-1,934	-2,046	-2,158
Outlays.............	-42	-1,575	-1,709	-1,835	-1,940	-2,045
Proposed budget:						
Budget authority....	3,319	2,499	2,782	2,993	3,212	3,421
Outlays.............	3,319	2,343	2,612	2,811	3,019	3,216

REFOCUSING STUDENT ASSISTANCE PROGRAMS

In order to restore the focus of the two major student financial assistance programs administered by the Department of Education on the truly needy and to emphasize the traditional role of the family and the student in contributing to meeting the costs of higher education, the Administration will propose significant changes in both the Guaranteed Student Loan (GSL) and the Pell Grant programs.

In the last several years these programs have been continually liberalized; Federal benefits have become excessive. Although the Pell Grant program, the succesor to the Basic Educational Opportunity Grant (BEOG) program, is designed primarily to assist low income students, grants are on occasion provided to students from families with income in excess of $30,000 per year. The GSL program now provides loans of up to $2,500 annually for students and up to $3,000 annually to their parents regardless of income. Substantial Federal benefits are being paid out to those who do not need them to meet educational expenses.

By more directly targeting Federal student loans and grants on needy students, program costs will be reduced by over $9.2 billion in 1981-1986. At the same time, the important national policy objective of assuring equal access to higher education will be maintained.

Under these proposals, Guaranteed Student Loan program interest benefits will not be paid to borrowers who cannot demonstrate a need for these subsidies to finance their education. This change will be achieved by limiting student loan amounts to "remaining need" (educational costs minus other aid and expected family contribution), eliminating the in-school interest subsidy on loans to students, and eliminating the Federal special allowance to lenders on loans to parents. Benefits to the highest income students will also be eliminated in the Pell Grant program by increasing the amount of discretionary income that families must contribute to the support of a student and by requiring an annual $750 self-help contribution from students, except where extreme financial need is demonstrated.

Without these major reforms, the Guaranteed Student Loan program, in particular, could be recklessly expanded over the next few years. Under the GSL program, students can borrow annually regardless of their income or educational need, with the Federal government paying all the interest on the loan until the student is out of school. The result is that the Federal government borrows money at high rates of interest, turning it over -- free -- to students to spend as they see fit. While the principal amount of the loan must eventually be repaid, the proceeds of these loans can be invested in money market funds or other investments, allowing students and their families to earn 14-15% yields on money for which the Federal government is paying 14-15%, before eventually repaying the loan. Without rational limitations, such as the Administration is proposing, the Department of Education could soon become the creditor of first resort for every American family that has a family member enrolled in undergraduate or graduate education. The savings below reflect the effects of these limitations.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	4,812	5,341	5,574	5,739	5,769	6,004
Outlays.............	4,104	5,178	5,516	5,698	5,761	5,945
Policy reduction:						
Budget authority....	-338	-1,016	-1,659	-1,857	-2,074	-2,287
Outlays.............	-106	-803	-1,499	-1,808	-2,019	-2,233
Proposed budget:						
Budget authority....	4,474	4,325	3,915	3,882	3,696	3,717
Outlays.............	3,998	4,375	4,017	3,890	3,742	3,712

ELIMINATING THE STUDENT LOAN MARKETING ASSOCIATION'S (SALLIE MAE) ACCESS TO FEDERAL BORROWING

The Administration proposes to eliminate Sallie Mae's access to the Federal Financing Bank (FFB). Sallie Mae was set up as a private corporation to provide a secondary market for the Guaranteed Student Loan (GSL) program. Sallie Mae buys these loans using FFB-provided capital under a Department of Education guarantee. Sallie Mae effectively increases the total volume of loans under the GSL program over and above what would be lent without a secondary market.

With GSL volume at record levels, stimulation by Sallie Mae is unnecessary. In fact, outstanding GSL commitments are scheduled to double in 1982 over the level prevailing as recently as 1980, rising to over $20 billion in outstanding commitments by the end of the year. Some of the 49 State guarantee agencies provide secondary markets for student loans. Further, there are other incentives within the GSL program to generate the loan capital it needs. In addition, the Administration will propose changes to ensure that Guaranteed Student Loans are available for needy students.

Given this expanding resource base in support of student loan originations in the private sector, it is simply unnecessary to provide Sallie Mae with additional capital to expand its secondary market operations in guaranteed student loans. Although this proposal has no on-budget outlay impact, it will reduce Federal borrowing requirements in the Nation's credit markets by reducing the borrowing requirements of the off-budget Federal Financing Bank.

By eliminating the Department of Education's guarantee of Sallie Mae's FFB borrowing, off-budget savings will occur due to a reduction of an estimated $15 billion of Federal Financing Bank acquisitions over the next five years.

FFB ACQUISITION OF SALLIE MAE OBLIGATIONS

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base...........	1,095	1,923	2,500	3,000	3,500	4,000
Policy reduction.......	---	-1,923	-2,500	-3,000	-3,500	-4,000
Proposed budget........	1,095	---	---	---	---	---

3. RECOVER CLEARLY ALLOCABLE COSTS FROM USERS (INCREASE IN GOVERNMENTAL RECEIPTS)

Department of Defense - Civil

ELIMINATE INLAND WATERWAY SUBSIDIES

The Administration will seek to eliminate the subsidy on inland waterways, beginning in 1983, by increasing users fees on barge fuel. The Federal Government now spends over $325 million per year in the operation and maintenance of certain inland waterways for commercial traffic which until this year has paid no tax or fee for system use. This year a new charge of 4 cents per gallon on barge fuel will cover only 11% of that cost. Under this proposal, user fees will increase from 6 cents per gallon to about 30 cents per gallon in 1983 to collect the $325 million the Government will spend on the operation and maintenance of the waterways. It is estimated that the increase in cost to shippers will be less than 0.4 cents per ton mile. The program will be designed to increase receipts thereafter as expenses rise and to pay for new construction and operation and maintenance of future new waterways as they are completed.

Receipts will be placed in the inland waterway trust fund and will be used to place the waterways on a self-sustaining basis. Users will not be required to repay the construction cost of the existing system (estimated at $6 billion) -- only the cost of additions as they are completed. To the extent that traffic may be diverted to other less costly forms of transportation because of changes in shipping costs resulting from the proposed tax increase, our total transportation system will be economically more efficient.

Legislation will be submitted to raise the user fees.

The legislation will increase the fees per gallon as shown in the following table:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Potential receipts 1/:						
Current receipts....	30	58	67	80	90	115
Proposed increase...	---	---	258	275	300	315
Proposed budget.....	30	58	325	355	390	430
Estimated rates (cents per gallon):						
Existing legislation	4	6	6	8	8	10
Proposed level......	4	6	30	31	32	34

1/ These items are governmental receipts, not offsets to outlays.

ELIMINATING SUBSIDIES FOR AIRPORT AND AIRWAY USERS

To shift the costs of government services to those who directly benefit, the Administration will propose an increase in aviation user taxes beginning in 1982. The taxes will affect both commercial and general aviation.

The Federal Aviation Administration (FAA) provides the services necessary for a safe and efficient aviation system. These services include the operation of airport towers and enroute centers that make up the national air traffic control system. The FAA also provides a variety of licensing, certification, and inspection services for the aviation community.

Providing these services is a multi-billion dollar operation. The users -- commercial and general aviation -- receive most of the benefits and should pay for the costs. Not requiring the users to bear the full cost of their activities encourages higher use of the system than would otherwise be the case, resulting in continual pressure to expand the system's capacity. The Administration's proposal for a 20% aviation fuel tax -- which will more than double the 1980 fuel tax -- will significantly increase the recovery of costs put on the system by general aviation. However, general aviation will continue to be cross-subsidized by commercial aviation, which will pay more than 100% of the system costs.

Although aviation users have paid taxes in the past, the Congress has restricted the use of the resulting revenues to cover just slightly over 40% of the system costs. The general taxpayer has carried the rest of the burden. The Administration's proposal is designed to overcome this inequity.

The costs of the aviation system are paid from the airport and airway trust fund. The past congressional restrictions resulted in an uncommitted trust fund balance of approximately $3.7 billion in 1980.

The Administration's tax proposal will ensure that funds required to carry out FAA programs will equal the revenue raised through user taxes. A 20% fuel tax, 9% passenger ticket tax, 5% freight waybill tax, and other miscellaneous taxes are included in the proposal. These taxes will generate revenue totaling approximately $3.3 billion in 1982, increasing to $5.2 billion in 1986. By the mid-1980's, revenues will exceed FAA funding levels so that tax reductions may be possible.

	1981	1982	1983	1984	1985	1986
	(in millions of dollars)					
Current receipts.......	1,802	1,377	1,534	1,703	1,871	2,091
Policy increase........	---	1,882	2,159	2,442	2,753	3,104
Proposed receipts......	1,802	3,259	3,693	4,145	4,624	5,195

ESTABLISH BOAT AND YACHT OWNER FEES

The cost of running the U.S. Coast Guard (USCG) will exceed $1.3 billion in 1982. Almost all USCG services are provided to a small segment of the public without charge. Services include licensing, inspection, vessel documentation, operation of aids to navigation, rescue and towing assistance, icebreaking, and water pollution monitoring and cleanup, among others. The approximately nine million individuals and firms who directly benefit from these services should pay for them. Therefore, legislation will be submitted to the Congress to authorize a graduated system of fees for USCG services. The fees would be phased in over the next 4 years and would eventually cover about half the costs of USCG except those related to law enforcement and military readiness. While the Nebraska farmer can reasonably be expected to help pay for the cost of defense and law enforcement, it is unreasonable that he or she should subsidize the cost of services that a small number of yachtsmen, fishermen, and ship owners now enjoy free of charge.

Beginning in 1982, a charge would be levied for all direct administrative services (e.g., issuance of a merchant marine license, documentation of a boat or vessel, periodic safety inspections, supervising the docking or loading of hazardous cargo, etc.). These fees might range from $15 to $20 for a routine license renewal, to several thousands of dollars for inspection of a hazardous cargo facility or the testing and certification of a boat's structural integrity.

A system of annual fees will be initiated to cover the cost of indirect services used by recreational boaters, commercial boat operators, and the merchant marine (e.g., maintaining buoys and navigation lights, harbor vessel traffic systems, rescue helicopters, and boats and crews on standby). These will initially range from $10 to $20 annually for a recreational boat used on inland waterways to several hundred or a thousand dollars for commercial vessels that operate mainly in coastal waters.

As is the case with many Federal activities for which fees are already collected (e.g., use of park campgrounds, cattle grazing on Federal lands), boat and yacht owners and the maritime industry will be charged relatively small fees in relation to the cost of benefits they receive. In the aggregate, the tax burden on the general taxpayer will be reduced substantially ($1.5 billion).

The Department of Transportation is developing the legislative proposals and fee schedules necessary to implement this policy and legislation will be submitted to the Congress in early March.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current receipts.......	---	---	---	---	---	---
Increased receipts.....	---	100	200	300	400	500
Proposed budget receipts	---	100	200	300	400	500

4. APPLY SOUND CRITERIA TO ECONOMIC SUBSIDY PROGRAMS

Department of Agriculture

REDUCTION IN FEDERAL SUBSIDIES FOR THE DAIRY INDUSTRY

The Federal Government buys dairy products equivalent to about 8 billion pounds of milk a year, which costs taxpayers about $1.3 billion and drives up consumer prices. The President proposes reforms in this program to achieve two basic objectives:

-- avoid excess production and Government-held surpluses, resulting in reduced costs to Government and consumers; and

-- provide sufficient price support for the dairy industry to ensure adequate supplies of dairy products.

Expected results of this reform are:

-- the elimination or reduction of increases in dairy prices;

-- reduced production of excess milk;

-- lower prices for consumers and increased consumption of dairy products;

-- reduced Federal Government purchases of excess milk, butter, and cheese; and

-- reduced Federal budget outlays.

Usually, a decrease in production results in higher prices. The dairy price support system, however, has altered the forces of supply and demand for several years. Under the program as it is currently structured, more milk is produced when Government dairy price supports are increased. Because there have been large surpluses of milk since 1978, the increased production must be purchased by the Federal Government. As a result, Federal stocks are increased and prices paid by consumers are increased. By decreasing the Federal subsidy for dairy products, excess production will be slowly eliminated. This should result in more stable prices that depend on supply and demand for both farmers and consumers, rather than the artifically high prices created by a Federal subsidy program.

To achieve these objectives, the Administration will submit legislation to eliminate the mandatory increase in dairy price support currently required by law on April 1, 1981. Long-term reforms will be part of the Administration's comprehensive farm program package for this legislative session.

Without these changes, costs for the dairy price support program will increase steadily, reaching $3.2 billion in 1986. The proposed changes will keep the program costs at much lower levels of $500-$600 million per year.

	Outlays (in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base...........	1,327	1,717	2,123	2,408	2,830	3,228
Policy reduction.......	-138	-1,095	-1,614	-1,887	-2,263	-2,727
Proposed budget........	1,189	622	509	521	567	501

TERMINATE THE FARMERS HOME ADMINISTRATION ALCOHOL FUELS AND BIOMASS LOAN PROGRAM

As part of a general effort to reduce dependence on the Federal Government as a supplier of credit, the President will propose termination of the Farmers Home Administration (FmHA) alcohol fuels and biomass loan program and rescission of unobligated funds that total about $500 million. The Administration will support continuation of tax incentives for alcohol fuels, which will result in reduced Treasury receipts of $4.3 billion in the 1981-86 period.

Even in the absence of Federal credit assistance for development of alcohol and biomass fuels, the Administration believes that worthwhile projects would still attract private investors because:

-- the technology for alcohol fuels and biomass production is well proven;

-- existing Federal and State tax policies subsidize the production of alcohol fuels and biomass by at least $18 per barrel; and

-- removal of price controls from domestic crude oil makes alcohol and biomass fuels competitive with other energy forms.

Excessive production of alcohol fuels from grain crops that could result from the loan subsidy program may have adverse effects on food prices and agricultural export revenues. In addition, the Federal involvement might enable marginal projects to attract private financing that would otherwise go to more productive investments.

The termination of this program will result in the following budget savings:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority 1/.	525	---	---	---	---	---
Outlays.............	56	104	3	4	3	3
Policy reduction:						
Budget authority 1/.	-505	---	---	---	---	---
Outlays.............	-46	-94	-3	-4	-3	-3
Proposed budget:						
Budget authority 1/.	20	---	---	---	---	---
Outlays.............	10	10	---	---	---	---

1/ New loan commitments.

REDUCTION IN FEDERAL FINANCIAL ASSISTANCE TO COOPERATIVES AND PRIVATE COMPANIES ASSISTED BY THE RURAL ELECTRIFICATION ADMINISTRATION (REA)

As part of a general effort to reduce the share of Federal lending in U.S. credit markets, and to reduce Federal costs, the President proposes the following changes in the REA program:

-- Beginning in 1982, discontinue Federal Financing Bank direct lending to electric generation and transmission cooperatives and to telephone companies and cooperatives. Provide Federal guarantees of loans from private sources instead. This action will reduce Treasury borrowing by $5,145 million in 1982.

-- Reduce REA direct lending $187 million in 1981 and $350 million in 1982 by eliminating loans to telephone companies and cooperatives and reducing loans to electric cooperatives.

-- Discontinue 2% direct loans; substitute an equivalent amount of 5% loans.

-- Discontinue 5% direct loans for generation and transmission facilities; substitute an equivalent amount of guaranteed private loans.

These changes will be achieved by:

-- directing the Secretary of the Treasury to discontinue Federal Financing Bank direct lending to REA borrowers; 1/

-- seeking legislation to permit charging higher interest rates for REA direct loans;

-- instructing the Secretary of Agriculture to target REA direct loans to those most in need (more remote areas) and encouraging other borrowers to seek credit from private lenders; and

-- proposing budget rescissions and amendments to bring REA direct lending into line with these proposed changes.

1/ The Administration is proposing a broad reform of Federal Financing Bank operations that will affect other agencies as well, including the Farmers Home Administration and the Tennessee Valley Authority.

These proposed actions are based on the fact that the REA has largely accomplished its purpose -- to provide the basic investment capital necessary to provide electric and telephone service in rural areas. More than 99% of all farms now have electric service. The bulk of borrowing is now for power generation and system improvements, costs that should be borne by system users.

In the absence of restraint, REA would continue to expand the reliance of rural utility companies on federally-provided and sponsored credit. It has been estimated that the REA would be underwriting nearly 15% of total U.S. investment in electrical generation by 1995, if left unchecked.

The major reason that these systems have not converted to using the private sector as a major capital source is the highly favorable term structure -- for both the direct and guaranteed lending -- offered by REA. As a consequence, the availability of these subsidies reduces the necessity for recipients to improve their financial positions in order to attract private capital. Customers of REA-financed utilities receive power and telephone services at rates that average 8-12% below customers of non-REA-financed utilities.

Taking these actions will result in a dramatic reduction in direct Federal lending -- $5.5 billion in 1982, and over $32 billion between 1982 and 1986. In addition, Federal interest subsidy costs would be reduced by about $27 million in 1982 and by about $400 million over 1982-86. At the same time, rural electric and telephone consumers served by these systems should continue to receive adequate service at rates comparable to those charged to customers of non-REA-financed utilities.

The changes are expected to result in the following changes in funding 1/:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Loan guarantee commitments........	6,245	6,245	6,745	7,280	7,870	8,500
Budget authority and outlays........	4,774	5,752	7,387	7,571	7,520	7,800
Policy reduction:						
Loan guarantee commitments........	-187	-5,495	-5,935	-6,405	-6,925	-7,480
Budget authority and outlays........	-38	-1,142	-2,328	-3,603	-4,975	-6,450
Proposed budget:						
Loan guarantee commitments........	6,058	750	810	875	945	1,020
Budget authority and outlays........	4,736	4,610	5,059	3,968	2,545	1,350

1/ The loan guarantees of the REA are converted to direct loans when they are purchased by the Federal Financing Bank. These outlays are excluded from the budget totals by law. Although these reductions are not included in the budget totals, they represent significant savings in Federal borrowing costs.

REDUCTION IN FARMERS HOME ADMINISTRATION DIRECT LENDING ACTIVITIES

As part of a general effort to limit the growth of Federal outlays and to reduce dependence on the Federal Government as a supplier of credit, the Administration plans to reduce direct lending by the Farmers Home Administration (FmHA) by about 5% during the last half of 1981 and almost 25% in 1982. The Farmers Home Administration will narrow its focus to serve borrowers who lack access to other credit sources, rather than serve as a source of below-market interest rate loans and loan guarantees to a wide variety of private, credit-worthy borrowers, as it has in the recent past.

The 1981 budget provides direct lending by the Farmers Home Administration of almost $13 billion. The Carter 1982 budget requests over $10 billion. A 5% reduction in 1981 would reduce the total by approximately $565 million. The 1982 reduction of $2.4 billion results in a $7.9 billion loan level.

The change will include the following major reductions in direct loan obligations:

	(dollar amounts in millions)			
	1982 Carter Budget	Number of Loans	Proposed Loan Level	Number of Loans
Farm ownership...	$ 1,500	16,400	$ 700	7,650
Farm operating...	1,500	44,420	1,325	39,240
Emergency disaster........	2,000	38,610	1,600	30,908
Rural rental housing.........	983	1,390	870	1,230
Moderate income homeownership loans...........	802	19,700	500	12,280
Water and waste..	575	1,238	300	645
Community facilities......	260	613	130	305
Total.......	7,620	122,371	5,425	92,240

The major reductions identified should not significantly affect the poorest households and communities. Programs serving the very poor would receive relatively smaller reductions than those that provide homeownership loans to moderate income families. It is anticipated that all but the smallest and poorest communities will be able to find alternative sources of funding for rural development projects. Consequently, eligibility for the water and waste loan program will be limited to those communities that are too small to participate in the bond market or are too poor to afford a water system without grant assistance.

It is anticipated that the Farm Credit System, State farm ownership programs, private lenders and the expanded crop insurance program will provide sufficient resources to mitigate the effect of the reductions in FmHA lending.

The proposed 1981 reductions would be achieved by proposing recissions of loan authority specified in the current limitation on direct lending in the appropriation act; the 1982 reductions would be achieved by amending the limitations contained in the 1982 Carter budget.

This proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	1,056	1,474	2,096	2,568	2,922	3,169
Outlays.............	-1,205	2,559	2,955	3,236	3,496	3,658
Direct loan obligations........	12,990	10,237	10,237	10,237	10,237	10,237
Policy reduction:						
Budget authority....	---	---	-30	-105	-179	-255
Outlays.............	-30	-105	-179	-255	-331	-407
Direct loan obligations........	-565	-2,354	-2,354	-2,354	-2,354	-2,354
Proposed budget:						
Budget authority....	1,056	1,474	2,066	2,463	2,743	2,914
Outlays.............	1,175	2,454	2,776	2,981	3,165	3,251
Direct loan obligations........	12,425	7,883	7,883	7,883	7,883	7,883

REDUCTIONS TO ECONOMIC AND REGIONAL DEVELOPMENT PROGRAMS

The Administration proposes to eliminate funding for the Economic Development Administration (EDA) and the Regional Development Commissions of the Department of Commerce, and the non-highway programs of the Appalachian Regional Commission (ARC).

There is no convincing evidence that these programs have been effective in creating new jobs or capital investment, or are actually needed to promote local and regional economic development. Studies indicate that the total cost per job directly created by an EDA development grant is on the order of $60,000 to $70,000 for a person-year of employment. Studies also show that EDA programs have had little influence on local economic development since such development generally would have occurred without EDA investment. The Regional Commissions duplicate the activities of States and localities that have the capability to carry out regional projects. The policy change will save more than $5 billion over the next 4-5 years.

Economic expansion and job creation in distressed areas will be stimulated through general tax, fiscal, and regulatory reduction measures and more flexible community development support assistance. Development assistance to rural areas will be provided by the Farmers Home Administration within the Department of Agriculture.

Specific changes will involve rescinding remaining appropriations for EDA, the Regional Commissions, and ARC (non-highway) for the second half of 1981 and eliminating funding in 1982. This will require amendments to the 1982 budget for EDA and ARC programs. Regional Commission funding is already proposed for termination in 1982.

The trade adjustment assistance program now located in EDA will be tranferred to the Department of Commerce's International Trade Administration. The program will continue to be funded at $51 million in budget authority in 1981 and $53 million in 1982. The Appalachian highway program will be transferred to the Federal Highway Administration and funded from the highway trust fund.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	1,004	1,034	1,131	1,224	1,318	1,409
Outlays.............	934	1,023	1,080	1,145	1,239	1,312
Policy reduction:						
Budget authority....	-502	-769	-854	-934	-1,010	-1,085
Outlays.............	-24	-440	-644	-755	-882	-997
Proposed budget*:						
Budget authority....	502	265	277	290	308	324
Outlays.............	910	583	436	390	357	315

* The proposed budget would fund ARC highway programs at $215 million in 1982 and provide for the orderly phaseout of prior EDA funding commitments.

RESTRUCTURING OF SYNTHETIC FUELS PROGRAMS

The President is committed to ensuring the development of a commercial synthetic fuels industry that can help replace imported oil with competitively-priced domestic fuels made from our abundant resources of coal, oil shale, tar sands, and renewable materials. Through a carefully-designed, streamlined synthetic fuels program, the President believes we can achieve rapid development of our synthetic fuels potential without a huge Department of Energy bureaucracy and without needless use of tax dollars to subsidize private business ventures.

By shifting the focus of Government synfuels programs to the newly-created Synthetic Fuels Corporation, the President's approach permits elimination of duplicative synfuels programs at the Department of Energy that will cost the taxpayer a minimum of $2.7 billion over the next five years -- and possibly twice that amount if project overruns follow historical patterns.

The President intends to appoint new board members to the Synthetic Fuels Corporation as soon as possible and assign to the Corporation the responsibility to assist major synfuel plant construction projects. Since these types of support were chosen specifically to encourage the production of synthetic fuels by the private sector in a time of rising energy prices, there is a good chance that a significant portion of the $17 billion available to the Corporation will never have to be paid out to private companies. Encouraging synthetic fuels production through the Synthetic Fuels Corporation instead of through the Department of Energy therefore reduces the likelihood that synthetic fuels promotion will become a major budget burden in the future.

Shifting the Department of Energy's synthetic fuel commercialization and demonstration activities to the Synthetic Fuels Corporation will provide a more efficient and focused program for demonstrating synthetic fuel production. The shift will also insulate project selection from the "pork barrel" political process. Because private companies will manage construction with more of their own money at risk under the new approach, the likelihood of successful project outcomes will be increased, while potential costs for the Government will decrease. This change is consistent with the Administration's policy to rely on private market forces to set the pace of commercial introduction of synthetic fuels technologies. The Department of Energy will end its program of major technical demonstrations, transfer the interim alternative fuels funding program to the Synthetic Fuels Corporation and focus on supporting long-range related research and development.

As a result of this change, current arrangements for direct Government funding of coal liquefaction and gasification projects will be terminated. 1/ The President anticipates that the Corporation will consider supporting these and other facilities either as full-sized synthetic fuel projects or as less than commercial joint-ventures. The shift to a synfuels program based on the Corporation may actually enhance domestic energy supplies, since the cumulative production from the affected Department of Energy projects would be less than 100,000 barrels of oil per day, while the the Corporation will continue to provide support for synthetic fuel projects that could yield equal or greater amounts of synthetic fuels production.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority*...	415	858	1,064	362	140	25
Outlays.............	275	864	859	676	224	256
Policy reduction:						
Budget authority....	-545	-1,028	-1,064	-362	-140	-25
Outlays.............	-275	-864	-859	-676	-224	-256
Proposed budget:						
Budget authority....	-130	-170	---	---	---	---
Outlays.............	---	---	---	---	---	---

* Appropriations for the interim alternative fuels program were made in 1980 to be available in future years. In 1981, $300 million of these funds will be proposed for rescission, while the remainder will be transferred to the Synthetic Fuels Corporation on June 30, 1981. The Corporation will also consider adopting those projects for which funds may be obligated prior to June 30, 1980.

1/ The proposed transfer of projects that involve international cooperation will be carried out in a manner that provides for continuity of Department of Energy funding pending consultations with cooperating partners that are required under our agreements with them.

REDUCTIONS IN FOSSIL ENERGY RESEARCH AND DEVELOPMENT

In conjunction with the restructuring of the synthetic fuels program, the Administration plans to revamp fossil energy research and development and terminate commercialization activities in the Department of Energy. This will allow a 45% reduction in outlays while continuing effective support for longer-term research with higher potential returns to the Nation.

The Department of Energy currently conducts a wide range of activities aimed at improving technologies for producing and using coal, oil, and gas and for subsidizing adoption of those technologies by private industry.

Costly near-term activities, such as construction and operation of pilot plants using company-specific processes, subsidize individual companies while producing rapid and uncontrollable growth in the Federal budget. The budget in this area has increased over 15 times the 1974 level, primarily because of the high costs associated with building large scale pilot and demonstration plants.

These Government outlays are less needed at present because the energy industry has stepped up its research and development investments, having increased its 1979 spending 25% over the previous year's level. Deregulation of energy prices will provide additional incentives to continue this trend, while other Administration policies such as tax relief and removal of excessive regulatory burdens will further enhance the private sector's ability to develop and introduce new technologies.

By relying on private market forces and the assistance of the newly created Synthetic Fuels Corporation, the near-term technology demonstration and commercialization activities can proceed without direct Federal funding. Federal research support will thus focus on high-risk, longer-term, high-payoff activities that the private sector traditionally has been less willing or able to undertake.

This change in strategy will result in a less costly and more effective Federal research and development program that will leave commercialization to private energy companies competing in the market place. Substantial budget savings will result from the adoption of this policy as funding for design and operation of major fossil energy pilot and demonstration plants is reduced or eliminated and reductions made in the near-term and company-specific research and development work in coal. Deregulation of oil and gas will also provide sufficient incentives for the private sector to undertake many of the activities currently funded in the petroleum and gas research and development programs. It is expected that technology development will not be slowed down because many of the activities now supported by the Government will be continued by the private sector. In fact, these changes will make it possible to devote more governmental resources to true research as the more capital-intensive applied and market-oriented Federal activities are scaled back. In addition, the anti-competitive effects of Government subsidies for commercialization will be eliminated, ultimately benefiting the consumer through lower costs for new energy sources.

To achieve this change in policy, some contracts will be terminated and major reductions proposed for 1982. The Administration will also propose rescissions for 1981.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	727	793	874	938	995	942
Outlays.............	745	799	838	895	974	943
Policy reduction:						
Budget authority....	-70	-373	-522	-605	-676	-602
Outlays.............	-59	-361	-433	-549	-657	-604
Proposed budget:						
Budget authority....	657	420	352	333	319	340
Outlays.............	686	438	405	346	317	339

ELIMINATION OF EXCESSIVE FEDERAL INVOLVEMENT IN SOLAR ENERGY DEVELOPMENT

Stimulated by the new Federal solar tax credits, the market for solar energy products is expanding rapidly. Deregulation of oil in accordance with the President's policy and increasing natural gas prices permitted under the Natural Gas Policy Act of 1978 will remove the subsidies for competing oil and gas technologies that have prevented solar energy from achieving its true potential.

In this new, healthier environment for commercial solar technologies, the President believes it is possible to shift the focus of the Department of Energy's solar activities away from costly near-term development, demonstration, and commercialization efforts and into longer-range research and development projects that are too risky for private firms to undertake.

Total Federal support for solar energy will remain extremely high under the President's proposal due to continuation of the tax credits, which are expected to reduce taxes for residential and business investors in solar energy systems by $2.6 billion between 1981 and 1986.

The Administration will continue direct Government support for solar programs focused on advanced research concepts and exploratory development, but assumes that the private sector will be responsible for developing marketable systems once technical feasibility is established.

The Administration will also propose deferring construction of a permanent facility for the Solar Energy Reserch Institute until the mission of the organization is better defined and an appropriate staffing level agreed upon.

By placing greater emphasis on the private sector in developing and marketing solar products, Department of Energy solar spending can be reduced by more than 60% in 1982, with cumulative savings of nearly $1.9 billion by the end of 1986. This can be accomplished without affecting the Federal Government's support for longer-term research on emerging solar technologies. These budget changes will have little effect on solar energy use, which will continue a healthy rate of increase over time as rising conventional energy prices and solar tax incentives stimulate the demand for solar products.

The proposal is expected to result in the following funding changes:

	1981	1982	1983	1984	1985	1986
	(in millions of dollars)					
Current base:						
Budget authority....	577	583	664	623	595	553
Outlays.............	589	589	650	657	595	553
Policy reduction:						
Budget authority....	-99	-363	-428	-372	-330	-275
Outlays.............	-79	-365	-414	-406	-330	-275
Proposed budget:						
Budget authority....	479	220	236	251	265	278
Outlays.............	510	224	236	251	265	278
Addendum:						
Solar tax credits (excluding alcohol fuels and biomass).	128	216	334	466	682	796

REDUCTION OF SUBSIDIES FOR ENERGY SUPPLY PROGRAMS

The Administration will propose a 34% reduction in energy supply programs in geothermal, energy storage, electric energy systems, energy impact assistance, environmental studies, uranium resource assessments and hydropower as part of the general effort to employ market forces instead of bureaucratically-administered programs to achieve national energy goals. These reductions will:

-- terminate geothermal loan guarantees that serve merely to reallocate capital from more productive investments;

-- eliminate funding for additional Government-supported commercialization of geothermal technologies that can and should be supported by the private sector;

-- eliminate energy impact assistance grants to the States that duplicate other Federal programs and unnecessarily assume responsibiliy for activities that are more appropriately undertaken by State and local governments;

-- eliminate development and demonstration programs in electric energy systems and energy storage that can and should be supported by the private sector;

-- terminate environmental studies that are ineffective and duplicate efforts at the Environmental Protection Agency and other Federal agencies;

-- phase out uranium resource assessment activities because this program is no longer necessary to meet nuclear nonproliferation objectives; and

-- terminate subsidies for all additional small hydropower demonstrations since sufficient incentives are already provided through a 21% investment tax credit and through credit programs in the Department of Agriculture.

By focusing Department of Energy programs on longer-term, high-risk research, outlays can be reduced by a total of $861 million over the next five years. Various projects that do not meet these criteria will be phased out in an orderly manner. There will be little impact on domestic energy supplies.

To achieve this policy change, the Administration will propose rescissions of 1981 funds and reduce its request for 1982 appropriations. The changes in funding are shown below:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	662	551	559	583	596	624
Outlays.............	598	605	559	572	585	610
Policy reduction:						
Budget authority....	-148	-186	-178	-178	-169	-176
Outlays.............	-37	-156	-177	-170	-158	-163
Proposed budget:						
Budget authority....	514	365	381	405	427	448
Outlays.............	561	449	382	402	427	447

REDUCTION OF ENERGY CONSERVATION PROGRAMS

Motivated by rising energy costs and substantial Federal tax credits, individuals, businesses and other institutions are undertaking major conservation efforts. Evidence of these conservation efforts is clear. In the 6 years after the Arab oil embargo, total energy consumption increased only 6%, compared to an increase of 29% in the 6 years prior to the embargo. With rising energy prices since the oil embargo in 1973, energy consumption per dollar of output has steadily declined every year since, decreasing by a total of 9%. Decontrol of oil prices and continuation of tax credits can be expected to accelerate these trends.

Some Federal conservation programs are, therefore, no longer necessary, while others may impede private initiative by imposing too great a regulatory burden on the public. Selected, long-term research and development activities are needed, however, as is assistance to schools and hospitals and low-income people who do not benefit from tax credits.

The President is proposing no change in the current energy conservation tax credit, which is expected to provide at least $739 million in support of private conservation activities during 1981 and $799 million during 1982. The proposed reductions in Department of Energy conservation activities thus represent a decrease of less than 20% in total Federal support for energy conservation in 1982.

Program reductions are proposed for the three types of conservation programs conducted by the Department of Energy: technology development, regulation and information, and financial assistance to State and local government. Technology development projects that can be commercially viable without Federal assistance will be terminated. These projects include work on energy from urban waste, consumer products, advanced automotive engine design, electric and hybrid vehicles, and industrical processes. Other high potential projects that are unlikely to be supported by the private sector alone because they are high risk and long term, or apply to many industries, will be retained.

Regulatory programs mandating building and appliance efficiency standards and utility conservation services have small Federal costs, but if undertaken as planned by the previous administration, they would impose massive regulatory burdens on the private sector. They would be a nightmare to administer and enforce. Therefore, these programs also would be eliminated. Consumers already are demanding and manufacturers are producing more energy efficient products and buildings without Federal standards. Similarly, where conservation is an economic alternative to new generating capacity, utilities are developing their own conservation programs. The Federal Government's internal conservation efforts and certain information programs would be retained.

Financial assistance to State and local government conservation programs will be reduced and restructured. Grants for State energy offices and public outreach programs will be eliminated. These programs have created new bureaucracies while doing little to promote conservation. Current public awareness of energy conservation benefits and the high level of private investment in energy conservation clearly show that these programs do not justify Federal support. Grants for conservation activities in public and non-profit schools and hospitals will continue at a reduced rate of approximately $100 million. These grants have proved their value in financing cost-effective conservation improvements in public facilities not eligible for tax incentives.

Finally, the Energy Department's weatherization assistance program will be incorporated into the Department of Housing and Urban Development's community development block grant program. Low-income home weatherization activities will thus continue, but more in accord with local needs and priorities. Currently, about one-third of community development block grant funds, or about $1 billion annually, is targeted by recipient communities to some form of rehabilitation. Combining the Department of Energy weatherization program with the community development block grant is one example of Administration efforts to shift resources and decisionmaking authority to State and local governments through block grants and program simplification wherever possible. The existing Department of Energy program has been plagued by increasing costs and quality control problems. As currently structured, the Department of Energy program would take 50-100 years to reach all the potentially eligible low-income households in the Nation. By shifting administrative responsibility entirely to the local level, communities will be able to devise weatherization efforts most appropriate to their needs and circumstances and achieve greater levels of efficiency and productivity.

To achieve these policy changes, appropriate adjustments to the 1981 and 1982 budgets will be proposed. Also, where appropriate, regulations now in effect or under consideration will be withdrawn and amendments to legislation will be proposed. By eliminating unnecessary conservation programs and by better targeting remaining efforts, Department of Energy program costs can be reduced by nearly 10% in 1981, by nearly 40% in 1982, and by a total of nearly $2.4 billion by the end of 1986.

The funding changes projected as a result of these reductions are summarized below:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	800	872	779	601	545	542
Outlays.............	729	799	925	776	604	542
Policy reduction:						
Budget authority....	-254	-677	-597	-427	-374	-373
Outlays.............	-66	-310	-611	-589	-433	-373
Proposed budget:						
Budget authority....	546	195	182	174	171	169
Outlays.............	663	489	314	187	171	169
ADDENDUM:						
Energy conservation tax incentives........	739	799	709	594	465	351

REDUCTION OF ALCOHOL FUELS SUBSIDIES

The Administration will propose termination of feasibility studies, cooperative agreements and loan guarantees for alcohol fuels and biomass energy development as part of the general effort to adopt market principles to achieve national energy goals. The proposed change reduces the level of subsidies for alcohol fuels and biomass programs. Tax credits will continue, which, in the case of alcohol fuels, will result in a subsidy of over $18 per barrel. The removal of price controls from domestic crude oil will make alcohol fuels more competitive and eliminate the need for additional subsidies through loan guarantees, feasibility studies, and cooperative agreements.

As a result of this change, projects selected by the Department of Energy for feasibility studies, cooperative agreements, and loan guarantee awards will not be funded. These projects will have to compete for financing in private markets along with other energy projects.

To achieve this policy change, the Administration will propose a rescission of $745 million of funds appropriated in 1980. The funding changes are shown below:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	0	0	0	0	0	0
Outlays............	114	29	13	15	15	15
Policy reduction:						
Budget authority....	-745	0	0	0	0	0
Outlays............	-114	-29	-13	-15	-15	-15
Proposed budget:						
Budget authority....	-745	0	0	0	0	0
Outlays............	0	0	0	0	0	0
Addendum:						
Tax credits and excise tax exemption for gasohol............	292	431	628	900	1,065	992

ELIMINATION OF THE SOLAR ENERGY AND ENERGY CONSERVATION BANK

This new Government spending program, intended primarily to promote residential energy conservation and solar technology investments through subsidies, will not be started up. Substantial economic incentives already exist for such investments as a result of rising energy prices and significant tax credits for residential energy conservation improvements (15%) and solar technology measures (40%). There is no reason to create yet another Federal program with Federal overhead to promote these same objectives. Therefore, implementing regulations have been withdrawn and will not be published, and no loan subsidies will be disbursed. To the extent that local governments desire to assist certain groups -- such as low-income households -- with energy conservation, they can use community development block grant funds.

The 1981 appropriation of over $121 million will be proposed for rescission. The 1982 budget will be amended to withdraw the appropriation requested by the Carter administration.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	121	132	141	150	158	166
Outlays.............	47	149	137	147	157	162
Policy reduction:						
Budget authority....	-121	-132	-141	-150	-158	-166
Outlays.............	-47	-149	-137	-147	-157	-162
Proposed budget:						
Budget authority....	---	---	---	---	---	---
Outlays.............	---	---	---	---	---	---

RESTRUCTURING HUD's COMMUNITY DEVELOPMENT SUPPORT ASSISTANCE

Currently the Department of Housing and Urban Development provides financial support directly to local governments to help finance general community development activities and specific economic development projects through the Community Development Block Grant (CDBG) and the Urban Development Action Grant (UDAG) programs. While communities can use their CDBG funds for a broad range of community and economic development purposes, not all of the economic development activities eligible for UDAG funding can be supported under CDBG. The UDAG program, on the other hand, currently requires an excessive amount of Federal intervention in developing, selecting, and monitoring local economic development projects.

The Reagan Administration will seek to remedy these deficiencies by developing new policies to integrate these programs into a more efficient and flexible grant mechanism. This effort will build on the best features of both programs to improve the delivery of Federal resources for these purposes and to provide the maximum degree of flexibility for local governments. Current restrictions on the use of CDBG funds for commercial activities will be liberalized. The UDAG emphasis on securing private sector financial involvement in local economic development projects will be reinforced.

These proposed program revisions will permit the funding reductions shown for this function to be absorbed by local communities with minimal adverse impact.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	4,370	4,750	5,097	5,413	5,710	5,996
Outlays.............	4,203	4,625	4,534	4,832	5,171	5,485
Policy reduction:						
Budget authority....	---	-584	-678	-837	-882	-926
Outlays.............	---	-12	-67	-271	-702	-814
Proposed budget:						
Budget authority....	4,370	4,166	4,419	4,576	4,828	5,070
Outlays.............	4,203	4,613	4,467	4,561	4,469	4,671

PHASE OUT OF COMPREHENSIVE EMPLOYMENT AND TRAINING ACT (CETA) PUBLIC SERVICE JOBS

The Administration proposes phasing out by the end of fiscal year 1981 the two CETA programs that provide funds for subsidized public sector employment (PSE) in State and local governments. The reduction in PSE will return CETA to its original purpose of improving the employability of the low-income, structurally unemployed by providing them with skills that are marketable in the private sector. Public service employment programs, by contrast, provide little skills training. The work experience that PSE participants receive in public sector jobs has not helped most of them in seeking private sector employment, often because the types of jobs they get in the public sector have no counterparts in the private sector.

In the short run, the ability of CETA to enhance employment prospects in the private sector can be strengthened by coordinating the current CETA training programs more closely with the existing Title VII program, which is intended to increase the involvement of the private sector in CETA training programs. For the longer term, CETA will be reviewed in its entirety with this end in mind before the 1983 budget is submitted to the Congress.

CETA was originally intended to provide training and employment opportunities designed to improve the long-term employment prospects of the disadvantaged and structurally unemployed. In the 1974-75 recession, however, the relatively small PSE program authorized by Title II of the original legislation was dramatically expanded, in order to advance the "government as employer of last resort" philosophy then prevalent among manpower theorists. Subsequently, the Title VI program was created to enhance the "counter-cyclical" thrust of public service employment.

PSE has proven to be a poor counter-cyclical device. High levels of PSE employment were reached only in 1977-78 after the depth of the 1974-75 recession had long passed. Considerable evidence indicates, moreover, that the net job creation impact of PSE programs has been relatively small in the longer term. Several studies have shown that a high proportion of CETA employment supplants, rather than augments, hirings that would have occurred regardless of the presence of CETA, effectively diverting funds that would have been used for this purpose to other endeavors. In all, the track record of PSE programs in achieving their purported objective -- to enhance the employability of participants for the 8 out of 10 jobs created by the private sector -- has been dismal indeed.

By contrast, skill training, especially on-the-job training, appears to lead to higher post-program increases in earnings than public service employment. The current training programs have proven to be more effective than the PSE programs at placing participants. (Only about 1/3 of PSE participants find employment when they leave their subsidized job.) Moreover, the average cost of getting an unemployed person into an unsubsidized job from the PSE programs is two to three times more expensive than under the training programs.

As a result of this phase-out of PSE under CETA, the 300,000 individuals who currently hold jobs completely or partially funded with CETA resources will continue in their jobs and be absorbed into the regular State or local government payroll, be placed in an unsubsidized job in the private sector by the prime sponsor, or have to seek employment elsewhere. Those who lose their jobs will be eligible for unemployment compensation.

The President will direct the Secretary of Labor to place a total freeze on hiring in both PSE programs. The Secretary will develop plans for the orderly phase down of the programs to ensure that individuals holding CETA-funded jobs are no longer paid with Federal resources after September 30, 1981. A rescission of unneeded Title VI funds will be requested and excess Title II-D resources will be deferred into 1982, reducing the amount of budget authority needed for continuing CETA programs. A 1982 budget amendment will be proposed to the Congress to reduce the pending Administration request.

The proposal is expected to result in the following changes in funding for the PSE portion of CETA:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	2,924	3,955	4,236	4,578	4,946	5,341
Outlays.............	3,118	3,771	4,078	4,408	4,762	5,143
Policy reduction:						
Budget authority....	-153	-4,644	-4,236	-4,578	-4,946	-5,341
Outlays.............	-635	-3,566	-4,073	-4,408	-4,762	-5,143
Proposed budget:						
Budget authority....	2,771*	-689	---	---	---	---
Outlays.............	2,483	206	5	---	---	---

* Includes $689 million excess Title II-D funds deferred into 1982 and used to reduce budget authority needs of continuing CETA programs.

PHASE OUT OF FEDERAL MASS TRANSIT OPERATING SUBSIDIES

Mass transit operating subsidies will be phased out by 1985. The Federal government does not, and should not, control the operation of local transit systems -- including their costs, service levels and fares. Unfortunately, Federal subsidies for local operating costs can be counter-productive because Federal "strings" drive up these costs while holding fares unnecessarily low. Also, there is no reason for someone in Sioux Falls to pay Federal taxes so that someone in Los Angeles can get to work on time by public transportation.

-- Federal funds often support marginally effective conventional transit services and prevent transportation needs from being served by more cost-effective and innovative alternatives such as carpools, vanpools, subscription bus and jitney services. Conventional transit systems on the average have to subsidize slightly more than 50% of the cost of each ride through the local, state and Federal taxpayer. Furthermore, this national transit deficit is escalating rapidly; cost increases from 1973 to 1978 averaged 13.2% a year while the average fare increased only 3.5% a year over the same period.

-- Fares have generally not kept pace with inflation since the 1973 oil embargo, even though the cost of the main alternative means of transportation -- the private vehicle -- has increased dramatically over the rise in inflation. It is probable that the cost of owning and operating one's car will continue to increase faster than the inflation rate; thus, transit fares could be raised considerably to cover the loss of Federal subsidies without losing many patrons.

-- Transit operating subsidies for <u>everyone</u> -- rich and poor alike -- are a terribly inefficient way to assist particular disadvantaged groups such as the elderly, the poor, minorities, and youth. One analysis estimated that only 23.5% of transit operating subsidies in 1975 went to low income households.

To cushion the temporary difficulties caused by this phase out of Federal assistance, the remaining transition funds will be concentrated on those large urban areas that provide the most transit service.

As the Federal Government gradually reduces subsidies for transit operating expenses, State and local governments and transit operators will face decisions on whether to (1) raise State and local subsidies, (2) increase transit fares, or (3) reduce services. Many different combinations of these actions will be taken, each urban area deciding what is best in light of its local needs and preferences.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	1,105	1,208	1,316	1,424	1,528	1,626
Outlays.............	750	876	1,053	1,168	1,284	1,398
Policy reduction:						
Budget authority....	---	-103	-581	-1,059	-1,528	-1,626
Outlays.............	---	-96	-256	-600	-1,083	-1,356
Proposed budget:						
Budget authority....	1,105	1,105	735	365	---	---
Outlays.............	750	780	797	568	201	42

REDUCTION IN AMTRAK FARE SUBSIDIES

Passengers are currently paying only 40% of Amtrak's operating costs. Taxpayers subsidize each passenger's fare an average of $35 per trip. These subsidized fares also compete with air and intercity bus fares. Taxpayer subsidies allow Amtrak to offer a fare between Chicago and Los Angeles that is $130 less than an airline ticket to the same destination. It is obviously a poor use of scarce tax dollars to operate a train between Washington, D.C. and Cincinnati that, because of low ridership, costs more in subsidies than an airline ticket for the same trip. The Administration proposes to increase Amtrak fares to cover 50%, 60%, 70% and 80% of operating costs in 1982, 1983, 1984, and 1985.

Fares will be increased because it is not fair for the general taxpayer to subsidize that portion of the population which rides Amtrak trains, particularly when many Amtrak routes provide almost no national benefit because they operate totally within a state or just between two states. It is expected that some passengers will shift to air or intercity bus transportation as a result of higher train fares.

Federal budget savings will be substantial; $431 million in 1982 and increasing to $1.1 billion in 1986. Fares will approximately double on short distance trains increase approximately 50% on long-haul trains, and rise slightly on Northeast Corridor routes starting next year. The financial burden will be shifted to Amtrak passengers or State governments, or else certain trains will be eliminated.

To achieve this policy change, the Administration will propose amendments to the 1982 budget to reduce appropriations for Amtrak subsidies. Legislation will also be proposed to require higher fares, greater State financial participation to support local train service, and elimination of Amtrak's fare subsidy when it competes with local commuter trains. Because Amtrak trains represent less than 1% of intercity travel, this proposal will have virtually no negative effects on personal travel in the U.S.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	906	1,044	1,138	1,231	1,321	1,406
Outlays.............	769	994	1,100	1,200	1,300	1,400
Policy reduction:						
Budget authority....	-25	-431	-606	-760	-964	-1,056
Outlays.............	-25	-325	-485	-688	-904	-1,050
Proposed budget:						
Budget authority....	881	613	532	471	357	350
Outlays.............	744	669	615	512	396	350

REDUCED FUNDING FOR THE NORTHEAST CORRIDOR IMPROVEMENT PROJECT

In an effort to reduce funding programs which are not critical, especially when viewed in the context of the Nation's immediate economic crisis, the Northeast Corridor Improvement Project (NECIP) will be redirected and reduced in size. The project, which is to improve railroad service between Washington D.C. and Boston, places needless emphasis on improving trip time: the costs of increasing train speed outweigh the benefits.

Seventy-five percent of Corridor riders are commuters. They would not reap noticeable benefits from increased speed because they travel short distances on trains that make frequent stops. Yet NECIP has planned to spend sizeable amounts of money for high speed rail service, which would require a new signalling system costing in excess of $350 million, electrification of remaining unelectrified portions of the Corridor, and frequent resurfacing of track and roadbed. Even now Northeast Corridor riders only pay about half of the total cost of running Northeast Corridor trains. It is unlikely that they will choose to pay the fares necessary to cover the costs of maintaining high speed track.

By redirecting the use of its resources, NECIP can provide safer, more reliable service for the majority rather than the minority of Northeast Corridor travelers, and eliminate large, unnecessary capital and maintenance costs while holding down increases in Corridor fares.

As a result of this change, improvement work will be redirected toward the most heavily traveled segments of the Corridor, electrification will be eliminated north of New Haven, the existing signalling system will be repaired rather than replaced, and station improvements will be made on a Federal/local cost sharing basis. By refocusing the Project, savings of $310 million will be realized over the next 4 years, and requests for further funding for high speed Northeast Corridor rail service will be averted.

Authorizing legislation will be submitted to Congress to change the focus and size of the Northeast Corridor Improvement Project. Reliable and safe rail service would replace faster train speeds as the goal of the Project, and total authorization would fall from $2.5 billion to $2.19 billion. A budget amendment will be submitted to reduce NECIP 1982 funding by $288 million, and $125 million of 1981 funding will be deferred until 1982 as the Project is restructured.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	350	488	172	20	15	---
Outlays.............	373	465	534	316	152	---
Policy reduction:						
Budget authority....	---	-288	13	-20	-15	---
Outlays.............	-25	-95	-114	-51	-25	---
Proposed budget:						
Budget authority....	350	200	185	---	---	---
Outlays.............	348	370	420	265	127	---

ELIMINATION OF FEDERAL SUPPORT FOR LOW VOLUME RAILROAD BRANCHLINES

To return programs to States and localities when the benefits are primarily local, the Administration proposes to eliminate funding for the Local Rail Service Assistance program of the Federal Railroad Administration, starting in 1981.

This program provides formula grant assistance to States for rail planning and for support of service on low volume rail branchlines (usually defined as lines carrying less than 3 million gross ton miles of traffic annually). Program termination is proposed because: (1) traffic on these lines is so light that interstate commerce will not be disrupted; (2) the Government has little interest in the retention of marginal rail lines; and (3) over 25% of program funds are allocated to States that have little or no branchline abandonment problem.

Although several other Federal railroad assistance programs serve a useful purpose by encouraging railroads to restructure and improve their rail systems, this program is of questionable usefulness. There will be little, if any, noticeable adverse consequence from its termination.

Program termination will be achieved by requesting rescission of uncommited 1981 appropriations and by not requesting any further appropriations for 1982 or subsequent years.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	80	88	96	104	112	119
Outlays.............	56	80	115	110	115	116
Policy reduction:						
Budget authority....	-80	-88	-96	-104	-112	-119
Outlays.............	-8	-32	-62	-80	-103	-110
Proposed budget:						
Budget authority....	---	---	---	---	---	---
Outlays.............	48	48	53	30	12	6

ELIMINATION OF THE COOPERATIVE AUTOMOTIVE RESEARCH PROGRAM

The Administration has decided not to initiate the cooperative automotive research program (CARP) of the Department of Transporation. Immediate funding elimination is proposed for this program. The automobile companies rather than the Federal Government are in the best position to decide what kind of research to undertake and when to do so. Given other demands on its resources, Federal financing of long-term research to benefit a particular industry is an inappropriate allocation of Federal funds.

This program was developed in cooperation with the U.S. automobile industry to reduce the Nation's dependence on foreign oil by financing a basic research program aimed at accelerating the development of more fuel-efficient and technologically advanced automobiles. Funding was originally intended to be on a matching basis, with the Federal Government providing half the resources. The matching arrangement was waived in fiscal year 1981 because of industry economic conditions. As a result, the program in 1981 is now wholly a Federal financial responsibility.

A rescission of uncommitted 1981 appropriations will be requested and no request will be made for appropriations for 1982 or subsequent years.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	12	13	14	15	16	17
Outlays.............	6	9	13	14	14	15
Policy reduction:						
Budget authority....	-12	-13	-14	-15	-16	-17
Outlays.............	-6	-9	-13	-14	-14	-15
Proposed budget:						
Budget authority....	---	---	---	---	---	---
Outlays.............	---	---	---	---	---	---

ACCELERATION OF MINERAL LEASING

The more promising areas of the Nation for undiscovered or undeveloped energy and mineral resources are largely on the Federal lands. The President believes that those lands can and should be thoroughly explored and, as appropriate, developed for minerals production, while at the same time protecting the environment.

The President plans to accelerate the leasing of mineral resources on Federal lands. The proposed actions will make additional lands available for mineral exploration and for mineral development and production. The major emphasis is upon leasing lands for energy minerals.

The acceleration of leasing sought by the President will significantly increase our knowledge of domestic energy and non-energy mineral resources. Domestic production will be significantly increased in the longer term, thus contributing to economic growth. The acceleration will increase the proprietary receipts of the Government and help to reduce the budget deficit, and also increase the shared revenue payments to States.

Rights to oil and gas on the Outer Continental Shelf (OCS) are leased by competitive sealed-bid auctions currently held in accordance with the leasing schedule of June 1980.

As part of the acceleration sought by the President, the OCS oil and gas leasing schedule will be revised as quickly as can be done in accordance with the requirements of the OCS Lands Act. A major objective of the revision will be to shorten the time period required to start exploratory drilling in all OCS areas. The OCS sale preparation process will be streamlined and shortened while preserving adequate protection of environmental values and the public's proprietary interest.

On-shore oil and gas, coal, oil shale, geothermal resources, and other minerals are leased by a variety of methods under several legislative authorities. The Carter budget anticipated two coal lease sales in 1982, three in 1983, and four in 1984. It also planned to hold one competitive oil and gas lease sale in the National Petroleum Reserve-Alaska during 1982, to offer four prototype oil share leases in 1983, and to hold the first oil shale lease sale under a permanent leasing program in 1985.

On-shore mineral leasing will be accelerated by:

-- offering in 1982, two oil and gas lease sales in the National Petroleum Reserve-Alaska and following up with additional sales in subsequent years;

-- beginning regular oil shale leasing under a permanent program in 1984 or earlier; and

-- beginning immediately to simplify administratively the coal leasing process to achieve significantly expanded leasing by 1983, if possible, but no later than 1984.

As a result of these changes, the rate of leasing of OCS oil and gas, on-shore oil and gas lands in the National Petroleum Reserve-Alaska, oil shale lands, and coal lands will be substantially increased over the years 1981-1986.

These policy changes are expected to result in the budgetary changes shown in the table below. The reduction shown below includes modest increases in administrative costs. It also includes a $100 million increase in 1982, and smaller amounts in future years, in payments to the States from Mineral Leasing Act revenues.

Budget Authority and Outlays (in millions of dollars)*

	1981	1982	1983	1984	1985	1986
Current base....	-9,257	-10,900	-10,800	-10,900	-11,000	-11,100
Policy reduction	-250	-800	-2,000	-3,100	-3,500	-3,500
Proposed budget.	-9,507	-11,700	-12,800	-14,000	-14,500	-14,600

* Each line below is the sum of leasing-related budgetary expenditures and receipts. In each case the net result is a negative outlay since the income to the Government -- the receipts -- is greater than the government's expenditures on leasing. An increase in negative outlays reduces outlays and the deficit.

ELIMINATION OF AIRLINE SUBSIDY PROGRAM FOR AIRLINE DEVELOPMENT

The Administration proposes the elimination of the 406 airline subsidy program administered by the Civil Aeronautics Board. The 419 airline subsidy program, intended to ensure service to local communities as the airline industry is deregulated, will be adjusted to prevent excessive payment to communities shifting from the 406 subsidy program to the 419 program.

The 406 program was created in 1938 in order to develop the air transportation industry in the United States and to improve mail service. Since that time the airline industry has matured and become financially sound. The subsidy program still exists because of the lobbying efforts of subsidized airlines and certain communities receiving subsidized service. There are, in fact, airlines now receiving government funding for service to communities where nonsubsidized airlines are willing to provide service.

The 419 airline subsidy program, created to guarantee air service to communities served by no more than one airline, will be adjusted so that no community newly entering the program will be able to receive more in 419 subsidy than it had received under the other program. This will prevent subsidy to Alaskan communities from sky-rocketing.

By discontinuing this obsolete program, approximately $210 million will be saved over the next 5 years. The government will ensure air transportation service to local communities under the 419 program while eliminating excessive subsidies.

Authorizing legislation will be submitted to Congress to eliminate the existing 406 program. Legislation will also be submitted to amend the 419 program to prevent any community from receiving greater subsidy than it had directly or indirectly received under the 406 program.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	144	144	143	138	123	97
Outlays.............	148	144	143	139	124	99
Policy reduction:						
Budget authority....	---	-56	-64	-54	-34	-2
Outlays.............	---	-50	-64	-54	-34	-2
Proposed budget:						
Budget authority....	144	88	79	84	89	95
Outlays.............	148	94	79	85	90	97

TERMINATION OF FUNDING FOR CONRAIL

As part of a general effort to reduce the public tax burden and allow market principles to apply, the Administration intends to wean Conrail from all Federal subsidies.

No funding will be provided to aid Conrail beyond 1982. The original intent of the law leading to Conrail's formation in 1976 was that it become a self-sufficient corporation; this policy change will require Conrail to attain that goal more quickly. Major reform of Conrail, including (a) substantial track abandonment, (b) reduction in Conrail's workforce and changes in work rules, and (c) State and/or local support for losing or marginal rail lines is necessary for self-sustaining operations. Without such reform, dismemberment of Conrail through sale of its lines to other railroads may become a necessity.

Conrail provides freight and commuter rail service over 17,000 route miles in the Northeastern quadrant of the United States. It was founded in 1976 as a consequence of the financial collapse of the Penn Central and six other Northeastern railroads. Originally, it was estimated that Conrail would require a total of $2.1 billion in direct Federal aid and $0.2 billion in payments to adversely affected railroad employees. Instead, Federal payments made from 1976-1981 to Conrail, its employees, and its predecessor railroads exceed $5.7 billion: $3.3 billion in direct aid, $0.3 billion in payments to Conrail employees, and $2.1 billion for an out-of-court settlement with the Penn Central regarding the value of properties transferred to Conrail in 1976.

A "status quo" Conrail would cost the Federal Government an additional $1.5-2.0 billion in direct aid between 1981-1985, as well as hundreds of millions of dollars in payments to Conrail employees and in court and judgment costs as a result of outstanding law suits.

Although a $350 million 1981 supplemental appropriation is requested to keep Conrail intact this year, $100 million of this appropriation will be reserved for use in 1982, contingent upon assurances that a long-run solution can be worked out to resolve Conrail's problems. Legislation will be proposed after pending studies are completed in April.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	185	450	550	300	150	100
Outlays.............	185	450	550	300	150	100
Policy changes:						
Budget authority....	+350	-400	-550	-300	-150	-100
Outlays.............	+250	-300	-550	-300	-150	-100
Proposed budget:						
Budget authority....	535	50	---	---	---	---
Outlays.............	435	150	---	---	---	---

REDUCTION OF EXPORT-IMPORT BANK DIRECT LENDING

To help control the expansion of Federal credit programs, particularly those with a subsidy element, the Administration will propose that the Export-Import Bank's authority to make new direct loans be set at $4.4 billion in 1982, down 12% from the Carter budget and 31% from the current base.

The Bank's lending operations grew by over 400% from 1977 to 1980. The Carter administration used the Bank as a vehicle for head-to-head competition with foreign export subsidy programs. Some argue that rapid further growth in the Export-Import Bank's direct loans is necessary to expand exports, reduce U.S. trade deficits, and halt the decline in the U.S. share of world trade. However, the international accounts of the United States are now strong compared to other major industrial countries. The U.S. current account balance has improved by nearly $20 billion since 1978 while those of Germany and Japan have declined by $26 billion and $30 billion respectively. Further, the U.S. share of world trade has increased in recent years. This excellent U.S. export performance has resulted primarily from cyclical changes in the U.S. and foreign economies, and not from growth in the Bank's direct lending.

Because of the Bank's past lending policies, its credit facilities tend to be regarded as entitlement programs. Moreover, a large proportion of the Bank's annual lending supports exports by a handful of large firms. In 1980, seven firms accounted for two-thirds of direct loans. Further, the Bank's subsidy to foreign borrowers results in a low rate of return to the U.S. economy and a drain on capital that reduces or eliminates the benefits from trade.

The Administration's proposal will enable the Bank to offer substantial levels of credit to U.S. exporters; but credit terms will be less generous and credit will be more carefully targeted. In addition to benefiting from the regular, long-term direct loans, smaller U.S. exporters will continue to be assisted by the Bank's medium-term discount loan program. This component of the Bank's direct lending will be maintained at $400 million annually rather than eliminated as proposed by President Carter.

By restraining the growth of these programs, Federal outlays and the Federal deficit can be reduced by more than $6 billion over the next 5 fiscal years. At the same time, the objective of promoting exports will be supported at historically high levels. The changes will have only a nominal impact on the level of U.S. exports because (1) previous credit levels were unnecessarily high, (2) the direct loan program finances only 2 to 3% of U.S. exports, and (3) as inflation and interest rates subside, the demand for the Bank's credit will fall.

The Export-Import Bank's budget levels will change as follows:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Loan authorizations.	5,900	6,410	6,880	7,310	7,710	8,100
Budget authority....	7,010	5,930	5,700	6,050	6,390	6,690
Outlays.............	2,340	2,780	3,040	2,770	2,960	3,190
Policy reduction:						
Loan authorizations.	-752	-2,010	-2,090	-2,350	-2,500	-2,650
Budget authority....	-750	-1,980	-2,110	-2,250	-2,410	-2,560
Outlays.............	-60	-410	-990	-1,380	-1,600	-1,710
Proposed budget:						
Loan authorizations.	5,148	4,400	4,690	4,960	5,210	5,450
Budget authority....	6,260	3,950	3,590	3,800	3,980	4,130
Outlays.............	2,280	2,370	2,050	1,390	1,360	1,480

REDUCTION OF PUBLIC SERVICE AND REVENUE FORGONE SUBSIDIES TO THE POSTAL SERVICE

The Administration believes that the costs of mail service should be borne by users, not taxpayers. The U.S. Postal Service currently receives a Federal subsidy equivalent to about 7% of its total operating budget. The Federal payment subsidizes certain mail users and increases the financial burden for all taxpayers. This proposal would reduce that burden by $632 million in 1982.

These subsidies undercut the incentives for the Postal Service to realize operational efficiencies, slowing the progress toward full financial independence. Artificially suppressed mail rates for certain users, made possible by these subsidies, encourage inefficient use of the mail system.

This proposed reduction would affect the public service subsidy and the revenue forgone payments to the Postal Service. The public service subsidy offsets the costs of maintaining services that are not self-sustaining. The revenue forgone subsidy provides funds for free and reduced rates for certain classes of mail.

Under this proposal, the public service subsidy will be phased out by 1984, and the revenue forgone payment will be reduced from $789 million to $500 million.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	1,593	1,501	1,409	1,317	1,317	1,317
Outlays.............	1,593	1,501	1,409	1,317	1,317	1,317
Policy reduction:						
Budget authority....	-250	-632	-690	-765	-779	-779
Outlays.............	-250	-632	-690	-765	-779	-779
Proposed budget:						
Budget authority....	1,343	869	719	552	538	538
Outlays.............	1,343	869	719	552	538	538

5. STRETCH OUT AND RETARGET PUBLIC SECTOR CAPITAL IMPROVEMENT PROGRAMS

Department of Transportation

REDUCTION OF FEDERAL HIGHWAY CONSTRUCTION GRANTS

The Administration will propose highway legislation to establish program structure and funding for the next 5 years. As with other major federally supported public sector investment programs, the Administration's highway program proposal will involve stretching out and slowing down construction of lower priority highway projects. This action is required to help stem the near-term instability and deterioration of the U.S. economy. In addition, the Administration will propose to eliminate many of the existing special categorical programs, allowing State and local governments to set their own priorities and to assume responsibility for highway programs not directly affecting the Federal priorities of preserving interstate commerce and providing for the national defense. Both the primary system and the Interstate highway system in particular will continue to receive a high level of Federal funding. Some lower priority Interstate highway projects, however, will be eliminated to allow final completion of the system by the 1990 statutory deadline.

The proposed changes in the Federal highway program will produce budget savings of approximately $12.6 billion through 1986. At the same time, the clear focus of Federal attention and funding on the higher priority Interstate and primary systems, along with greater responsibility and flexibility at the State level, will ensure that highway transportation systems continue to serve the Nation's needs.

To implement the Administration's highway program, the Administration will propose changes in the existing 1982 highway authorizations. Authorization levels for 1983 through 1986 will also be proposed.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	9,200	9,926	11,054	11,979	12,789	13,586
Outlays.............	8,734	8,401	9,854	10,828	11,503	12,395
Policy reduction:						
Budget authority....	---	-1,390	-1,964	-2,546	-3,243	-3,437
Outlays.............	---	-244	-1,211	-1,700	-2,088	-2,234
Proposed budget:						
Budget authority....	9,200	8,536	9,090	9,433	9,546	10,149
Outlays.............	8,734	8,157	8,643	9,128	9,415	10,161

REDUCTION IN FEDERAL MASS TRANSIT CAPITAL GRANTS

The revised budget reduces funding levels for mass transit capital grants. The budget savings are primarily achieved by reducing the amount of funds for constructing new rail transit systems and extending existing systems. The revised budget continues to recognize a Federal interest in improving transit services through grants to purchase buses and update existing rail systems -- particularly in large, concentrated urban areas. The construction of new rail transit systems or extensions has not proved, however, to be as cost-effective as less capital intensive projects. The five rail system construction projects now underway that receive Federal assistance (Washington, Miami, Buffalo, Baltimore, and Atlanta) require approximately $75 million a mile to construct and equip for operation. The same $75 million could be used to buy more than 500 buses. Federal assistance for such rail construction projects will be postponed at least until the economic situation and the condition of the Federal budget improve.

These changes are needed because:

-- Primary responsibility for mass transit should remain with State and local governments.

-- In the present economic situation, Federal emphasis should be concentrated on maintaining existing transit systems that have proved effective and are an essential part of a large urban transportation network.

-- The availability of steadily increasing Federal transit funding and Federal regulatory requirements has sharply escalated new transit system costs. Federally financed rail systems are often built with extravagant features; construction wages paid are sometimes excessively high due to Federal laws; and routes are added where they are not justified from an economic point of view. In comparison to the $75 million a mile cost for the five federally assisted projects noted above, San Diego is building a trolley line, without any Federal assistance, costing less than $6 million a mile.

-- Transit system energy savings are nonexistent or small in the short run and too speculative in the long run to justify major Federal investments on energy efficiency grounds. It has been estimated that BART, the San Francisco Bay Area rapid rail system, required so much energy during its construction that this initial energy investment may never be repaid.

-- Under these conditions, and the immediate imperative need to reorder Federal priorities, Federal investment in new fixed guideway systems cannot be justified.

The proposed budget emphasizes the following:

-- The central focus of the Federal transit assistance program in the future will be on the maintenance and improvement of existing, proven transit systems. Thus, funding for bus and rail modernization projects will be continued and increased in future years.

-- New transit systems and planning activities associated with such systems will no longer be federally financed.

-- Transit systems for which the Federal Government has issued formal letters of intent and where construction is underway will be financed to complete operable transit segments.

-- Downtown People Mover and Urban Initiatives projects will be terminated immediately but Urban Initiatives projects already under construction will be completed.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	3,340	3,650	3,762	4,070	4,368	4,647
Outlays.............	2,744	2,800	3,010	3,337	3,669	3,996
Policy reduction:						
Budget authority....	-210	-950	-1,047	-1,220	-1,368	-1,497
Outlays.............	-31	-270	-545	-975	-1,284	-1,480
Proposed budget:						
Budget authority....	3,130	2,700	2,715	2,850	3,000	3,150
Outlays.............	2,713	2,530	2,465	2,362	2,385	2,516

REDUCTION OF AIRPORT CONSTRUCTION GRANT PROGRAM

The Administration will propose legislation to reduce the annual funding available for airport construction grants during 1981-1986 by 33%.

The need to expand airport capacity is no longer so critical as it was in the past when aviation traffic increased significantly on an annual basis and the development of new aircraft required wider and longer runways. The effects of the reduction on aviation safety will be negligible since almost no aviation accidents are related to the physical features of airports and the vast majority of federally aided projects either increase airport capacity or promote operational safety.

For 1981 and 1982, the reductions could be taken across-the-board in both entitlement and discretionary grant programs. Consideration also will be given to achieving the reductions by restructuring the existing programs and possibly excluding large commercial airports from grant eligibility. Large airports usually have a strong financial base from landing fees and space rental charges with which to finance a capital program. Thus Federal construction grants are usually only a small portion of a large airport's capital program. In Miami, for instance, the Federal construction grants equal approximately 10% of the airport's total program.

At present, authorizations for the airport construction grant program have expired. The 96th Congress failed to act on a legislative proposal submitted by the Carter administration to extend the airport grant program and to allow continued use of the airport and airway trust fund to finance the program. The Administration is proposing new authorizing legislation that will include reduced annual funding levels. Total savings of $1.8 billion are expected through 1986 as a result of this proposal.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	722	750	818	885	950	1,011
Outlays.............	595	625	671	726	779	829
Policy reduction:						
Budget authority....	-272	-250	-278	-305	-330	-371
Outlays.............	-120	-140	-161	-196	-219	-239
Proposed budget:						
Budget authority....	450	500	540	580	620	640
Outlays.............	475	485	510	530	560	590

EXTEND WATER RESOURCE DEVELOPMENT PROJECT CONSTRUCTION

The Administration will propose an 11% reduction in the planned construction program of the Corps of Engineers-Civil, Water and Power Resources Service, and Soil Conservation Service.

This reduction will not delay the realization of hydroelectric, municipal water supply, navigation, or urban flood control features, but will defer some less critical parts of projects such as the development of recreation areas and some rural flood control and irrigation deliveries.

Only about 70 of the more than 300 projects underway will experience any delay. The delays in bringing non-critical features on-line will average 2 years and will reduce Federal expenditures by $1.6 billion over the next 5 years.

These proposals result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	2,415	2,660	3,124	3,262	3,113	2,772
Outlays.............	2,520	2,675	3,120	3,258	3,110	2,772
Policy reduction:						
Budget authority....	---	95	340	545	515	215
Outlays.............	---	90	337	544	514	217
Proposed budget:						
Budget authority....	2,415	2,565	2,784	2,717	2,598	2,555
Outlays.............	2,520	2,585	2,783	2,714	2,596	2,555

REFORM OF MUNICIPAL WASTE TREATMENT GRANTS TO REDUCE THE COST OF ACHIEVING ENVIRONMENTAL PROTECTION

The President is proposing reduced appropriations and a more cost-effective targeting of the municipal waste treatment grant program administered by the Environmental Protection Agency. This action will reduce near term expenditures for capital investments, consistent with the need to reduce Federal expenditures. Through major reforms to the program, it will also relieve the burden on the Federal Government for financing projects that improve the environment only marginally or not at all. These reforms will greatly reduce the current Federal responsibility from the estimated $90 billion required under current law; and would do so without sacrificing our objective of cleaner water.

The change in the program will be achieved by the following three actions: (1) a rescission of $1 billion in appropriations for 1981; (2) proposing legislation to require Federal funding of only those projects that are selected and designed to significantly improve the quality of the receiving waters in the near term; and (3) withdrawing the request to appropriate 1982 funds until the reforms have been enacted. There are $15 billion already appropriated from the Treasury but not yet spent, which will be used to continue construction on committed facilities. New starts that would have been funded with the 1981 funds proposed for rescission and with the 1982 appropriation will be postponed until reform legislation is enacted. At that point, $2.4 billion will be proposed.

Specific legislation will be forwarded to Congress by the Environmental Protection Agency in the near future. This legislation will concentrate the program on treatment projects that directly enhance the quality of receiving waters. Projects, or features of projects, that do not result in direct environmental improvement, or which focus on future community growth will have to be built, if at all, without Federal assistance. Examples of projects that would no longer be eligible for Federal funding include new interceptor sewers, the funding of capacity to meet future population projections, and collection sewer systems that contribute to urban sprawl and have a marginal impact on water quality.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	3,305	3,610	3,940	4,260	4,570	4,865
Outlays.............	4,200	4,220	4,230	4,250	4,100	4,100
Policy reduction:						
Budget authority....	-1,000	-3,610	-1,540	-1,860	-2,170	-2,465
Outlays.............	---	-125	-1,045	-1,970	-1,960	-1,950
Proposed budget:						
Budget authority....	2,305	---*	2,400	2,400	2,400	2,400
Outlays.............	4,200	4,095	3,185	2,280	2,140	2,150

* Contingent upon the enactment of needed reforms by the Congress, an appropriation of $2.4 billion will be requested for 1982.

6. IMPOSE FISCAL RESTRAINT ON OTHER PROGRAMS OF NATIONAL INTEREST

Department of Commerce

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (DEPARTMENT OF COMMERCE)

The National Oceanic and Atmospheric Administration (NOAA) does many things that we as a Nation value highly (e.g., hurricane and tornado warnings and protection of endangered marine mammals); however, States and localities should assume responsibility for those NOAA programs from which they directly benefit. The Administration will therefore propose a $150 million reduction in 1982 for NOAA programs. Funding will be terminated for the Coastal Energy Impact Program (CEIP) and the Coastal Zone Management (CZM) State grant program. Federal grant assistance will be reduced to Sea Grant Colleges by 50%. In addition, the development of the National Ocean Satellite System (NOSS) will be deferred.

The Administration proposes to terminate the CEIP program because the local impacts from oil and gas development have proven to be far less than originally anticipated and well within the capability of States and localities to handle. The overall coastal population is only expected to increase by about 8,000 persons a year as a result of coastal energy development. Louisiana, which has received a large portion of CEIP funds, also received severance taxes from oil and gas -- amounting to roughly $500 million in 1979. These funds could be used to assist persons in relocating.

The CZM program has largely achieved its purpose. States covering 78% of the coastline already have received 7 years of Federal assistance to develop, implement, and administer their coastal zone management programs. Continuation of the State CZM programs and any additional improvements should be financed by the States. Grant reductions to the 16 designated Sea Grant Colleges are proposed because the research and information derived from these institutions is primarily of local, State, or regional benefit and can be conducted without NOAA funding. The global weather data that could be generated by NOSS is of long-term scientific importance, but it can be postponed at a total Government savings of $900 million over the next 7 years.

NOAA program costs can thus be reduced by more than $1 billion over the next 5 years. These changes are consistent with the original intent of the coastal programs -- to provide Federal assistance only when essential and for front-end seed money. The cost of NOSS is too high at this time and oceanographic data needs can be met through other means. These changes will reduce Federal spending without affecting NOAA's primary missions.

A short description of the above programs follows:

-- The Coastal Energy Impact Program (CEIP) provides Federal assistance to States and localities to plan for and mitigate the impact of coastal energy development activities.

-- The Coastal Zone Management (CZM) program provides Federal grant assistance to 25 States to protect and develop in a "rational" manner their coastal zone.

-- The Sea Grant program was designed to develop marine research capabilities across the country in participating Sea Grant Colleges.

-- The proposed national ocean satellite system would be used to obtain oceanographic data for civil weather prediction and to assess the role of the ocean in determining the world's climate. In addition to NOAA, DOD and NASA would share in the $900 million cost of NOSS, which is in the early stages of development.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	92	184	224	262	275	268
Outlays.............	145	175	217	265	274	249
Policy reduction:						
Budget authority....	-9	-152	-202	-238	-250	-241
Outlays.............	-6	-69	-148	-216	-253	-223
Proposed budget:						
Budget authority....	83	32	22	24	25	27
Outlays.............	139	106	69	49	21	26

REDUCTION OF SCHOOL ASSISTANCE IN FEDERALLY AFFECTED AREAS (IMPACT AID)

The Administration recognizes that the primary responsibility for financing elementary and secondary education rests with State and local governments. Federal spending is justifiable only in those circumstances in which a clear Federal role can be identified. In the Impact Aid program, the Administration proposes to direct scarce Federal resources only to those school districts most seriously burdened by the presence of nontaxable Federal property.

In 1982, a 45% reduction in the maintenance and operations portion of Impact Aid will be achieved by eliminating payments for children whose parents contribute to the support of their education through State and local taxes. Payments will be made only to those school districts in which children who reside and whose parents work on Federal property represent 20% or more of total enrollment. A legitimate Federal role in supporting the education of these children has long been recognized. Maintenance and operation payments will be made to the 330 most heavily burdened districts while State and local education agencies would assume total responsibility in over 3,500 other districts that currently receive payments.

Given present constraints, it is no longer feasible to provide substantial support under the Impact Aid program to school districts solely on the basis of the residence pattern of Federal employees. With the exception of the tiny fraction of Federal employees who are exempt from income taxes in the District of Columbia by virtue of employment with a Congressman from their home state, all other Federal employees pay state income, real property, and personal property taxes in the jurisdictions in which they live in a manner no different than other citizens. To the extent that well-paid Federal employees augment the tax base of the regions in which they live, there is no justification for additional Federal payments to the schools to which they send their children solely on the grounds of residence.

The following specific program changes will be made for 1982. Payments will be made for "A" children in "Super A" districts (those districts with 20% or more "A" children enrolled) at 90% entitlement; payments for "A" low-rent housing children in "Super A" districts will be limited to 20% entitlement; and payments to "B" military or civilian children will be eliminated. In 1981 the payments for maintenance and operations assistance would be made at 90% of a district's entitlement through a rescission of $67 million.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	790	875	953	1,032	1,107	1,178
Outlays.............	932	888	968	1,047	1,127	1,196
Policy reduction:						
Budget authority....	-67	-474	-523	-567	-608	-632
Outlays.............	-82	-450	-500	-551	-584	-613
Proposed budget:						
Budget authority....	723	401	430	465	499	546
Outlays.............	850	438	468	496	543	583

REDUCING FUNDING FOR VOCATIONAL EDUCATION

The Administration will propose a 20% reduction in funding from the Carter 1982 budget request for the Department of Education's Vocational Education program.

The Vocational Education Act provides for Federal support of vocational education programs. Most of the funding for these programs is through formula grants to the States, which require the States to match Federal dollars. State and local education agencies currently provide more than $10 for every Federal dollar spent for vocational education. Therefore, Federal expenditures at the current services level are not needed to ensure that significant vocational education programs are carried on in the States.

Continued high levels of Federal vocational education funding can no longer be justified on the grounds that Federal funds are required to leverage State and local resources to provide vocational education services to special target populations. The populations that usually most require Federal support are not the major focus of the programs. In school year 1978-79, only about 15% of total vocational education program participants were disadvantaged, handicapped, or had limited English speaking ability.

The proposed 20% reduction in budget authority will have a negligible effect on vocational education enrollment since State and local expenditures far outweigh Federal appropriations. In recent years, participation in vocational education programs has continued to increase even though there have been virtually no increases in Federal appropriations.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	779	859	910	974	1,039	1,104
Outlays.............	767	962	962	881	1,015	1,068
Policy reduction:						
Budget authority....	---	-236	-242	-259	-277	-294
Outlays.............	---	-220	-242	-252	-269	-283
Proposed budget:						
Budget authority....	779	623	668	715	762	810
Outlays.............	767	742	720	629	746	785

REDUCTION OF FUNDING FOR THE NATIONAL INSTITUTE OF EDUCATION

The Administration will withdraw the $5 million supplmental proposed by the Carter administration for the National Institute of Education (NIE) for 1981 and reduce funding for NIE in 1982 and succeeding years by 25%. The research and dissemination activities of the NIE, while occasionally making valuable contributions to the theory and practice of education, are of relatively low priority given present budgetary conditions.

NIE funds research and demonstration activities in three areas: basic educational research, educational organization and administration, and dissemination of the results of research and demonstrations to practitioners in the field. While the latter activity can, in certain instances, have immediate payoffs in improved educational practice at the local level, the other activities of the NIE pay off, if at all, only in the longer run. While basic educational research has value, deferrals and stretch outs of work currently underway can achieve significant budgetary savings without reducing the ability of the NIE to support improvements in current educational practice. The Administration proposal provides the Secretary of Education with considerable flexibility to reallocate remaining funds toward those efforts that will result in continued improvements in educational practice.

As a result of these reductions, NIE will be provided with budget authority of $74 million in 1981 and $61 million in 1982. Budget authority will be reduced by 25% annually or by $117 million over the next 5 years.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	74	81	87	94	100	105
Outlays.............	71	80	83	88	93	100
Policy reduction:						
Budget authority....	---	-20	-22	-23	-25	-27
Outlays.............	---	-22	-20	-20	-21	-22
Proposed budget:						
Budget authority....	74	61	65	71	75	78
Outlays.............	71	58	63	68	72	78

REDUCING FEDERAL SUPPORT TO MUSEUMS

The Administration proposes to terminate the Institute for Museum Services, which awards grants to museums principally for general operating support. This proposal is part of an overall Administration effort to rethink Federal support of cultural activities. While museums and other repositories of cultural artifacts are important in our society, they have traditionally been the beneficiaries of private philanthropy, for both construction and operating funds.

It is true that the overall decline in economic conditions in recent years and punishingly high personal and corporate tax rates have diverted private capital into tax shelters rather than expenditures that benefit society as a whole. The Administration proposes to attack these problems directly, however, through its overall economic program. A healthy and expanding economy will provide far more effective support for cultural activities than any reasonable amount of explicit Federal support.

The change will be achieved by proposing a rescission of -$12 million for 1981 and a -$16 million budget amendment for 1982 to eliminate funds for grants to museums. Some administrative support will be maintained through 1982 in order to phase out agency activities.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	13	14	15	16	18	19
Outlays.............	13	12	13	14	16	18
Policy reduction:						
Budget authority....	-12	-14	-15	-16	-18	-19
Outlays.............	-2	-12	-13	-14	-16	-18
Proposed budget:						
Budget authority....	1	*	---	---	---	---
Outlays.............	11	2				

* $500,000 or less.

REDUCTIONS IN ENERGY REGULATION IN THE DEPARTMENT OF ENERGY

The President's commitment to ending unnecessary Government regulatory programs will permit a sizeable reduction in spending and removal of large numbers of Federal employees from Government payrolls. Oil decontrol has enabled the President to propose elimination of the Department of Energy regulatory activities that were designed to compensate for the marketplace imbalances caused by price controls on oil. Department of Energy programs such as the price and allocation regulatory functions of the Economic Regulatory Administration, interventions in State public utility proceedings, mandatory fuel-use restrictions, and the cumbersome coupon rationing system will be completely eliminated or replaced by streamlined programs relying on market forces.

The proposed reductions total $150 million, or a reduction of 57% from 1982 budget authority levels.

The program changes are expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	260	261	243	233	232	225
Outlays.............	262	249	244	234	228	224
Policy reduction:						
Budget authority....	-33	-150	-138	-131	-127	-118
Outlays.............	-33	-127	-140	-132	-123	-117
Proposed budget:						
Budget authority....	227	111	105	102	105	107
Outlays.............	229	122	104	102	105	107

REDUCTION IN DEPARTMENT OF ENERGY GENERAL SCIENCE PROGRAMS

As part of its overall policy of reducing funding levels to assist in resolving the Nation's fiscal and economic crisis, the Administration proposes a reduction of $40 million in the Department of Energy's general science programs in life sciences and nuclear medicine, high-energy physics, and nuclear physics. This reduction will still provide an increase over 1981 to cover anticipated inflation in recognition of the importance of basic research in these and other fields of the natural sciences as an investment in the Nation's future.

These programs, especially high-energy physics, depend upon large, complex facilities and instruments to conduct their basic experiments. The cost of operation and maintenance for these facilities has substantially increased in recent years, particularly with rising energy costs.

The specific impacts of these reductions will be a temporary stretch-out of new construction, a general decrease in operating level and utilization, a general reduction in the level of experimentation for medium-energy nuclear physics, nuclear medicine and life sciences, and deferrals of new accelerator construction at universities.

In 1983 and beyond, the Administration projects a constant level of effort funding that would ensure the viability of these basic research activities in the future.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	504	607	653	708	755	801
Outlays.............	510	602	651	708	755	801
Policy reduction:						
Budget authority....	-5	-40	-45	-61	-72	-84
Outlays.............	-4	-29	-43	-61	-72	-84
Proposed budget:						
Budget authority....	499	567	608	647	683	717
Outlays.............	506	573	608	647	683	717

ELIMINATION OF EXCESSIVE ENERGY INFORMATION AND DEPARTMENTAL OVERHEAD ACTIVITIES

As part of the effort to reduce excessive Federal Government overhead costs and burdensome information gathering activities, the Administration plans a significant reorientation and reduction in the data and analytic services of the Energy Information Administration (EIA) in the Department of Energy. Various department-wide support and administrative functions will also be cut back consistent with diminished activity elsewhere in the Department.

The budget for EIA programs has grown significantly in the past 4 years. Much of this growth has been to create new or more detailed data systems and refined analyses of limited practical value. As a result, the Government has created a growing demand for energy consultants and statisticians. The proposed change will reverse the trend toward ever more detailed statistics and assessments. EIA efforts will be focused on basic oil, gas, coal, and electric utility data systems, with improvements in these systems made as warranted, and on publications of proven value, such as the Monthly Energy Review. Emphasis will be on national level data; State level data, costly to collect, will be cut back. Recently created systems that have produced information readily available elsewhere will be significantly reduced or eliminated. Analytical efforts will be reoriented to provide faster, more relevant analysis and eliminate duplication with other Department of Energy offices. Reduced activity of other Energy Department units will also reduce the need for EIA support.

Energy Department overhead activities such as accounting and personnel are proposed to be cut back largely to complement reductions proposed for other areas of the Department of Energy. Other proposed decreases occur in department-wide functions such as policy analysis, international energy activities, public information and other programs for which there is now less need because market forces will be playing a larger role in resolving energy issues.

To achieve these results, the President will propose appropriate budget amendments as well as any legislation needed to reduce data requirements written into law.

The proposal is expected to reduce EIA and departmental administration budget authority by $38 million or 10% in 1982. Total funding requirements and changes are as follows:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	366	398	405	414	423	431
Outlays.............	356	387	405	414	423	431
Policy reduction:						
Budget authority....	-13	-38	-62	-67	-73	-78
Outlays.............	-3	-27	-62	-67	-73	-78
Proposed budget:						
Budget authority....	353	360	343	347	350	353
Outlays.............	353	360	343	347	350	353

MODERATE GROWTH FOR THE NATIONAL INSTITUTES OF HEALTH

Reflecting the Administration's commitment to Federal support of essential biomedical research activities, funding increases will be proposed for continued growth of the National Institutes of Health (NIH). NIH provides support for biomedical research, primarily through NIH's eleven Institutes. Research project grants, made mostly to individual researchers and research teams, account for approximately one-half of NIH's budget. Other NIH funds support a variety of research and training activities, including the NIH intramural research program, research centers, and contracts.

This funding will allow continuation of previous years' commitments and permit substantial numbers of new awards each year. As part of a general effort to achieve economies and reduce lower priority activities, however, the funding increases will not fully cover projected inflation. Real reductions below the current base will be made across all NIH Institutes.

Despite these overall reductions, however, the Administration remains committed to NIH research project grants as a vehicle for stimulating scientific breakthroughs that return benefits to society far in excess of the Federal commitment of funds.

One of the principal areas of reduction will be the institutional payments made for NIH (and other) research training under the national research service awards (NRSA) program. This proposal would eliminate the current practice of paying more to an institution for a Federally supported trainee than is charged in tuition and fees to non-federally supported students at the same institution. All trainees would continue to receive awards for their tuition, fees, and living expenses.

For 1981, the Administration will request budget authority reductions totaling $126 million below the NIH current base but still allowing a $89 million increase over the 1980 level. For 1982, a further increase of $246 million, from $3.5 billion to nearly $3.8 billion in budget authority, will be requested. In addition, the Administration will propose that the legislative requirement for the institutional payments under NRSA be eliminated.

The reductions are expected to result in the following changes in funding for NIH:

	1981	1982	1983	1984	1985	1986
	(in millions of dollars)					
Current base:						
Budget authority....	3,644	3,961	4,250	4,514	4,762	5,000
Outlays.............	3,432	3,731	4,003	4,251	4,485	4,709
Policy reduction:						
Budget authority....	-126	-197	-373	-512	-628	-726
Outlays.............	-54	-145	-336	-468	-584	-682
Proposed budget:						
Budget authority....	3,518	3,764	3,877	4,002	4,134	4,274
Outlays.............	3,378	3,586	3,667	3,783	3,901	4,027

Note: Elimination of NRSA is expected to result in the following change in funding for the Alcohol, Drug Abuse, and Mental Health Administration (not included above):

Budget authority....	-4	-5	-5	-6	-6	-7
Outlays.............	-1	-4	-4	-6	-5	-6

ELIMINATE MEDICAL SERVICES ENTITLEMENT FOR MERCHANT SEAMEN

The Public Health Service (PHS) has operated a wholly federally financed medical care system for merchant seamen since 1798. The original purpose of the entitlement was to protect the Nation from communicable diseases that could be brought into the country from foreign ports at a time when there were few medical facilities in American port cities. Today, those cities have sufficient medical facilities. Moreover, through the years, this entitlement has been expanded from merchant seamen to merchant seamen union members -- including tugboat operators, fishermen, offshore drilling crewmen, and others in addition to oceangoing seamen. Thus, a program that was originally designed to provide occasional onshore benefits for seamen who spent most of their days at sea has become, in effect, a free Government health delivery program for selected classes of occupations. The Administration will seek repeal of this entitlement and closure of the remaining eight PHS hospitals and 29 clinics now providing free medical care.

The PHS hospital and clinic system, moreover, is under-used and actually aggravates health care costs in cities where the hospitals are located. Improved health, the declining size of the oceangoing merchant fleet, and the growth of collectively bargained health care plans have led to low demands on the PHS hospital system. Occupancy rates of the hospitals have averaged about 60% since 1976, compared to national minimum standards of 80% occupancy. In addition, all of the hospitals are located in areas with an excess supply of hospital beds, and all of the eight affected cities have at least one other Federal facility operating at less than 80% occupancy to care for non-merchant seamen patients entitled to Federal care. Thus, this proposal will affect appreciably neither merchant seamen's access to care, nor the eight cities where the hospitals and clinics are located.

Most of the hospitals and clinics have also been serving a small number of low-income people in their areas, largely on an outpatient basis, in order to fill unused capacity. This proposal includes funds to allow the Department of Health and Human Services to pay for such services by contract in 1982 while seeking arrangements for indigent care with other under-utilized hospitals in affected areas.

The Administration will seek a $39 million rescission of 1981 funding to begin phasing out the hospitals and clinics this year. For 1982, a $110 million reduction from current requirements will be sought. Under this schedule, the entire system will either be closed or turned over to local communities that wish to maintain the facilities by the end of 1982. Savings over the 1981-86 period will be more than $900 million.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	157	171	183	194	205	215
Outlays.............	157	171	183	194	205	215
Policy reduction:						
Budget authority....	-39	-110	-183	-194	-205	-215
Outlays.............	-39	-110	-183	-194	-205	-215
Proposed budget:						
Budget authority....	118	61	---	---	---	---
Outlays.............	118	61	---	---	---	---

BETTER TARGETING OF FEDERAL SUBSIDIES FOR HEALTH PROFESSIONS EDUCATION

As part of its plans for better targeting the allocation of Federal funds, the Administration will propose to end large general subsidies for the training of physicians and other health professionals. Such programs are no longer necessary in light of the growing projected supply of most health professionals. Instead, Federal programs will be directly targeted on training needs of national priority.

During the 1960's and the 1970's, the supply of health professionals increased dramatically, partly as a result of Federal subsidies of about $18 billion. During the 1970's, the annual number of graduates from medical schools doubled from 8,000 to nearly 16,000. Today, the Nation as a whole has reached or exceeded the estimated required level of health professionals for almost every major specialty. The number of active physicians alone is expected to reach nearly 600,000 by 1990, an increase of 58% between 1975 and 1990.

The Administration will propose legislation to refocus Federal aid on a limited number of national priority medical specialties, rather than providing large subsidies for all specialties. In addition, support for training in non-physician specialties will be focused on occupations, such as nursing, where shortgages persist. By more directly targeting Federal health professions training subsidies on national priorities, program costs can be reduced by about 40% annually, or by more than $1.9 billion between 1982 and 1986. At the same time, higher-priority, more targeted programs will subsidize the education of health professionals in those fields where they are most needed.

The proposed change is not expected to affect the projected surpluses for the coming decade in nearly all health professions areas. Federal student assistance programs in the Department of Education will continue assisting students to finance their own education. In addition, the Administration will continue support at the 1981 appropriated level of $20 million for assistance programs to encourage minorities, who are now under-represented in health professions fields, to choose medicine as a career.

The Administration will propose 1981 rescissions, 1982 budget amendments and legislation to carry out the policy change from general subsidies to national priority grants.

The targeting of Federal subsidies for health professions education is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	368	400	429	456	481	505
Outlays.............	333	359	381	400	417	433
Policy reduction:						
Budget authority....	-219	-280	-309	-336	-361	-385
Outlays.............	-32	-126	-221	-260	-297	-313
Proposed budget:						
Budget authority....	149	120	120	120	120	120
Outlays.............	301	233	160	140	120	120

ELIMINATE UNNECESSARY FEDERAL SUBSIDIES FOR THE DEVELOPMENT OF HEALTH MAINTENANCE ORGANIZATIONS

As part of the effort to eliminate unnecessary Federal subsidies, the Administration will propose to phase out the Federal grant and loan subsidy program to health maintenance organizations (HMOs) by the end of 1983. The Administration believes that after 8 years of Federal support the feasibility of HMO prepaid health care delivery has been adequately demonstrated, and that HMOs can be financially self-supporting institutions developed without continued Federal subsidies. There are now 235 HMOs with 9 million members located in every urban area with a population greater than 1 million, and affiliated with 15% of the Nation's physicians. In recent years, substantial amounts of private capital have been provided for HMO development.

The major impediment to further investment of private capital in HMO development is not a dearth of Federal support but, rather, the unnecessarily restrictive requirements for Federal qualification presently found in the Health Maintenance Organization Act. In fact, artificially high minimum benefit requirements and organizational standards have been a leading source of defaults among small, federally supported HMOs that have found that the heavy Federal requirements priced their benefit packages out of the market.

Amendments will be proposed to the HMO Act, which expires at the end of the fiscal year, to remedy this problem. Once HMOs are no longer required to undertake uneconomic activities, private capital will be readily available for HMO development, obviating the need for further subsidies.

This proposal will also halt Federal losses from further attempts to start HMOs that are not economically competitive. The current subsidy program focuses on entities that could not obtain private financing because of their high risk, and then imposes unusually extensive, costly benefit packages and other conditions that inhibit their competitiveness. As a result, defaults on unsecured loans for HMO operating deficits and required interest subsidy payments will exhaust the $116 million HMO loan revolving fund by the end of the year and will require substantial future spending even without awarding any new loans.

This proposal will drop the Carter administration's supplemental request of $17 million for the loan fund and seek a 1981 rescission of $20 million. No new grants or loans will be made, although HMOs now receiving grant support will be allowed to complete their grant period. The program will be completely phased out by the end of 1983.

This proposal should have no significant effect on development of economically viable HMOs, which can be funded through private sources. Moreover, competitive HMOs will be more effectively encouraged through the health financing reform proposals that the Administration is developing for later submission than through grants and loan subsidies.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	73	59	63	66	69	72
Outlays.............	30	43	45	55	66	73
Policy reduction:						
Budget authority....	-37	-24	-57	-66	-69	-72
Outlays.............	-6	-18	-27	-50	-61	-73
Proposed budget:						
Budget authority....	36	35	6	---	---	---
Outlays......	24	25	18	5	5	---

RESTRAIN EXCESS GROWTH IN THE NATIONAL HEALTH SERVICE CORPS

As part of its efforts to reduce market distortions and Federal subsidies, the Administration will seek no new scholarships for the National Health Service Corps (NHSC) program. This action is intended to prevent unnecessary program growth and costs in the 1990's, when persons receiving new scholarships would complete their training and report for assignment as Federal employees.

The NHSC provides federally employed physicians and other health professionals to areas classified by the Department of Health and Human Services as health manpower shortage areas. Most of the NHSC assignees receive full tuition and stipend support while in medical school for which they owe service on a year-for-year basis.

Serious remaining problems of access to adequate primary care will probably be virtually eliminated within the next few years due to growth in the Nation's supply of physicians, past NHSC scholarship commitments, and a much better than expected reenlistment rate of NHSC assignees who have completed their obligations. At most, 6,000 NHSC assignees -- to serve approximately 12 million underserved people -- are necessary to cover all health manpower shortage areas. However, the NHSC placement program is currently projected to grow from 2,060 in 1980 to 9,000 by 1990, even if new awards were frozen today. In addition, recent data indicate that physicians in general, and primary care physicians in particular, are voluntarily locating in smaller communities, and that specialists in rural areas spend 30% or more of their time on primary care. Finally, since the scholarship pipeline is so long, whatever short-term problems in primary care access remain would not be addressed by new awards.

In addition to the excess supply problem, total program costs for assignees obligated by scholarship are very high. Federal costs now average $100,000 per physician for each year of scholarship-obligated service. Alternative aid programs would be more cost effective. Consequently, the Administration proposes to eliminate all new NHSC scholarship awards in 1981 and 1982 but will allow students who currently have scholarships to complete their training. A 1981 rescission of $16 million in funds proposed for new scholarships will be requested. For 1982 and beyond, no new scholarships will be sought.

These proposals will not adversely affect health manpower shortage areas. The NHSC placement program, which provides health professionals for these areas is projected to continue growing through 1990 even with no new scholarship awards.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	165	195	224	258	295	335
Outlays.............	151	187	206	231	264	300
Policy reduction:						
Budget authority....	-16	-31	-45	-54	-65	-80
Outlays.............	-3	-14	-37	-45	-54	-65
Proposed budget:						
Budget authority....	149	164	179	204	230	255
Outlays.......	148	173	169	186	210	235

PHASING OUT FEDERAL REGULATION OF THE HEALTH CARE INDUSTRY

As part of the general effort to restrain health care costs by stimulating competition in the health care industry, the Administration will propose phasing out the Federal health planning and professional standards review organizations (PSROs) programs. The current health planning program -- administered through 213 local health systems agencies and 57 State health planning and development agencies -- represents an effort to impose a complex national health regulatory program on States and localities. It has not proved effective in controlling costs on a national basis, and it inhibits market forces needed to strengthen competition and provide less costly services. The PSRO program -- administered through 185 relatively autonomous PSROs of widely varying effectiveness -- regulates health care services for medicare and medicaid beneficiaries, and has cost the Nation more to administer than it has saved in reduced health care costs.

Recent studies on the effects of the PSRO program by the Congressional Budget Office provide convincing evidence that the PSRO raises national health care spending. The cost of the nationwide system of hospital utilization review organizations exceeds the resulting savings achieved by reductions in length of hospital stay and lower admission rates. Even this analysis fails to factor in the reality that, due to the perverse way in which hospitals are presently reimbursed for services on a cost basis, cost "savings" achieved through lower medicare and medicaid utilization are simply passed on to hospital users who pay their own bills, or who are covered by private insurance.

If competitive forces are to restrain costs, free entry into health care markets is essential. Otherwise, high-cost providers can monopolize health care markets. The certificate-of-need review process conducted under the health planning program is a system whereby hospitals and other institutional providers must receive a Government franchise before beginning operations. This system inhibits free market entry, often propping up high-cost institutions behind a Government-created entry barrier. Elimination of this franchising system is a necessary element in the Administration's efforts to promote the effective functioning of private market forces in the health care sector.

The health planning and PSRO programs would be phased out over the 1981-1983 period, consistent with a 2-year Administration timetable to develop and carry out health financing reforms that encourage competition in the health sector. To begin the phase-out, a $28 million reduction in funding for health planning will be proposed for 1981, and contracts will be renewed with only those PSROs judged most effective in controlling health care costs. Some transitional funding for the most effective PSROs would be continued into 1983 to allow competing systems of care to contract for their services.

The phase-out is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Health Planning						
Current base:						
Budget authority....	145	158	170	180	190	199
Outlays.............	162	171	172	179	188	197
Policy reduction:						
Budget authority....	-28	-100	-168	-180	-190	-199
Outlays.............	-10	-62	-87	-159	-188	-197
Proposed budget:						
Budget authority....	117	58	2	---	---	---
Outlays.............	152	109	85	20	---	---
PSRO Program						
Current base:						
Obligations.........	174	189	203	215	227	238
Outlays.............	171	186	199	212	223	234
Policy reductions:						
Obligations.........	-38	-119	-136	-215	-227	-238
Outlays.............	-38	-117	-134	-212	-223	-234
Proposed budget:						
Obligations.........	135	70	67	---	---	---
Outlays.............	133	68	65	---	---	---

TERMINATION OF THE HUD PLANNING ASSISTANCE PROGRAM

The President plans to end the planning assistance program of the Department of Housing and Urban Development. The primary intent of this program -- to develop sub-national planning capabilities -- has been realized. There is no evidence that general planning assistance unlinked to program implementation, as in the case here, is effective. To the extent that States and localities benefiting from the program find it worthwhile and of high priority, they can provide funding, or use block grant or general revenue sharing funds for this purpose at their own discretion.

To achieve this policy change, the President will propose a 1981 rescission of all available budgetary resources (estimated to be $33.75 million) and seek an amendment to the 1982 Carter budget in order not to request 1982 funding for this program.

This proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	34	37	39	42	44	46
Outlays.............	40	35	36	39	41	44
Policy reduction:						
Budget authority....	-34	-37	-39	-42	-44	-46
Outlays.............	-3	-26	-36	-39	-41	-44
Proposed budget:						
Budget authority....	---	---	---	---	---	---
Outlays.............	37	9	---	---	---	---

TERMINATION OF THE REHABILITATION LOAN FUND

The President plans to abolish the rehabilitation loan fund of the Department of Housing and Urban Development. This fund unnecessarily duplicates the rehabilitation efforts of the community development block grant (CDBG) program. CDBG recipients annually use about 30% of their block grant funds for rehabilitation in any given year. In 1981 about $1.1 billion from CDBG appropriations will be used for rehabilitation. By contrast, the rehabilitation loan fund would have funded only $200 million of rehabilitation in 1981. Furthermore, CDBG-funded rehabilitation is more flexible than rehabilitation through the fund since CDBG-funded rehabilitation can make use of direct grants, which can reach very low-income recipients who would not be eligible for loans, interest subsidies, or loans. By contrast, the rehabilitation loan fund provides only loans. The change also replaces Federal control with local decision-making.

To achieve this policy change, the President will propose a 1981 rescission of all available budgetary resources (estimated to be $130 million), plus all repayments from prior loans (estimated to be $62 million for 1981). In addition, an amendment to the 1982 Carter budget will be sought so as not to request 1982 funding for this program.

This proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	130	130	134	138	140	142
Outlays.............	133	134	136	138	140	142
Policy reduction:						
Budget authority....	-130	-130	-134	-138	-140	-142
Outlays.............	-63	-191	-210	-211	-213	-214
Proposed budget:						
Budget authority....	---	---	---	---	---	---
Outlays.............	70	-57	-74	-73	-73	-72

TERMINATION OF THE NEIGHBORHOOD SELF-HELP DEVELOPMENT PROGRAM

The President plans to end the neighborhood self-help development program of the Department of Housing and Urban Development. The neighborhood self-help development program largely duplicates the efforts of the Neighborhood Reinvestment Corporation, a public corporation, and community development block grant funds can be used for the same purposes as self-help funds, with the additional benefit that city officials are directly involved. Given the small size of this program and the alternative resources, any negative impact should be minimal.

To achieve this policy change, the President will propose a 1981 rescission of all available budgetary resources (estimated at $8.3 million) and will seek an amendment to the 1982 Carter budget so that 1982 funding will not be requested.

This proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	9	10	11	11	12	12
Outlays.......	15	9	10	11	11	12
Policy reduction:						
Budget authority....	-8	-10	-11	-11	-12	-12
Outlays.............	-4	-9	-10	-11	-11	-12
Proposed budget:						
Budget authority....	1	---	---	---	---	---
Outlays...	11	*	---	---	---	---

* $500,000 or less.

IMPROVED TARGETING OF CONSERVATION EXPENDITURES

The President is determined that the Interior Department be a good steward of the natural and historic treasures protected by the National Park Service. The Nation's parks are not now being properly protected for the peoples' use. The Government must learn to manage what it owns before it seeks to acquire more land. To bring the budget under control and make additional funds available for restoration and improvement of the national park system, the President proposes to substantially refocus the Department's conservation and preservation programs.

This will be accomplished through moratoriums on Federal land purchases and elimination of three major State grant programs and by significantly increasing the resources available for existing National Park Service areas.

Legislation to amend the land and water sonservation fund will be sought to allow monies in the fund to be used for restoration and improvement of our National Park System. In addition, aggressive exchange programs will be initiated to round out the Federal conservation estate.

Major changes for these programs are as follows:

	Budget Authority ($ millions)			
	1981 Program Level	1981 Rescission	1982 Carter Budget	1982 Reagan Budget
Land and Water Conservation Fund:				
State recreation grants.	304	-145	185	---
Federal land acquisition and administration......	237	-105	335	45
National Park restoration and improvement.........	---	---	---	105
Total.	541	-250	520	150
Urban park grants...........	65	-35	75	---
Historic preservation fund..	42	-8	32	5

In 1981, $105 million will be proposed for rescission of land and water conservation fund appropriations for Federal land acquisition and in 1982 a similar amount will be requested for a major park restoration and improvement initiative. The 1982 level for Federal land acquisition will be limited to the amount necessary to close out current court awards, emergency land acquisition efforts, and administration. The total requested from the land and water conservation fund for both the parks initiative and land acquisition program in 1982 will be $150 million. Postponing Federal acquisition will allow for a thoughtful policy review of existing park and recreation legislation, and improved utilization of land exchanges and State and local efforts to achieve conservation goals.

In 1982, $5 million will be requested to aid the National Trust for Historic Preservation. No changes are proposed to the current tax incentives for historic preservation, estimated to be $100 million in 1982.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base 1/:						
Budget authority....	1,160	1,248	1,314	1,385	1,451	1,515
Outlays....	1,234	1,268	1,251	1,320	1,344	1,398
Policy reduction:						
Budget authority....	-573	-566	-512	-465	-471	-605
Outlays.............	-91	-270	-286	-365	-349	-403
Proposed budget:						
Budget authority...	587	682	802	920	980	910
Outlays.............	1,143	998	965	955	995	995

1/ National Park Service operations and construction, land and water conservation fund, urban park grants, and historic preservation fund.

Department of Labor
Department of the Interior

TERMINATION OF YOUNG ADULT CONSERVATION CORPS AND YOUTH CONSERVATION CORPS PROGRAMS

Continuation of the young adult conservation corps (YACC) and Youth Conservation Corps (YCC) programs cannot be justified in a truly austere budget. The Administration will propose (1) to phase out the YACC program by the end of 1982 by not enrolling any new participants, deferring some 1981 funds to 1982; and (2) to terminate the YCC program in 1981, rescinding funds currently available.

The Labor Department YACC program provides employment on public lands for unemployed youth ages 16 to 23 of all income levels. It is one of the most costly and least targeted of Federal employment and training programs for youth. Only one-third of YACC participants are economically disadvantaged -- compared to more than 80% for all other Comprehensive Employment and Training Act (CETA) youth programs. Less than 30% of participants are minorities -- compared to more than 50% in the other youth programs, including more than 70% in both job corps and the summer youth employment program. Furthermore, with the single exception of the more targeted and entirely residential job corps training program, it is the most expensive CETA program per year of service.

Because of these high costs and poor targeting, for every $305,000 the YACC program spends, it provides only one year of service to a lower-income black youth. These youth experience the highest rates of unemployment in our society and have the worst future job prospects -- prospects that are rarely enhanced by participation in the YACC program. By contrast, whenever the CETA general youth grant program (YETP) spends $305,000, it provides 20 years of service to low-income black youths.

The proposal will have little impact on current participants because the phase-down schedule will not in general require layoffs. Instead, no new participants will be enrolled, and participant levels will decline gradually through attrition. The impact on those who might have enrolled if the program were continued is also expected to be minimal because the program is relatively small -- an average of about 450 participants in each State in 1980 -- and draws few participants from any particular group of youth. There will be some reduction in Federal and State conservation work, but many of the affected projects are of such low priority that they are undertaken only because the free labor provided by YACC participants is available.

To achieve the YACC phase-down, the President will defer $58 million of 1981 budget authority to 1982. These funds will be sufficient to finance phase-out activities in 1982, so no budget authority for YACC in 1982 is required or requested. The Labor Department has already advised the Departments of Agriculture and the Interior -- and through them, State grantees -- of the termination decision. Orderly planning for the phase-out is now underway.

The Interior Department YCC program provides summer employment on public lands and environmental training for youth ages 15 to 18 of all income levels. It is essentially a summer YACC program for somewhat younger youth. The termination will be effected through a rescission of $56 million in 1981 budget authority and through a $60 million reduction in the 1982 budget for the Interior Department. This change is proposed because, like YACC, YCC is both costly and poorly targeted, and the work accomplished is of low priority.

The proposal is expected to result in the following changes in funding:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	260	310	316	322	329	335
Outlays.............	299	312	315	322	328	334
Policy reduction:						
Budget authority....	-56	-310	-316	-322	-329	-335
Outlays.............	-105	-238	-308	-322	-328	-334
Proposed budget:						
Budget authority....	204*	---	---	---	---	---
Outlays.............	194	74	7	---	---	---

* $58 million of this in the YACC program would be deferred.

NOTE: Table includes $60 million in budget authority in the current base for YCC in all years. Policy reductions in YCC include a 1981 rescission of $56 million in budget authority, resulting in 1981 outlay savings of $52 million, 1982 reductions of $60 million in budget authority and $59 million in outlays, and reductions in 1983-1986 of $60 million in both budget authority and outlays.

REDUCTION OF THE HIGHWAY SAFETY GRANTS PROGRAM

To make the best use of highway safety grants, the Administration will propose legislation to restrict eligibility to programs that have been successful in promoting highway safety and are an appropriate Federal function. The legislation will also eliminate funding to States for the enforcement of the 55 mile per hour speed limit.

The Federal contribution to total highway safety funding is so small (2%-3%) that the Federal Government has had little impact on what State and local governments actually do. A General Accounting Office (GAO) study of the Federal highway safety grants program concluded that there is no evidence that these grants reduce highway fatalities. Finally, several western and midwestern States are opposed to mandatory enforcement of the maximum national speed limit (55 miles per hour).

The new legislation would: (1) require grantees to channel resources into effective traffic programs such as alcohol safety, emergency medical services training, police traffic enforcement services, and the collection of traffic accident data; (2) eliminate the eligibility of all other previously funded program areas including driver/pedestrian behavior research and highway safety structural improvements.

This proposal should produce budget savings of $100-160 million per year beginning in 1982 and extending to 1985. In 1982, this change will be achieved by amending the current legislation to exclude less successful programs. The proposed reduction will continue the Federal role in highway safety where it is appropriate and has proven most effective.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	264	244	202	215	239	255
Outlays.............	200	210	218	229	237	244
Policy reduction:						
Budget authority....	---	-167	-125	-138	-162	-178
Outlays.............	---	-16	-112	-138	-150	-163
Proposed budget:						
Budget authority....	264	77	77	77	77	77
Outlays.............	200	194	106	91	87	81

REDUCING CORPORATION FOR PUBLIC BROADCASTING (CPB) FUNDING

The Administration will propose a 25 percent reduction in 1982 funds for the Corporation for Public Broadcasting. CPB is the primary vehicle for providing Federal financial assistance to the 217 radio and 170 television stations that currently compose the non-commercial broadcasting system. The reductions will be primarily directed at CPB's administrative costs and national program production while CPB support for local stations will be maintained at as high a level as possible.

Non-commercial stations should determine the need for and type of programs they require and finance their own productions. This pattern of reductions will provide a opportunity for private and corporate donations to play a greater role in financing local public television and allow Federal support for local stations to be maintained.

The CPB's efforts to stimulate program production at the national level have been of questionable value. While some meritorious programming has resulted from the CPB's effort, high unit production costs have plagued many projects. With notable exceptions, program development can be achieved much more effectively -- and at a far lower cost -- at the local and regional level.

Additional reductions will be made in 1983 and 1984 so that CPB budget authority and outlays level out at $100 million in 1985 and 1986. By reducing the Federal contribution to CPB in this manner, $377 million will be saved over the next five years.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	162	172	172	183	198	211
Outlays.............	162	172	172	183	198	211
Policy reduction:						
Budget authority....	---	-43	-52	-73	-98	-111
Outlays.............	---	-43	-52	-73	-98	-111
Proposed budget:						
Budget authority....	162	129	120	110	100	100
Outlays.............	162	129	120	110	100	100

REDUCTIONS IN FOREIGN DEVELOPMENT AID PROGRAMS

The Administration will propose a 26% reduction from the current 1982 budget request for foreign development aid and further reductions during 1983-86. This action will halt the very rapid growth requested for development aid in the Carter budget, for example 33% in 1982. It is intended to assure that the most critical U.S. foreign policy objectives are served effectively, but at much less cost, by eliminating low priority activities.

The agencies and programs affected by the proposal include contributions to the multilateral development banks (such as the World Bank); payments to the United Nations and other international organization programs; the Agency for International Development; food aid shipments under Public Law 480; and the Peace Corps. All existing international commitments will be met; however, some payments to the U.N. and other multilateral programs will be stretched out.

Humanitarian programs, such as those providing emergency disaster relief and refugee feeding, will be maintained close to the levels of recent years. The AID programs, cut by 20% in 1982, will be reoriented to assure that they clearly contribute to the ability of Third World countries to improve their economic performance, rather than merely transferring dollars.

For future contributions to multilateral institutions, there will be a careful assessment of whether the U.S. funds will be used efficiently and how well the institutions are serving the United States and the international community. The reduced program of very low interest loans for exports of food under Public Law 480 will also be examined in light of the current rising trend in commercial agricultural exports to insure that it is targeted on the highest priority U.S. objectives abroad.

The reduction in the current 1982 appropriations request will be $1,854 million, rising to a cut of $3,187 million from 1986 spending as projected in the Carter budget. Foreign aid funds are actually spent over a period of years after they are appropriated; and as a result, the near-term savings in actual cash budget outlays will be small. In the past this circumstance has been used as argument against foreign aid cutbacks. Cash budget outlay savings will be $402 million in 1982, but will rise to $1.8 billion by 1986 and even higher in the following years, contributing importantly to the vital long-term effort to bring the Federal budget under control.

Further specific details on these development aid reductions will be provided when the revised budget is transmitted to the

Congress. The proposal is expected to result in the following changes in funding:

	(in millions of dollars) 1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	5,430	7,246	6,567	7,680	8,188	8,644
Outlays............	4,944	5,180	5,666	6,360	6,912	7,430
Policy reduction:						
Budget authority....	-616	-1,854	-205	-2,513	-2,978	-3,187
Outlays.............	-85	-402	-584	-1,063	-1,527	-1,827
Proposed budget:						
Budget authority....	4,814	5,392	6,362	5,167	5,210	5,457
Outlays.............	4,859	4,778	5,082	5,297	5,385	5,603

REDUCTIONS IN NATIONAL AERONAUTICS AND SPACE ADMINISTRATION PROGRAMS

The 1982 Carter budget called for a NASA budget of $6,722 million, a 21% increase over 1981. This sharp increase is incompatible with a program of across-the-board restraint. The revised level for 1982, $6,235 million, still represents a significant increase over 1981, but one that is needed to maintain progress in the Space Shuttle program to meet civilian and critical defense needs. This increase will also continue strong core programs in space science, space applications, and aeronautics. But funding for these and other non-shuttle programs will constrained to an increase of 2.9% in light of the current fiscal and economic crisis.

In the area of space transportation, the development and procurement of a fleet of four space shuttle orbiters and the option to buy a fifth orbiter if needed will be maintained. Reductions are limited primarily to slower development of Spacelab, elimination of funding for the solar electric propulsion system (for which no applications have been approved), and rescheduling of space science flight projects. The reduced level in 1982 would be $540 million above the previously appropriated 1981 level, all of which is needed to complete the Space Shuttle development and make possible a fully operational Shuttle system in the early 1980's.

The reduced budget, while calling for deferral or deletion of some new projects, permits continuation of a vigorous program of space science and exploration. Support is provided to fully utilize spacecraft launched in prior years that are still transmitting useful data (e.g., the Voyager mission to Saturn and beyond). The budget allows for continued development of those projects that offer the broadest potential scientific contribution and that have large past investments. Specifically, full support is allowed for the further development of the space telescope, a unique Earth-orbiting observatory for viewing objects at the edge of the universe. An orderly progression in the exploration of the planets will be maintained through development of a planetary project, such as the Galileo mission to Jupiter. U.S. participation will also continue, at a reduced level, in the international solar polar mission. However, the adjusted budget also assumes deferral of new and ongoing projects, such as the gamma ray observatory spacecraft, the Venus orbiting imaging radar project, and spacelab experiments, for which the potential scientific contribution is more narrowly focused and only relatively small past investments have been made. The adjusted program level in 1982 will be $35 million, or 6% above the previously appropriated level in 1981.

For space applications, most new programs previously proposed to be initiated in 1982 would be deleted and reductions would be made in ongoing activities, some of which unnecessarily subsidize or compete with the private sector. The program at the reduced level would continue support for: research on space remote-sensing techniques and satellite missions that have the potential to improve our ability to manage critical Earth resources; research related to understanding weather and climate; and research on advanced space communications technology needed to increase the useful range of radio frequencies for communications. The reduced level in 1982 would be 6% above the previously appropriated level for 1981.

For aeronautics, reductions are related to elimination of new projects previously proposed for 1982 and lower-priority research and technology base activities. The reduced level would continue long range research efforts needed to maintain the U.S. technological lead in military and civil aeronautics. The reduced level in 1982 would be 4% above the 1981 level.

Reductions would be made in general support activities, such as construction projects, direct NASA energy technology work, and technology dissemination efforts that are either of lower-priority or are related to reductions in other agencies.

The proposed funding for NASA is as follows:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	5,534	6,565	6,795	5,924	5,315	5,011
Outlays.............	5,283	6,273	6,642	6,185	5,519	5,187
Policy reduction:						
Budget authority....	-75	-330	-248	90	390	200
Outlays.............	-60	-241	-334	-86	156	124
Proposed budget:						
Budget authority....	5,459	6,235	6,547	6,014	5,705	5,211
Outlays.............	5,223	6,032	6,308	6,099	5,675	5,311

TERMINATION OF THE NATIONAL CONSUMER COOPERATIVE BANK

Given the need to accomplish budgetary reductions by eliminating lower-priority programs, the National Consumer Cooperative Bank (NCCB) will be ended. Cooperatives in general already enjoy special Federal tax treatment. Those that provide services to their members economically and have expectations of continued good earnings and strong management should be able to obtain adequate credit privately. The use of budgetary resources to subsidize inefficient cooperatives can no longer be justified.

Loans currently held by the NCCB will be shifted to other Federal agencies. Capital stock in the NCCB held by cooperatives will be redeemed. Termination of the NCCB will result in budgetary savings of over $200 million through 1982.

The NCCB was created in 1978 to provide access to credit and technical assistance for cooperatives. The Bank was intended to make "hard" loans to credit-worthy consumer cooperative organizations. Although over $50 million had been appropriated for its activities by the end of 1980, only $5 million in loans had been disbursed by the end of the year. While lending activity has picked up this year, a large amount of loans are to housing cooperatives. There is no need for yet another Federal agency to provide housing credit.

A separate Office of Self Help Development and Technical Assistance was created within the Bank to provide assistance in the form of long-term capital loans, interest subsidies, and technical assistance to cooperatives that may be viable in the future but that cannot meet the Bank's lending standards at present. It was especially intended to help cooperatives serving low-income persons. Despite appropriations of over $11 million through 1980, less than $1 million had been provided to the intended recipients by the end of the fiscal year.

The NCCB was staffed with 109 employees at the end of fiscal year 1980. Less than one-third were engaged in extending loans or providing self-help development assistance. Most were used for "overhead."

The proposal will have the following funding effect:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	122	136	160	185	185	200
Outlays.............	136	128	152	178	175	190
Policy reduction:						
Budget authority....	-91	-136	-160	-185	-185	-200
Outlays.............	-82	-128	-152	-178	-175	-190
Proposed budget:						
Budget authority....	31	---	---	---	---	---
Outlays.............	54	---	---	---	---	---

REDUCING FEDERAL SUPPORT FOR THE ARTS AND HUMANITIES

The Administration will propose reductions in budget authority for the Arts and Humanities Endowments of about 50%. This will place more emphasis on the role of private philanthropy and State and local support for arts and cultural activities.

Reductions of this magnitude are premised on the concept that Federal policy for arts and humanities support must be completely revamped. For too long, the Endowments have spread Federal financing into an ever-wider range of artistic and literary endeavor, promoting the notion that the Federal Government should be the financial patron of first resort for both individuals and institutions engaged in artistic and literary pursuits. This policy has resulted in a reduction in the historic role of private individual and corporate support in these key areas. These reductions in Federal support are a first step toward reversing this trend.

Moreover, in those areas where Federal financing does not wholly supplant private philanthropic means of support, funding for artistic and literary pursuits is a relatively low priority budget item. Given the need for reductions across the full range of Federal programs that meet more basic human needs, low priority items must bear a greater burden if fiscal restraint is to be achieved in a balanced and compassionate way.

The proposed reduction will be achieved by amending the 1982 budget by -$85 million for the Arts Endowment and -$80 million for the Humanities Endowment. Additional reductions in budget authority will be made in 1983, 1984, 1985, and 1986.

The Arts and Humanities Endowments make grants to a variety 'of cultural organizations and institutions such as museums, ballet companies, universities, and libraries In 1981, Federal support for the Endowments totaled $311 million, $159 million for the Arts and $152 for the Humanities.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
National Endowment for the Humanities:						
Current base:						
Budget authority....	152	165	180	195	209	222
Outlays.............	155	163	181	196	210	218
Policy reduction:						
Budget authority....	---	-80	-90	-98	-107	-115
Outlays.............	---	-39	-68	-98	-112	-117
Proposed budget:						
Budget authority....	152	85	90	97	102	107
Outlays.............	155	124	113	98	98	101
National Endowment for the Arts:						
Current base:						
Budget authority....	159	173	190	205	220	234
Outlays.............	154	167	175	189	206	217
Policy reduction:						
Budget authority....	---	-85	-96	-105	-115	-124
Outlays.............	---	-46	-63	-95	-111	-114
Proposed budget:						
Budget authority....	159	88	94	100	105	110
Outlays.............	154	121	112	94	95	103

REDUCTIONS IN PROGRAMS OF THE NATIONAL SCIENCE FOUNDATION

As part of his overall policy of reducing funding levels in order to help resolve the immediate fiscal and economic crisis, the President plans to selectively reduce or eliminate some National Science Foundation programs while maintaining on-going support for its critical responsibilities in the advancement of science. The proposed budget authority reductions amount to $63 million in 1981 and $66 million in 1982 below the current base estimates.

The reductions are designed to preserve the agency's focus on its support of research in the natural sciences and engineering. The programs that are proposed for reduction or elimination include:

-- programs that are narrowly focused or of less immediate priority such as the 2-4 year college research instrumentation grants, the small business innovation research program, and the intergovernmental and international science programs; and

-- other programs in science and engineering education and the behavioral, social, and economic sciences, which are less critical to meeting the goals and objectives of the Foundation.

In addition, all new programs proposed in the 1982 budget, such as university laboratory modernization grants and the 25-meter telescope would be deferred for future consideration.

The proposed reductions would not affect the previously proposed level of support for basic and applied research in the mathematical and physical sciences, engineering, and the astronomical, atmospheric, earth, and ocean sciences. These programs have not been reduced because research in the natural sciences and engineering is of relatively high importance to future technological advancement and the long-term economic health of the Nation.

The expected change in funding is as follows:

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	1,083	1,181	1,283	1,385	1,485	1,580
Outlays.............	1,007	1,041	1,155	1,260	1,366	1,454
Policy reduction:						
Budget authority....	-63	-66	-90	-120	-153	-183
Outlays.............	-26	-15	-81	-109	-141	-155
Proposed budget:						
Budget authority....	1,020	1,115	1,193	1,265	1,332	1,397
Outlays.............	981	1,026	1,074	1,151	1,225	1,299

7. CONSOLIDATE CATEGORICAL GRANT PROGRAMS INTO BLOCK GRANTS

Department of Education

CONSOLIDATING ELEMENTARY AND SECONDARY EDUCATION PROGRAMS

The Administration proposes to consolidate all or part of over 45 separate Federal and secondary education programs into two "block grant" programs -- one to the States and one to Local Education Agencies (LEA's). Such block grants will shift control over education policy away from the Federal Government and back to State and local authorities -- where it constitutionally and historically belongs.

Existing multiple program requirements are burdensome, inflexible, unresponsive, and duplicative, resulting in waste of resources at all levels of government; the block grant approach will eliminate such unneeded Federal rules. The Federal role is to supply necessary resources, not to specify in excruciating detail what must be done with these resources.

Under block grants, there will be no requirements for matching funds and no demands that Federal funds "supplement rather than supplant" local funding. There will be no endless byzantine squabbles over myriad accounting regulations that aid bureaucrats, not children. Approximately 13% of the Federal funds in programs to be consolidated are now used for administrative expenses by State and local agencies. This overhead will be drastically reduced under the consolidation proposal.

The LEA block grant will include about 12 programs that are presently targeted on students judged to have special educational needs: the economically disadvantaged, the physically or mentally handicapped, children with limited proficiency in English, children in school districts undergoing racial desegregation, and illiterate adults. Because many of these programs overlap services to disadvantaged students, the block grant system will allow localities to eliminate conflicting and duplicative regulations and reporting requirements.

The block grant to the States combines about 35 separate programs that (a) provide direct educational services for handicapped, neglected, and delinquent children, (b) improve the staffing and services of the State Educational Agencies, and (c) support improved school services in a variety of ways including assistance to school libraries, curriculum development, and technical assistance.

Nineteen of the programs to be consolidated are so small in funding level and focus that their administration as separate categorical grants makes no sense. Programs such as metric education, consumer education, law-related education, ethnic heritage studies, and others are really "micro-categorical" grants that should not be separate Federal activities.

Further, even at a level of $100 million a year, it should be noted, a Federal educational program would provide an average award of only $6,250 per school district. This is another reason to combine 21 of these programs, which have total funding of $100 million or less a year, into the consolidated block grants.

Budget authority for the "block grants" in 1982 will be 80% of the sum of the combined programs in 1981. The Administration anticipates that the reduced funding levels will be offset by more efficient management generating from the increased latitude given to State and local governments to tailor education programs to suit the particular needs of children in their districts.

A list of the programs that will be consolidated into the block grants is attached.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	5,611	6,061	6,570	7,051	7,502	7,983
Outlays.............	5,364	5,797	6,279	6,730	7,155	7,613
Policy reduction:						
Budget authority....	---	-1,498	-1,761	-1,998	-2,366	-2,617
Outlays.............	---	-106	-1,217	-1,766	-2,051	-2,272
Proposed budget:						
Budget authority....	5,611	4,563	4,809	5,053	5,136	5,366
Outlays.............	5,364	5,691	5,062	4,964	5,104	5,341

PROGRAMS INCLUDED IN LOCAL EDUCATION AGENCY BLOCK GRANTS
(Budget authority; in millions of dollars)

Program	1981 Continuing Resolution Level
Grants for the Disadvantaged	
Title I ESEA basic grants for disadvantaged	2,822.7
Title I ESEA State agency programs for migrants	288.0
Title I ESEA concentration grants	145.0
Education for the Handicapped (State Grants)	
Handicapped State grant program	922.0
Preschool incentive grants for the handicapped	25.0
Adult Education	
Adult education grants to States	120.0
Bilingual Education	
Bilingual education	137.9
Bilingual vocational training	4.8
School Improvement	
Basic skills	18.2
Emergency school aid (3 programs)	204.9
Total	4,688.5

PROGRAMS INCLUDED IN BLOCK GRANTS TO STATES
(Budget authority; in millions of dollars)

Program	1981 Continuing Resolution Level
State Agency Grants for the Disadvantaged	
Title I ESEA State agency programs for the handicapped	165.0
Title I ESEA State agency programs for neglected and dilinquent	37.8
Title I ESEA State administration	47.0
Title I technical assistance centers (Evaluation)	8.0
Support and Innovation	
Support and innovation -- improving local educational practices	91.4
Strengthening State education agency management	51.0
Special Education	
Severely handicapped projects	5.0
Regional resources centers	10.0
Early childhood education	20.0
Regional vocational, adult, and post-secondary programs	2.0
Handicapped innovation and development	8.0
Special education personnel development	58.0
Gifted and talented	5.4
Emergency School Aid	
Special projects	8.5
Nonprofit organizations	7.5
Educational television	6.5
Training and advisory services (CRA IV)	45.7
School Libraries and Instructional Resources	
School libraries and instructional resources	171.0
School Improvement	
Basic skills improvement (State grants)	13.4
Arts in education	1.7
Metric education	1.8
Cities in schools	3.1
PUSH for excellence	1.0
Follow-through	39.2
Professional Development	
Teacher corps	29.0
Pre-college science teacher training	2.5
Bilingual education training grants	37.1
Other	
Career education incentives	15.0
Community schools	10.0
Consumer education	3.6

Law-related education	1.0
Alcohol and drug abuse education	3.0
Ethnic heritage studies	3.0
Women's educational equity	10.0
Total	922.2

RETURNING MANAGEMENT OF HEALTH AND SOCIAL SERVICES PROGRAMS TO STATES

As part of the effort to return decisionmaking authority, where appropriate, to States and localities, the Administration will propose to consolidate the present collection of about 40 Federal categorical grants for health and social services into one or more block grants to States.

Through the years, a complex, duplicative, and uncoordinated array of Federal health and social service programs has developed. These programs provide services based on varying criteria including age, income, health status, disease category, occupation, and residence. Most of the programs overlap and duplicate other programs in services provided and/or populations served. Some of these programs are formula grants to States for provision of services at the local level, usually by local governments or agencies. Others make project grants or provide in-kind services or federally paid workers to local public agencies, community-based organizations, and similar non-profit groups. Each program generally has its own separate planning process.

Aside from the confusion caused by the total lack of coherence in the Federal delivery effort itself, day to day management has developed into a bureaucratic morass of planning, regulating, and reporting at the Federal, State, and local levels. There are 437 pages of law and 1,200 pages of regulation alone for the programs included in the proposal. These programs administer about 5,800 separate grants and 24,000 grant sites. Once awards are made, over 7 million man hours of State and local government and community effort are used just in filling out federally required reports each year. In addition, the Nation supports over 3,300 Federal employees to administer the grant programs proposed for consolidation.

The problems of categorical grant programs are not limited just to this waste and inefficiency or to management difficulties. Because of the fragmented nature of the current funding system, often persons in need of these services must go to several different and unrelated grantees for different services and must receive related health services from different providers. The current system's administrative requirements have resulted in nearly insurmountable barriers for States, local governments, communities, and even individual providers who wish to integrate funds from all grant programs into comprehensive assistance systems.

The Administration's block grant proposal will enable States to plan and coordinate their own service programs, establish their own priorities, and exercise effective program control over resources provided to localities and non-profit organizations. This approach would reduce the multiplicity of rules and regulations (and, hence Federal direction) under which service agencies currently operate. States would thus have greater flexibility--as well as greater responsibility for results--in providing needed services to their populations. Overlapping funding from different programs for the same services could be eliminated. States could select the service delivery agency best able to provide certain services that are now provided by direct Federal grantees. The overall result would strengthen State governments and provide publicly-financed services more effectively and at lower costs to those in need.

Legislation will be proposed as soon as possible to carry out the Administration's proposal, effective in October of this year. The proposed funding level for 1982 is 75% of the 1981 current base or $6.8 billion. Because the new block grant legislation would allow significant savings in program overhead and more efficient service delivery due to the elimination of overlapping service responsibilities, this funding change need not result in a reduction of services.

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base:						
Budget authority....	9,059	9,491	9,942	10,326	10,657	10,878
Outlays.............	8,983	9,334	9,787	10,141	10,470	10,723
Policy reduction:						
Budget authority....	---	-2,697	-3,148	-3,532	-3,863	-4,084
Outlays.............	---	-2,540	-2,993	-3,347	-3,676	-3,929
Proposed budget:						
Budget authority....	9,059	6,794	6,794	6,794	6,794	6,794
Outlays.............	8,983	6,794	6,794	6,794	6,794	6,794

8. REDUCE OVERHEAD AND PERSONNEL COSTS OF THE FEDERAL GOVERNMENT

DEPARTMENT OF DEFENSE-MILITARY

The growth of Soviet military power over the course of the past decade threatens to undermine our ability to deter an armed attack on our interests during the 1980's. Since the late 1960's, the Soviets have invested $300 billion more in their defense effort than has the United States. This investment has provided the Soviet Union with a militarily significant numerical advantage in most major categories of weapon systems including intercontinental ballistic missiles, submarine-launched ballistic missiles, cruise missiles, tactical aircraft, armored vehicles, air defense systems, and artillery. The consequences of permitting a growing divergence of military power to persist during the 1980's are so fraught with danger that a major effort to improve our defense posture must be made over the next 5 years. There is no need to match the numerical dimension of Soviet forces, but the forces we procure must be fully capable of coping with the threat we will face during the coming decade.

Substantial growth in the share of budget resources devoted to national defense is provided to improve and sustain the readiness of U.S. forces and to increase their ability to deter and, should deterrence fail, to prevail in response to aggression against U.S. interests. The defense budget has been reviewed closely to achieve cost savings. Part of the defense growth will be financed by the savings that result from increased efficiency and reductions in travel and other marginal activities.

Proposed reductions.--The reductions proposed by the Administration will grow to more than $7 billion in outlays by 1986. Savings in categories other than pay of $0.8 billion in budget authority and $0.5 billion in outlays in 1982 are estimated to result from a variety of efficiencies. The department of defense installation and logistics structure costs about $40 billion per year to operate. While progress has been made over the years in consolidating this structure to accommodate our modern military forces, more can be done. Up to 5% per year in facility costs could be saved after full implementation of a program involving:

-- realignments that would reduce the size of the overall structure; and

-- increased use of contractual services in place of in-house Government activities, wherever economically justified.

Reductions in travel and consultants will also be achieved.

A variety of management improvements is to be applied in the acquisition area. These include: multi-year procurements permitting substantial economies (up to 15% of unit cost) due to early assurance of longer production runs. Widespread successful implementation could increase savings while greatly strengthening the ability of U.S. industry to respond to a mobilization contingency. Short-term savings will result from taking advantage of contract options and maintaining stable subcontractor support. Long-term savings will be achieved by encouraging investment in bottleneck industries where capacity constraints now impose high costs. More economic order quantities and increased competition in the award of contracts will achieve lower unit costs. Studies have shown that competition in defense contracting can reduce unit costs by as much as 10% to 20%. Weapon systems that are poorly managed, excessively costly in relation to mission requirements, or peripheral to U.S. defense requirements will be terminated. Productivity enhancing investments (both in the defense industrial base and in Government-operated facilities) with high potential savings will be emphasized.

The President supports legislation proposed in January that would initiate annual cost-of-living adjustments for all Federal retirees. This step would reduce outlays for military retired pay by $68 million in 1981 and $380 million in 1982.

Personnel costs constitute nearly half of the defense budget. Reductions in these expenditures will result from the new Federal pay standard proposed by the Administration. Under this proposal, pay raises of 4.8% for civilian personnel are estimated for 1982. As a result, the Department of Defense outlays would be reduced by about $2.0 billion in 1982 and by larger amounts in subsequent years.

These actions are expected to result in the following reductions:

	Outlays (in billions of dollars)					
	1981	1982	1983	1984	1985	1986
Proposed reductions...	-0.3	-2.9	-4.8	-5.9	-6.8	-7.5

REDUCTIONS OF FEDERAL CIVILIAN EMPLOYMENT

Compensation and benefits for Federal civilian workers comprise a significant part of the Federal budget -- about $56.5 billion for 1981.

As a step in reducing the size, cost, and inefficiency of the Government, the President will impose new lower civilian personnel ceilings for 1981 and 1982 for executive branch agencies. At the same time, the Government-wide hiring freeze will be lifted for those agencies that are able to meet their revised lower personnel ceilings. These lower personnel levels will help foster a new attitude toward eliminating waste and inefficiency in Government and spur increased productivity.

Lower levels of Federal employment will be appropriate because of reduced program levels in the revised Reagan budget. In addition, lower Federal employment levels will be achieved by reducing overhead and by greater efficiencies in carrying out Federal programs.

To meet the Nation's highest priority needs and to assure that essential services are not interrupted, heads of agencies have been instructed to make reallocations within their respective agencies. This will result in more efficient use of personnel and funds by targeting limited resources to those operations that vitally affect the Nation.

For nondefense agencies, with a few exceptions (e.g., positions for direct medical care), civilian employment will be reduced to a level that would have been achieved if the total freeze on hiring remained in effect throughout 1981. This will result in a reduction of 43,000 positions from the Carter administration budget estimates for 1981. For 1982 there will be a reduction of 83,000 positions from the Carter budget and for the years 1983-1986 there will be further reductions each year.

For the nondefense agencies this will result in outlay savings of about $500 million in 1981 and about $1,900 million in 1982. Of this amount $400 million in 1981 and $1,300 million in 1982 have not been reflected in other program listings.

For the Department of Defense, civilian employment will increase from the Carter budget by 14,000 positions in 1981; by 20,000 in 1982 and 1983; and by lesser amounts in later years.

The following changes are expected:

PERSONNEL COMPENSATION AND BENEFITS

	Budget Authority and Outlays (in billions of dollars)					
	1981	1982	1983	1984	1985	1986
Current base 1/........	56.5	58.0	58.0	58.0	58.0	58.0
Potential change:						
Defense.............	0.2	0.4	0.4	0.3	0.2	0.1
Nondefense:						
Covered elsewhere 2/	-0.1	-0.6	-0.6	-0.6	-0.6	-0.7
Other changes......	-0.4	-1.3	-1.8	-2.3	-2.8	-3.3
Proposed budget........	56.2	56.5	56.0	55.4	54.8	54.1

	Number of Employees (Thousands)					
	1981	1982	1983	1984	1985	1986
Current base:						
Total...............	2,111	2,132	2,132	2,132	2,132	2,132
Defense..........	(916)	(916)	(916)	(916)	(916)	(916)
Nondefense.......	(1,195)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)
Potential change:						
Defense.............	14	20	20	14	8	2
Nondefense..........	-43	-83	-103	-122	-142	-163
Proposed budget:						
Total...............	2,082	2,069	2,049	2,024	1,998	1,971
Defense..........	(930)	(936)	(936)	(930)	(924)	(918)
Nondefense.......	(1,152)	(1,133)	(1,113)	(1,094)	(1,074)	(1,053)

1/ Excluding future pay adjustments.

2/ These savings are reflected elsewhere in savings that result from listed program reductions.

REVISION OF FEDERAL PAY COMPARABILITY STANDARD

As part of its general effort to reduce Federal overhead, personnel, and regulatory costs, the Administration will recommend comprehensive legislative changes in the way that Federal civilian pay rates are set. When enacted, these proposals will reduce outlays from the current services base by $3.8 billion in 1982 and approximately $30 billion over the next 5 years.

Under current law, the President is required to make an annual adjustment of Federal civilian pay rates (including Department of Defense civilian employee pay rates) to keep them comparable to private sector pay. The law also provides a system for determining the proper adjustment each year. At the core of this system is a nationwide survey conducted by the Bureau of Labor Statistics of private sector rates for a sample of jobs matched with comparable work performed by Federal employees. The BLS survey findings are translated into rates for the various Federal pay levels through a legally prescribed process that blends analysis by OMB and OPM staff, input by Federal employee unions, and recommendations by a high-level Presidential advisory committee of private sector pay and labor relations experts. The President reviews the resulting comparability finding in late summer and if he agrees that it is appropriate, he can implement it through an Executive order. The law also gives the President power "because of national emergency or economic conditions affecting the general welfare" to send an "alternative plan" to the Congress. In that case, he may propose whatever increase he considers appropriate, based on a balancing of economic concerns with concern for equity toward employees. Whatever figure the President sends to the Congress becomes effective October 1, unless one House or the other vetoes it.

A number of major studies of the civilian paysetting procedures have been conducted since 1970. All have found comparability to be the best basis for Federal paysetting, but all have recommended changes in the current method of implementing that concept. The latest major study was made by the Ford administration, and its recommendations were converted by the Carter administration into a legislative proposal for comprehensive reform. It was not adopted by the last Congress.

The Reagan administration supports the principle of comparability as the best basis for adjusting Federal civilian pay, but will propose major changes in the way comparability is determined. The following major components are among those being considered for inclusion in proposed legislative changes:

1. Broadening the principle of comparability by:

   -- establishing total compensation comparability -- including both pay and benefits, rather than just pay -- in determining comparability, thus taking into account the fact that Federal benefits exceed average private sector benefits; and

   -- including State and local government pay and benefits, rather than only those of private industry, in the data on which compensation scales will be based.

2. Establishing the Federal compensation comparability standard at 94% of average non-Federal compensation (including benefits), thereby recognizing those aspects of Federal employment which make it more attractive than many comparably-paid jobs in the private sector. For example, a Federal employee may change jobs and career paths many times during a career in the Federal service, with no loss of retirement, leave or other benefits. A comparable employee in the private sector seldom can obtain comparable treatment.

3. Bringing Federal compensation rates and practices more closely in line with those of the non-Federal sector by:

   -- setting white-collar pay on a locality basis (as blue-collar pay already is);

   -- changing certain features of the Federal wage system for blue-collar workers to provide much more accurate comparability with local prevailing rates;

   -- changing Federal premium pay laws to make them more consistent with the Fair Labor Standards Act and private sector practices; and

   -- providing the executive branch with additional pay flexibilities to recruit and manage a quality work force.

4. Providing a new method for determining annual military pay increases by indexing them directly to salary increases in the non-Federal sector, rather than to increases in Federal white-collar pay.

Enactment of these proposals is expected to result in a white collar pay increase in October 1981 of approximately 4.8%, and the following estimated reductions in civilian pay costs:

CIVILIAN AGENCIES

	1982	1983	1984	1985	1986
	(in millions of dollars)				
Current base:					
Budget authority..........	3,360	5,986	8,501	10,907	13,258
Outlays...................	3,226	5,881	8,266	10,706	12,929
Policy reduction:					
Budget authority..........	-2,165	-2,938	-3,463	-3,740	-3,990
Outlays...................	-2,079	-2,907	-3,356	-3,698	-3,873
Proposed budget:					
Budget authority..........	1,195	3,048	5,038	7,167	9,268
Outlays...................	1,147	2,974	4,910	7,008	9,056

DEPARTMENT OF DEFENSE (CIVILIANS ONLY)

	1982	1983	1984	1985	1986
	(in millions of dollars)				
Current base:					
Budget authority..........	2,522	4,747	6,772	8,694	10,616
Outlays...................	2,522	4,747	6,772	8,694	10,616
Policy reduction:					
Budget authority..........	-1,625	-2,387	-2,816	-3,037	-3,230
Outlays...................	-1,625	-2,387	-2,816	-3,037	-3,230
Proposed budget:					
Budget authority..........	897	2,360	3,956	5,657	7,386
Outlays...................	897	2,360	3,956	5,657	7,386

TOTAL CIVILIAN PAY INCREASES

	1982	1983	1984	1985	1986
	(in millions of dollars)				
Current base:					
Budget authority..........	5,882	10,733	15,273	19,601	23,874
Outlays...................	5,748	10,628	15,038	19,400	23,545
Policy reduction:					
Budget authority..........	-3,790	-5,325	-6,279	-6,777	-7,220
Outlays...................	-3,704	-5,294	-6,172	-6,735	-7,103
Proposed budget:					
Budget authority..........	2,092	5,408	8,994	12,824	16,654
Outlays...................	2,044	5,334	8,866	12,665	16,442

SAVINGS DUE TO REDUCTION IN REGULATIONS

President Reagan has initiated a comprehensive program to eliminate unnecessary governmental interference in the economic and private lives of all Americans. While some regulatory activity is needed to protect the health and safety of the public -- few would suggest eliminating traffic signals -- every regulation costs the taxpayer in two ways. There are the direct costs associated with maintaining the bureaucracies that issue, administer, and enforce regulations. The Administration's proposal will reduce these costs by more than $100 million in 1981 and about $500 million in 1982. These savings are included in other savings shown elsewhere. The other costs that regulations place on the public are higher prices and government interference in their everyday lives. These costs are discussed elsewhere in the President's message.

The budget impact of several major reductions in regulation proposed by the Administration are discussed below.

-- Decontrol of oil prices will not only encourage the development of our petroleum resources, it will reduce the direct cost to the taxpayer of government regulation by $50 million in 1982.

-- Elimination of the Council on Wage and Price Stability will save the taxpayer $1.5 million in 1981 alone.

-- Elimination of unnecessary governmental controls on the delivery of health care will save $140 million in 1982. The Administration proposes to eliminate the burdensome bureaucracies of health planning agencies and professional standards review organizations.

In addition to these specific reductions, these figures include some across-the-board cuts in the budgets of regulatory agencies. Fewer regulators will necessarily result in fewer regulations and less harassment of the regulated.

SAVINGS DUE TO REDUCTIONS IN FEDERAL REGULATORY PROGRAMS 1/
(dollar amounts in millions)

Regulatory Activity	1981			1982		
	Employment*	BA	O	Employment*	BA	O
Business and commerce.........	484	13	12	873	34	33
Environment and energy.......	818	64	64	2,784	320	244
Health care industry and other............	277	57	60	1,023	171	207
Total........	1,579	134	137	4,680	523	484

1/ These savings are included in other savings shown elsewhere.

* Full-time equivalent.

ECONOMIC ASSUMPTIONS
(Calendar years; dollar amounts in billions)

	1980 Actual	1981 Estimate	1982 Estimate	1983 Estimate	1984 Estimate	1985 Estimate	1986 Estimate
Major economic indicators:							
Gross national product (percent change, fourth quarter over fourth quarter)							
Current dollars	9.8	11.0	13.3	11.8	10.1	9.6	9.1
Constant (1972) dollars	0.0	1.4	5.2	4.9	4.2	4.2	4.2
GNP deflator (percent change, fourth quarter over fourth quarter)	9.9	9.5	7.7	6.6	5.7	5.2	4.7
Consumer Price Index (percent change, fourth quarter over fourth quarter) 1/	12.6	10.5	7.2	6.0	5.1	4.6	4.0
Unemployment rate (percent, fourth quarter)	7.5	7.7	7.0	6.5	6.3	5.8	5.6
Annual economic assumptions:							
Gross national product:							
Current dollars:							
Amount	2629	2920	3293	3700	4098	4500	4918
Percent change, year over year	8.9	11.1	12.8	12.4	10.8	9.8	9.3
Constant (1972) dollars:							
Amount	1482	1497	1560	1638	1711	1783	1858
Percent change, year over year	-0.1	1.1	4.2	5.0	4.5	4.2	4.2
Income:							
Personal income	2161	2399	2675	2982	3276	3580	3910
Wages and salaries	1344	1488	1667	1853	2035	2221	2417
Corporate profits	243	240	277	322	363	404	450
Price level:							
GNP deflator:							
Level (1972=100) annual average	177.4	195.0	211.1	225.9	239.5	252.4	264.7
Percent change, year over year	9.0	9.9	8.3	7.0	6.0	5.4	4.9
Consumer price index 1/:							
Level (1967=100), annual average	247.0	274.3	297.0	315.5	332.7	348.3	363.0
Percent change, year over year	13.5	11.1	8.3	6.2	5.5	4.7	4.2
Unemployment rates:							
Total, annual average	7.2	7.8	7.2	6.6	6.4	6.0	5.6
Insured, annual average 2/	3.9	4.4	3.8	3.4	3.2	2.9	2.7
Federal pay raise, October (percent) 3/:							
Civilian	9.1	4.8	7.0	7.0	7.0	6.4	6.0
Military	11.7	12.3 4/	8.9	7.9	7.0	6.4	6.0
Interest rate, 91-day Treasury bill (percent) 5/	11.5	11.1	8.9	7.8	7.0	6.0	5.6

1/ CPI for urban wage earners and clerical workers. Two versions of the CPI are now published. The index shown here is that currently used, as required by law, in calculating automatic cost-of-living increases for indexed Federal programs.

2/ This indicator measures unemployment under State regular unemployment insurance as a percentage of covered employment under that program. It does not include recipients of extended benefits under that program.

3/ General schedule pay raises become effective in October -- the first month of that fiscal year. Thus, the October 1981 pay raise will set new pay scales that will be in effect during fiscal year 1982.

4/ Assumes a basic pay raise of 9.1% in October 1981 plus an additional increment of 3.2 percentage points.

5/ Average rate on new issues within period. The projections assume that interest rates decline with the rate of inflation and inflationary expectations. The projections do not represent a forecast of interest rates.

CHANGES FROM CURRENT BASE: BUDGET AUTHORITY AND OUTLAY SAVINGS AND INCREASES IN GOVERNMENTAL RECEIPTS
1. REVISE ENTITLEMENTS TO ELIMINATE UNINTENDED BENEFITS
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Agriculture												
Food stamps.............	150	150	1,828	1,822	2,012	2,004	2,462	2,451	2,636	2,624	2,771	2,759
Department of Health and Human Services												
Minimum social security benefits...............	---	50	---	1,000	---	1,100	---	1,100	---	1,100	---	1,100
Adult student social security benefits......	---	20	---	700	---	1,200	---	1,500	---	1,700	---	1,700
Social security disability insurance...	---	65	---	550	---	1,175	---	1,700	---	2,225	---	2,750
Aid to families with dependent children (AFDC).................	*	*	520	520	670	670	722	722	795	795	824	824
Medicaid................	353	100	1,237	1,013	2,213	1,986	3,166	2,930	4,181	3,916	5,318	5,021
Department of Housing and Urban Development												
Subsidized housing levels.................	---	1	3,536	10	3,026	39	3,440	95	3,437	223	3,624	371
Subzidized housing rents	500	9	4,916	232	4,574	538	5,587	1,018	6,066	1,748	6,269	2,445
Public housing modernisation.................	(300)**	---	800	---	800	---	800	20	800	60	800	100
Department of Labor												
Unemployment insurance extended benefits......	400	523	700	1,231	700	477	100	196	100	284	200	287
Unemployment insurance: work test..............	---	---	---	---	---	285	---	285	---	272	---	264
Federal employees injury compensation (FECA)....	---	---	102	102	114	114	126	126	138	138	151	151
Unemployment compensation for ex-servicemembers...................	60	60	175	175	175	175	181	181	183	183	183	183
Trade adjustment assistance.............	---	---	1,150	1,150	760	760	380	380	380	380	380	380

1. REVISE ENTITLEMENTS TO ELIMINATE UNINTENDED BENEFITS (continued)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Other Savings												
Civilian retirement annual indexation (COLA).................	---	---	558	510	472	424	430	389	416	366	417	367
Subtotal....................	1,463	978	15,522	9,015	15,516	10,947	17,394	13,093	19,132	16,014	20,937	18,702

	1981	1982	1983	1984	1985	1986
Other reductions to the deficit:						
Department of Labor:						
Black lung trust fund	(30)	(388)	(386)	(407)	(439)	(459)

* $500,000 or less.

** Deferral.

2. REDUCE MIDDLE-UPPER INCOME BENEFITS
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Agriculture												
Child nutrition.........	145	42	1,657	1,575	1,800	1,709	1,934	1,835	2,046	1,940	2,158	2,045
Department of Education												
Student assistance......	338	106	1,016	803	1,659	1,499	1,857	1,808	2,074	2,019	2,287	2,233
Other Savings												
Sallie Mae (student loans -- off-budget)...	---	---	---	(1,923)	---	(2,500)	---	(3,000)	---	(3,500)	---	(4,000)
Subtotal..................	483	148	2,673	2,378	3,459	3,208	3,791	3,643	4,120	3,959	4,445	4,278

3. RECOVER CLEARLY ALLOCABLE COSTS FROM USERS (INCREASE IN GOVERNMENTAL RECEIPTS)
(in millions of dollars)

	1981	1982	1983	1984	1985	1986
Increases in Governmental Receipts						
Department of Defense-Civil:						
Inland waterway subsidy.............	---	---	258	275	300	315
Department of Transportation:						
Subsidies for airway and airport users (FAA)...............	---	1,882	2,159	2,442	2,753	3,104
Boat and yacht user fees (CG)...........	---	100	200	300	400	500
Subtotal, increases in receipts..................	---	1,982	2,617	3,017	3,453	3,919

4. APPLY SOUND CRITERIA TO ECONOMIC SUBSIDY PROGRAMS
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Agriculture												
Dairy price supports....	---	138	---	1,095	---	1,614	---	1,887	---	2,263	---	2,727
Alcohol fuels and biomass loans..........	505	46	---	94	---	3	---	4	---	3	---	3
Rural Electrification Administration (off-budget)...............	(38)	(38)	(1,142)	(1,142)	(2,328)	(2,328)	(3,603)	(3,603)	(4,975)	(4,975)	(6,450)	(6,450)
(loan guarantee commitments)........	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)	
Farmers Home Administration...............	---	30	---	105	30	179	105	255	179	331	255	407
(direct loan obligations).............	(563)		(2,354)		(2,354)		(2,354)		(2,354)		(2,354)	
Department of Commerce												
Economic and regional development (including Appalachian Regional Commission)............	502	24	769	440	854	644	934	755	1,010	882	1,085	997
Department of Energy												
Synthetic fuels.........	545	275	1,028	864	1,064	859	362	676	140	224	25	256
Fossil energy...........	70	59	373	361	522	433	605	549	676	657	602	604
Solar energy............	99	79	363	365	428	414	372	406	330	330	275	275
Other energy supply.....	148	37	186	156	178	177	178	170	169	158	176	163
Energy conservation.....	254	66	677	310	597	611	427	589	374	433	373	373
Alcohol fuels subsidy...	745	114	---	29	---	13	---	15	---	15	---	15
Department of Housing and Urban Development												
Solar Energy and Conservation Bank......	121	47	132	149	141	137	150	147	158	157	166	162
Community development support assistance.....	---	---	584	12	678	67	837	271	882	702	926	814
Department of Labor												
Comprehensive Employment and Training (CETA)....	153	635	4,644	3,566	4,236	4,073	4,578	4,408	4,946	4,762	5,341	5,143
Department of Transportation												
Mass transit operating subsidies..............	---	---	103	96	581	256	1,059	600	1,528	1,083	1,626	1,356
Amtrak subsidies........	25	25	431	325	606	485	760	688	964	904	1,056	1,050
Northeast corridor improvement project....	---	25	288	95	-13	114	20	51	15	25	---	---
Low volume railroad branch lines...........	80	8	88	32	96	62	104	80	112	103	119	110
Cooperative automotive research program.......	12	6	13	9	14	13	15	14	16	14	17	15

4. APPLY SOUND CRITERIA TO ECONOMIC SUBSIDY PROGRAMS (continued)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Other Savings												
CAB airline subsidy.....	---	---	56	50	64	64	54	54	34	34	2	2
Conrail.................	-350	-250	400	300	550	550	300	300	150	150	100	100
Export-Import Bank......	750	60	1,980	410	2,110	990	2,250	1,380	2,410	1,600	2,560	1,710
Postal service subsidies	250	250	632	632	690	690	765	765	779	779	779	779
Acceleration of mineral leasing (offsetting receipts)............	250	250	800	800	2,000	2,000	3,100	3,100	3,500	3,500	3,500	3,500
Subtotal..................	4,159	1,924	13,547	10,295	15,426	14,448	16,975	17,164	18,372	19,109	18,983	20,561

5. STRETCH OUT AND RETARGET PUBLIC SECTOR CAPITAL IMPROVEMENT PROGRAMS
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Transportation												
Federal highway construction...........	---	---	1,390	244	1,964	1,211	2,546	1,700	3,243	2,088	3,437	2,234
Urban mass transportation capital grants....	210	31	950	270	1,047	545	1,220	975	1,368	1,284	1,497	1,480
Airport construction....	272	120	250	140	278	161	305	196	330	219	371	239
Other Savings												
Environmental Protection Agency: waste treatment grants............	1,000	---	3,610	125	1,540	1,045	1,860	1,970	2,170	1,960	2,465	1,950
Water resource development construction......	---	---	95	90	340	337	545	544	515	514	215	217
Subtotal..................	1,482	151	6,295	869	5,169	3,299	6,476	5,385	7,626	6,065	7,985	6,120

6. IMPOSE FISCAL RESTRAINT ON OTHER PROGRAMS OF NATIONAL INTEREST
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Commerce												
Various National Oceanic and Atmospheric Administration programs.....	9	6	152	69	202	148	238	216	250	253	241	223
Department of Education												
School assistance in federally affected areas (impact aid).....	67	82	474	450	523	500	567	551	608	584	632	613
Vocational education....	---	---	236	220	242	242	259	252	277	269	294	283
National Institute of Education..............	---	---	20	22	22	20	23	20	25	21	27	22
Institute of Museum Services..............	12	2	14	12	15	13	16	14	18	16	19	18
Department of Energy												
Energy regulation.......	33	33	150	127	138	140	131	132	127	123	118	117
General science.........	5	4	40	29	45	43	61	61	72	72	84	84
Energy information and overhead...............	13	3	38	27	62	62	67	67	73	73	78	78
Department of Health and Human Services												
National Institutes of Health..................	126	54	197	145	373	336	512	468	628	584	726	682
Medical services for merchant seamen........	39	39	110	110	183	183	194	194	205	205	215	215
Health professions education.............	219	32	280	126	309	221	336	260	361	297	385	313
Health maintenance organizations..........	37	6	24	18	57	27	66	50	69	61	72	73
National Health Service Corps.................	16	3	31	14	45	37	54	45	65	54	80	65
Regulation of health care industry:												
Health planning......	28	10	100	62	168	87	180	159	190	188	199	197
PSRO's...............	6	38	15	117	19	134	27	212	29	223	31	234
(PSRO obligations).	(38)		(119)		(136)		(215)		(227)		(238)	
National Research Service Awards (ADAMHA)...	4	1	5	4	5	4	6	6	6	5	7	6

6. IMPOSE FISCAL RESTRAINT ON OTHER PROGRAMS OF NATIONAL INTEREST (continued)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Housing and Urban Development												
Planning assistance.....	34	3	37	26	39	36	42	39	44	41	46	44
Rehabilitation loan fund	130	63	130	191	134	210	138	211	140	213	142	214
Neighborhood self-help development...........	8	4	10	9	11	10	11	11	12	11	12	12
Department of the Interior												
Improved targeting of conservation expenditures................	573	91	566	270	512	286	465	365	471	349	605	403
Youth Conservation Corps	56	52	60	59	60	60	60	60	60	60	60	60
Department of Labor												
Young Adult Conservation Corps.................	---	53	250	179	256	248	262	262	269	268	275	274
Department of Transportation												
Highway safety grants...	---	---	167	16	125	112	138	138	162	150	178	163
Other Savings												
Corporation for Public Broadcasting...........	---	---	43	43	52	52	73	73	98	98	111	111
Foreign aid (FAP).......	616	85	1,854	402	205	584	2,513	1,063	2,978	1,527	3,187	1,827
NASA....................	75	60	330	241	248	334	-90	86	-390	-156	-200	-124
National Consumer Cooperative Bank........	91	82	136	128	160	152	185	178	185	175	200	190
National Endowments for the Arts and Humanities	---	---	165	85	186	131	203	193	222	223	239	231
National Science Foundation.............	63	26	66	15	90	81	120	109	153	141	183	155
Subtotal..................	2,260	832	5,700	3,216	4,486	4,493	6,857	5,495	7,407	6,128	8,246	6,783

7. CONSOLIDATE CATEGORICAL GRANT PROGRAMS INTO BLOCK GRANTS
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Education												
Elementary and secondary education programs.....	---	---	1,498	106	1,761	1,217	1,998	1,766	2,366	2,051	2,617	2,272
Department of Health and Human Services												
Health and social services program..........	---	---	2,697	2,540	3,148	2,993	3,532	3,347	3,863	3,676	4,084	3,929
Subtotal..................	---	---	4,195	2,646	4,909	4,210	5,530	5,113	6,229	5,727	6,701	6,201

8. REDUCE OVERHEAD AND PERSONNEL COSTS OF THE FEDERAL GOVERNMENT
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Defense-Military..................	428	348	3,227	2,917	5,096	4,786	6,332	5,852	7,229	6,769	8,104	7,544
Other Savings												
Federal civilian employment.............	386	386	1,342	1,342	1,811	1,811	2,264	2,264	2,763	2,763	3,263	3,263
Federal pay comparability standard (effect on civilian agencies)..	---	---	2,165	2,079	2,938	2,907	3,463	3,356	3,740	3,698	3,990	3,873
Regulations 1/..........	(134)	(137)	(523)	(484)	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(n.a.)	(n.a.)
Subtotal..................	814	734	6,734	6,338	9,845	9,504	12,059	11,472	13,732	13,230	15,357	14,680
TOTAL, ON-BUDGET AUTHORITY AND OUTLAY SAVINGS........	10,661	4,767	54,666	34,757	58,810	50,109	69,082	61,365	76,618	70,232	82,654	77,325

1/ These savings are already included in the above items.

SUMMARY TOTALS
(in millions of dollars)

	1981		1982		1983		1984		1985		1986	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Total, on-budget authority and outlay savings........	10,661	4,767	54,666	34,757	58,810	50,109	69,082	61,365	76,618	70,232	82,654	77,325
Off-budget Items												
Rural Electrification Administration.........	38	38	1,142	1,142	2,328	2,328	3,603	3,603	4,975	4,975	6,450	6,450
(loan guarantee commitments)........	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)	
Student Loan Marketing Association (Sallie Mae)....................	---	---	---	1,923	---	2,500	---	3,000	---	3,500	---	4,000
Total, budget authority and outlay savings........	10,699	4,805	55,808	37,822	61,138	54,937	72,685	67,968	81,593	78,707	89,104	87,775
Other Reductions to the Deficit												
Black lung trust fund...		30		378		354		354		382		469
Increases in Governmental Receipts (for detail see Part 3 of this table).		1,982		2,617		3,017		3,017		3,453		3,919
GRAND TOTAL, reductions to the deficit from items listed above..............		6,817		40,817		58,308		71,339		82,542		92,163

Changes from Current Base
Summary Table of Budget Authority and Outlay Savings by Agency
and Increases to Governmental Receipts
FY 1981 - 1986
(in millions of dollars)

I. Budget Authority and Outlay Savings

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Agriculture														
Dairy price supports (Commodity Credit Corporation).........	---	138	---	1,095	---	1,614	---	1,887	---	2,263	---	2,727	---	9,724
Food Stamps...........	150	150	1,828	1,822	2,012	2,004	2,462	2,451	2,636	2,624	2,771	2,759	11,859	11,810
Child Nutrition.......	145	42	1,657	1,575	1,800	1,709	1,934	1,835	2,046	1,940	2,158	2,045	9,740	9,146
Rural Electrification Administration (off-budget)...............	(38)	(38)	(1,142)	(1,142)	(2,328)	(2,328)	(3,603)	(3,603)	(4,975)	(4,975)	(6,450)	(6,450)	(18,536)	(18,536)
(Loan guarantee commitments)......	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)		(32,427)	
Farmers Home Admin....	---	30	---	105	30	179	105	255	179	331	255	407	569	1,307
(Direct loan obligations)......	(565)		(2,354)		(2,354)		(2,354)		(2,354)		(2,354)		(12,335)	
Alcohol Fuels/Biomass Loans 1/.............	505	46	---	94	---	3	---	4	---	3	---	3	505	153
Subtotal...........	800	406	3,485	4,691	3,842	5,509	4,501	6,432	4,861	7,161	5,184	7,941	22,673	32,140
Department of Commerce														
Economic and Regional Development (including Appalachian Regional Commission 2/).......	502	24	769	440	854	644	934	755	1,010	882	1,085	997	5,154	3,742
National Oceanic and Atmospheric Admin....	9	6	152	69	202	148	238	216	250	253	241	223	1,092	915
Subtotal...........	511	30	921	509	1,056	792	1,172	971	1,260	1,135	1,326	1,220	6,246	4,657
Department of Defense-Military														
Personnel.............	68	68	2,387	2,387	3,736	3,736	4,152	4,152	4,369	4,369	4,544	4,544	19,256	19,256
Program and all other.	360	280	840	530	1,360	1,050	2,180	1,700	2,860	2,400	3,560	3,000	11,160	8,960
Subtotal...........	428	348	3,227	2,917	5,096	4,786	6,332	5,852	7,229	6,769	8,104	7,544	30,416	28,216

Summary Table (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Education														
Elementary and Secondary Grants Consolidation.........	---	---	1,498	106	1,761	1,217	1,998	1,766	2,366	2,051	2,617	2,272	10,240	7,412
School Assistance in in Federally Affected Areas (Impact Aid)...	67	82	474	450	523	500	567	551	608	584	632	613	2,871	2,780
Vocational Education..	---	---	236	220	242	242	259	252	277	269	294	283	1,308	1,266
Student Assistance....	338	106	1,016	803	1,659	1,499	1,857	1,808	2,074	2,019	2,287	2,233	9,231	8,468
National Institute of Education............	---	---	20	22	22	20	23	20	25	21	27	22	117	105
Institute of Museum Services.............	12	2	14	12	15	13	16	14	18	16	19	18	94	75
Subtotal...........	417	190	3,258	1,613	4,222	3,491	4,720	4,411	5,368	4,960	5,876	5,441	23,861	20,106
Department of Energy														
Synthetic Fuels.......	545	275	1,028	864	1,064	859	362	676	140	224	25	256	3,164	3,154
Fossil Energy..........	70	59	373	361	522	433	605	549	676	657	602	604	2,848	2,663
Solar Energy...........	99	79	363	365	428	414	372	406	330	330	275	275	1,867	1,869
Other Energy Supply...	148	37	186	156	178	177	178	170	169	158	176	163	1,035	861
Energy Conservation...	254	66	677	310	597	611	427	589	374	433	373	373	2,702	2,382
Energy Information and Departmental Overhead	13	3	38	27	62	62	67	67	73	73	78	78	331	310
Energy Regulation.....	33	33	150	127	138	140	131	132	127	123	118	117	697	672
Alcohol fuels Subsidy 1/...........	745	114	---	29	---	13	---	15	---	15	---	15	745	201
General Science.......	5	4	40	29	45	43	61	61	72	72	84	84	307	293
Subtotal...........	1,912	670	2,855	2,268	3,034	2,752	2,203	2,665	1,961	2,085	1,731	1,965	13,696	12,405
Department of Health and Human Services														
Social Security-														
Minimum Benefits.....	---	50	---	1,000	---	1,100	---	1,100	---	1,100	---	1,100	---	5,450
Disability Insurance.	---	65	---	550	---	1,175	---	1,700	---	2,225	---	2,750	---	8,465
Student Benefits.....	---	20	---	700	---	1,200	---	1,500	---	1,700	---	1,700	---	6,820
Aid to Families with Dependent Children...	*	*	520	520	670	670	722	722	795	795	824	824	3,531	3,531
Medicaid..............	353	100	1,237	1,013	2,213	1,986	3,166	2,930	4,181	3,916	5,318	5,021	16,468	14,966
Health and Social Services grant Consolidation 3/.....	---	---	2,697	2,540	3,148	2,993	3,532	3,347	3,863	3,676	4,084	3,929	17,324	16,485

Summary Table (con't)
(In millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Regulation of Health Care Industry														
-Health Planning.....	28	10	100	62	168	87	180	159	190	188	199	197	865	703
-PSRO'S...............	6	38	15	117	19	134	27	212	29	223	31	234	127	958
(PSRO obligations)..	(38)		(119)		(136)		(215)		(227)		(238)		(973)	
National Institutes of Health 4/.........	126	54	197	145	373	336	512	468	628	584	726	682	2,562	2,269
Health Professions Education............	219	32	280	126	309	221	336	260	361	297	385	313	1,890	1,249
Health Maintenance Organizations.........	37	6	24	18	57	27	66	50	69	61	72	73	325	235
National Research Service Awards (ADAMHA) 4/..........	4	1	5	4	5	4	6	6	6	5	7	6	33	26
Merchant Seamen (PHS) 5/..............	39	39	110	110	183	183	194	194	205	205	215	215	946	946
National Health Service Corps Scholarship....	16	3	31	14	45	37	54	45	65	54	80	65	291	218
Subtotal...........	828	418	5,216	6,919	7,190	10,153	8,795	12,693	10,392	15,029	11,941	17,109	44,362	62,321
Department of Housing and Urban Development														
Planning Assistance....	34	3	37	26	39	36	42	39	44	41	46	44	242	189
Rehabilitation Loan Fund..................	130	63	130	191	134	210	138	211	140	213	142	214	814	1,102
Neighborhood Self-Help Development...........	8	4	10	9	11	10	11	11	12	11	12	12	64	57
Community Development Support Assistance....	---	---	584	12	678	67	837	271	882	702	926	814	3,907	1,866
Subsidized Housing														
-program level........	---	1	3,536	10	3,026	39	3,440	95	3,437	223	3,624	371	17,063	739
-rent contributions...	500	9	4,916	232	4,574	538	5,587	1,018	6,066	1,748	6,269	2,445	27,912	5,990
Public Housing Modernization.........	(300)**	---	800	---	800	---	800	20	800	60	800	100	4,000	180
Solar Energy and Conservation Bank......	121	47	132	149	141	137	150	147	158	157	166	162	868	799
Subtotal............	793	127	10,145	629	9,403	1,037	11,005	1,812	11,539	3,155	11,985	4,162	54,870	10,922

Summary Table (con't)
(in millions of dollars)

	1981 BA	1981 O	1982 BA	1982 O	1983 BA	1983 O	1984 BA	1984 O	1985 BA	1985 O	1986 BA	1986 O	Item Totals BA	Item Totals O
Department of the Interior														
Improved targeting of conservation expenditures..................	573	91	566	270	512	286	465	365	471	349	605	403	3,192	1,764
Youth Conservation Corps..................	56	52	60	59	60	60	60	60	60	60	60	60	356	351
Subtotal............	629	143	626	329	572	346	525	425	531	409	665	463	3,548	2,115
Department of Labor														
Unemployment Insurance-Extended Benefits.....	400	523	700	1,231	700	477	100	196	100	284	200	287	2,200	2,998
Unemployment Insurance-Work Test.............	---	---	---	---	---	285	---	285	---	272	---	264	---	1,106
Unemployment compensation for ex-service members................	60	60	175	175	175	175	181	181	183	183	183	183	957	957
Trade Adjustment Assistance............	---	---	1,150	1,150	760	760	380	380	380	380	380	380	3,050	3,050
Comprehensive Employment and Training (CETA).................	153	635	4,644	3,566	4,236	4,073	4,578	4,408	4,946	4,762	5,341	5,143	23,898	22,587
Young Adult Conservation Corps...........	---	53	250	179	256	248	262	262	269	268	275	274	1,312	1,284
Federal employees injury compensation (FECA)...	---	---	102	102	114	114	126	126	138	138	151	151	631	631
Subtotal............	613	1,271	7,021	6,403	6,241	6,132	5,627	5,838	6,016	6,287	6,530	6,682	32,048	32,613
Department of Transportation														
Federal Highway Construction..........	---	---	1,390	244	1,964	1,211	2,546	1,700	3,243	2,088	3,437	2,234	12,580	7,477
Urban Mass Transportation-														
Capital Grants........	210	31	950	270	1,047	545	1,220	975	1,368	1,284	1,497	1,480	6,292	4,585
Operating Subsidies..	---	---	103	96	581	256	1,059	600	1,528	1,083	1,626	1,356	4,897	3,391
Airport Construction...	272	120	250	140	278	161	305	196	330	219	371	239	1,806	1,075
AMTRAK Subsidies........	25	25	431	325	606	485	760	688	964	904	1,056	1,050	3,842	3,477
Northeast Corridor Improvement Project...	---	25	288	95	-13	114	20	51	15	25	---	---	310	310
Low volume railroad branch lines..........	80	8	88	32	96	62	104	80	112	103	119	110	599	395
Highway Safety Grants..	---	---	167	16	125	112	138	138	162	150	178	163	770	579
Cooperative Automotive Research Program......	12	6	13	9	14	13	15	14	16	14	17	15	87	71
Subtotal............	599	215	3,680	1,227	4,698	2,959	6,167	4,442	7,738	5,870	8,301	6,647	31,183	21,360

Summary Table (con't)
(In millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Other Independent Agencies														
EPA Waste Treatment Grants	1,000	---	3,610	125	1,540	1,045	1,860	1,970	2,170	1,960	2,465	1,950	12,645	7,050
NASA	75	60	330	241	248	334	-90	86	-390	-156	-200	-124	-27	441
Civil Aeronautics Board-Airline subsidy	---	---	56	50	64	64	54	54	34	34	2	2	210	204
Corporation for Public Broadcasting	---	---	43	43	52	52	73	73	98	98	111	111	377	377
Export-Import Bank	750	60	1,980	410	2,110	990	2,250	1,380	2,410	1,600	2,560	1,710	12,060	6,150
Foreign Aid (FAP)	616	85	1,854	402	205	584	2,513	1,063	2,978	1,527	3,187	1,827	11,353	5,488
National Consumer Cooperative Bank	91	82	136	128	160	152	185	178	185	175	200	190	957	905
National Endowment for the Arts/Humanities	---	---	165	85	186	131	203	193	222	223	239	231	1,015	863
National Science Foundation	63	26	66	15	90	81	120	109	153	141	183	155	675	527
Office of Personnel Management - Institution of annual COLA	---	---	558	510	472	424	430	389	416	366	417	367	2,293	2,056
Postal Service Subsidies	250	250	632	632	690	690	765	765	779	779	779	779	3,895	3,895
Student Loan Marketing Association (off-budget)	---	---	---	(1,923)	---	(2,500)	---	(3,000)	---	(3,500)	---	(4,000)	---	(14,923)
Water Resource Development Construction programs.	---	---	95	90	340	337	545	544	515	514	215	217	1,710	1,702
Corps of Engineers	(---)	(---)	(50)	(50)	(296)	(296)	(485)	(485)	(439)	(439)	(179)	(179)	(1,449)	(1,449)
Water & Power Resources Service	(---)	(---)	(35)	(35)	(28)	(28)	(43)	(43)	(57)	(57)	(20)	(20)	(183)	(183)
Soil Conservation Service	(---)	(---)	(10)	(5)	(16)	(13)	(17)	(16)	(19)	(18)	(16)	(18)	(78)	(70)
U.S. Railway Association Conrail subsidies	-350	-250	400	300	550	550	300	300	150	150	100	100	1,150	1,150
Subtotal	2,495	313	9,925	3,031	6,707	5,434	9,208	7,104	9,720	7,411	10,258	7,515	48,313	30,808
Federal Personnel Reduction not related to above reductions	386	386	1,342	1,342	1,811	1,811	2,264	2,264	2,763	2,763	3,263	3,263	11,829	11,829
Effects on civilian agency pay costs of revising the Federal Pay Comparability Standard	---	---	2,165	2,079	2,938	2,907	3,463	3,356	3,740	3,698	3,990	3,873	16,296	15,913
Mineral Leasing on Outer Continental Shelf and Federal Lands 6/	250	250	800	800	2,000	2,000	3,100	3,100	3,500	3,500	3,500	3,500	13,150	13,150

Summary Table (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
TOTAL, On-Budget Authority and Outlay Savings	10,661	4,767	54,666	34,757	58,810	50,109	69,082	61,365	76,618	70,232	82,654	77,325	352,491	298,555
Off-budget Items - Rural Electrification Administration	38	38	1,142	1,142	2,328	2,328	3,603	3,603	4,975	4,975	6,450	6,450	18,536	18,536
(Loan guarantee commitments)	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)		(32,427)	
Student Loan Marketing Association	---	---	---	1,923	---	2,500	---	3,000	---	3,500	---	4,000	---	14,923
TOTAL, Budget Authority and Outlay Savings	10,699	4,805	55,808	37,822	61,138	54,937	72,685	67,968	81,593	78,707	89,104	87,775	371,027	332,014

* Less than $500 thousand
** Deferral
1/ The appropriations for the Alcohol Fuels and Biomass programs are in the Department of the Treasury.
2/ Funds for the Appalachian Regional Commission are appropriated to the President.
3/ Some of these savings are to be derived from agencies other than the Department of Health and Human Services.
4/ Elimination of National Research Service Awards is also included in National Institutes of Health reduction.
5/ These savings to the Public Health Service will be partially offset by additional costs to the U.S. Coast Guard, the Merchant Marine and several other agencies.
6/ Offset included for Department of Interior operating costs and payments to states.

II. Other Reductions to the Deficit

	1981	1982	1983	1984	1985	1986
			(in millions of dollars)			
Black Lung Trust Fund reform....................	30	378	354	353	382	469
Smaller reductions (for agencies listed above and for other agencies) that have been identified (outlays)........................	---	6,300	8,000	12,000	16,000	18,000
Total, Other reductions to the budget deficit................................	30	6,678	8,354	12,353	16,382	18,469
Off-budget items:						
Smaller reductions that have been identified.	706	2,617	2,565	2,603	2,637	2,615
Total, Other reductions to the deficit, including off-budget items................	736	9,295	10,919	14,956	19,019	21,084

III. Increases to Governmental Receipts

	1981	1982	1983	1984	1985	1986
			(in millions of dollars)			
Corps of Engineers						
Inland Waterway User Charges						
Increase fuel tax to recover operation, maintenance, and replacement costs and capital costs on new waterways............	---	---	258	275	300	315
Transportation						
Coast Guard						
Phase-in fees for Coast Guard Services.....	---	100	200	300	400	500
Federal Aviation Administration						
Increase trust fund taxes to cover all operating expenses.........................	---	1,882	2,159	2,442	2,753	3,104
Subtotal................................	---	1,982	2,359	2,742	3,153	3,604
Total, increases to governmental receipts............................	---	1,982	2,617	3,017	3,453	3,919

IV. Summary effects on the deficit

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Listed outlay savings (Table I)................	4,767	34,757	50,109	61,365	70,232	77,325
Other outlay reductions (Table II).............	30	6,678	8,354	12,353	16,382	18,469
Total, effect on outlays...............	4,797	41,435	58,463	73,718	86,614	95,794
Increases to governmental receipts (Table III).	---	1,982	2,617	3,017	3,453	3,919
Total, effect on the budget deficit....	4,797	43,417	61,080	76,735	90,067	99,713
Off-budget outlays listed above (Table I)......	38	3,065	4,828	6,603	8,475	10,450
Other changes in off-budget entities that have been identified (Table II)..................	706	2,617	2,565	2,603	2,637	2,615
Total, off-budget changes..............	744	5,682	7,393	9,206	11,112	13,065
Effect on the deficit, including effects on off-budget entities.........................	5,541	49,099	68,473	85,941	101,179	112,778

IV. President's Proposals for Tax Reduction

THE PRESIDENT'S PROPOSAL FOR TAX REDUCTION

The President is committed to implementing an Economic Recovery Program that will promote a framework for the future of our American economy. This memorandum describes the two major proposals for tax reduction that are an integral part of the program: individual tax rate reduction; and, an accelerated cost recovery system for investments.

Taken together, they provide an incentive tax policy designed to increase the after-tax take-home pay for every working American, and an accelerated cost recovery system designed to improve the after-tax rate of return on investments in new plant and equipment. These changes are central to restoring incentives and strengthening growth and productivity of the economy. They will promote each by increasing the after-tax rewards for work, savings, and investment.

The President's proposals for tax reduction are contained in the following sections:

I. Thirty Percent Phased Rate Reductions for Individuals

II. Accelerated Cost Recovery System

A. General Explanation

B. Technical Explanation

30 PERCENT PHASED RATE REDUCTION

Present Law

Under each of the four rate schedules -- joint, single, married filing separately, and head of household -- individuals pay tax on income at marginal rates ranging between 14 and 70 percent. For instance, for married individuals, tax rates range from 14 percent for taxable income between $3,400 and $5,500 to 70 percent for taxable income in excess of $215,400. Although bracket widths vary according to type of return, all schedules use the same basic tax rates of 14 to 70 percent.

For earned income, there is a separate provision in the law that provides for a "maximum tax" rate of 50 percent. */ This provision benefits single individuals with earned taxable income in excess of $41,500 and married couples with earned taxable income in excess of $60,000. Unearned income is taxed at much higher rates, ranging up to 70 percent.

Reasons for Change

Individual tax burdens have been increasing steadily over the past few years. Inflation has pushed individuals into higher and higher marginal rate brackets. Social security tax increases have been substantial as well. **/ (See Charts 1 and 2.)

High marginal tax rates act as a disincentive both to work and to save. Lowering these marginal rates will help eliminate these disincentives by allowing individuals to retain a greater share of increased output which results from their own productive efforts.

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*/ Because of the particular way in which the maximum tax is calculated, the effective rate on additional earned income may actually be above 50 percent. For purpose of computing the tax liability under the maximum tax on earned income, earned income is "stacked" first -- that is, it is considered to be the income taxed at the lowest rates -- and other income is considered "stacked" on top of the earned income and is subject to the higher rates. As a result of this stacking rule, an additional dollar of earned income can increase taxes on unearned income. Combined with other interactions such as the allocation of deductions between earned and unearned income an additional dollar of earned income can be taxed at an effective rate above 50 percent and as high as 70 percent.

**/ In 1981 the social security tax rate for employees and employers increased from 6.13 percent to 6.65 percent, and the tax base will increase from $25,900 to $29,700.

Thus, increasing the after-tax rewards from work will encourage individuals to work harder and to generate more goods and services which are used by others. Encouraging saving will help spur the economy to generate more investment and a larger capital stock. An increase in capital in turn implies growth in productivity, an increase in the rate of real growth in the economy, and higher real incomes for Americans.

Higher output in the economy also leads to increased revenues to the government -- offsetting part of the direct revenue cost of the tax reduction program.

Reduced tax rates will make tax shelters relatively less attractive, and will encourage investment to move to those activities that are most productive. Under current law, individuals are often forced to concentrate more upon the tax consequences of a particular type of investment than upon the value (or pre-tax profitability) of the investment itself. This leads to distortions in investment patterns and a loss of output to the economy.

Moreover, revenues to the government are lower when individuals invest in tax shelters that are less productive than other investments or when individuals simply avoid taxation legally by avoiding realization of income, e.g., by not selling an asset that has appreciated in value. Because lower marginal rates of tax will encourage more productive investment and will lead to an increase in recognition of income, revenue losses from the rate reduction will be reduced further. This induced revenue effect is in addition to any increase in revenues which would result from increases in productivity and in the aggregate amount of individual work or savings.

Taxing unearned income at rates between 50 percent and 70 percent raises little revenue for the government. Moreover, differentiating between earned income and unearned income creates additional complexity in the calculation of taxes. By reducing the top marginal rate over a 3-year period by the same 30 percent that all other rates will be reduced, the maximum tax for earned income no longer will be necessary because there will be no income subject to a rate above 50 percent. Earned and unearned income will be taxed the same, both subject to the new rate schedule that will have a top marginal rate of 50 percent.

General Explanation

The basic design of the proposal is simple: all rates of tax listed in the tax rate schedules will be reduced by approximately 30 percent. Rates will be reduced from their present range of 14 to 70 percent to a new range of 10 to 50 percent. Compared with present law, tax rates will be reduced by 5 percent for calendar 1981, then to 15 percent for calendar 1982, 25 percent for calendar 1983 and 30 percent for calendar 1984. See Tables 1, 2, and 3. This reduction is roughly equivalent to a 10 percent reduction in tax rates on July 1, 1981 and a further 10 percent reduction on July 1 of each of the 2 succeeding years.

Withholding. Withholding will be adjusted on July 1, 1981. For 1981, the percentage reduction in withholding rates will be 10 percent, or twice the percentage reduction in the tax rates that will apply for the entire calendar year. In effect, rather than receive a large refund at the beginning of 1982, most individuals will be able to receive their entire tax reduction for 1981 over the last half of that year. For all years after 1981, the percentage reduction in both withholding rates and tax schedule rates will be the same.

Maximum Tax. By 1984 the top marginal rate of 70 percent will be reduced to 50 percent for all income, regardless of source. This will allow the tax laws to be simplified through elimination of the maximum tax on earned income.

Taxpayers currently eligible for the maximum tax on earned income will benefit from the across-the-board rate reductions. Currently, taxable income above $41,500 for single individuals and $60,000 for married couples is subject either to a regular tax rate of more than 50 percent or a maximum tax rate on earned income of 50 percent. Under the proposal, all taxable income between $41,000 and $108,300 for single individuals and between $60,000 and $215,400 for married couples will be taxed at rates below even the current maximum tax rate of 50 percent.

Capital Gains. Since 60 percent of net long-term capital gains are deducted from income under current law, leaving 40 percent of such gains included in adjusted gross income, the top tax rate on capital gains will be lowered from 28 to 20 percent (20 percent = .4 x 50 percent) by January 1, 1984. For years before 1984, the top effective rate will be 26.4 percent in 1981, 24.0 percent in 1982, and 21.2 percent in 1983. Additionally, to conform the existing alternative minimum tax to the reduction in the maximum regular tax on capital gains, the top alternative tax rate would be reduced to 24 percent in 1982, 21 percent in 1983, and 20 percent in 1984 and thereafter.

Analysis of Impact

The reduction in marginal tax rates will reduce individual income tax liabilities by 5.1 percent for calendar 1981, rising to 27.3 percent for 1984. As shown in Charts 3-4 and Tables 4-15, the percentage reduction for most income classes is approximately the same. Thus the distribution of the reduction is spread in proportion to taxes paid in all income classes.

Deviations from a flat percentage reduction at all levels are explained primarily by interaction with the earned income tax credit and the current law maximum tax on earned income. Under the proposal the rate reductions will reduce the amount of taxes before credits. The amount of the earned income credit is not changed, and as a result the percentage reduction in tax after credits can be greater than 30 percent. For example, under current law a couple with one dependent earning $9,000 would have tax before credits of $374, an earned income credit of $125 and a tax liability after credits of $249. Under the proposal, in 1984 this couple's tax before credit would be reduced 29.1 percent, to $265. Since the earned income credit would remain unchanged, their tax liability after credits would be reduced to $140 -- a 43.8 percent reduction.

At higher levels of income, there is an interaction with the maximum tax on earned income. Whereas returns with property income receive approximately the same percentage reduction as all returns, the percentage reduction in tax for returns with $100,000 or $200,000 in wage income begins to fall below the percentage reduction for other returns. This is because earned income, which currently is subject to a maximum tax of 50 percent, will still be subject to a top marginal rate of 50 percent.

Revenue Effect

As a result of the individual tax rate, reductions and the accelerated cost recovery system, taxpayers' after-tax income will rise substantially compared to present tax law.

Without these rate reductions, Federal taxes would consume a rapidly increasing share of national income -- rising to 23.4 percent of GNP after 1985. By contrast, these tax changes substantially reduce Federal taxes relative to the overall size of the economy. Under the President's program, receipts will fall to 20.4 percent of GNP in 1982 and 19.3 percent by 1985.

Because the economy will be rapidly growing in response to those tax changes and the other parts of the President's program, Federal revenues will still expand by $340 billion from 1981-86, allowing full support for essential government programs. This represents a little more than a 50 percent increase in revenues during this period under the President's program, compared to the prospect of nearly a 100 percent increase proposed by the prior Administration.

These tax changes will contribute importantly to raising the levels of economic activity materially above those which would be attained under present law.

CHART 1

INDIVIDUAL INCOME TAX AS PERCENT OF PERSONAL INCOME

1970-1984

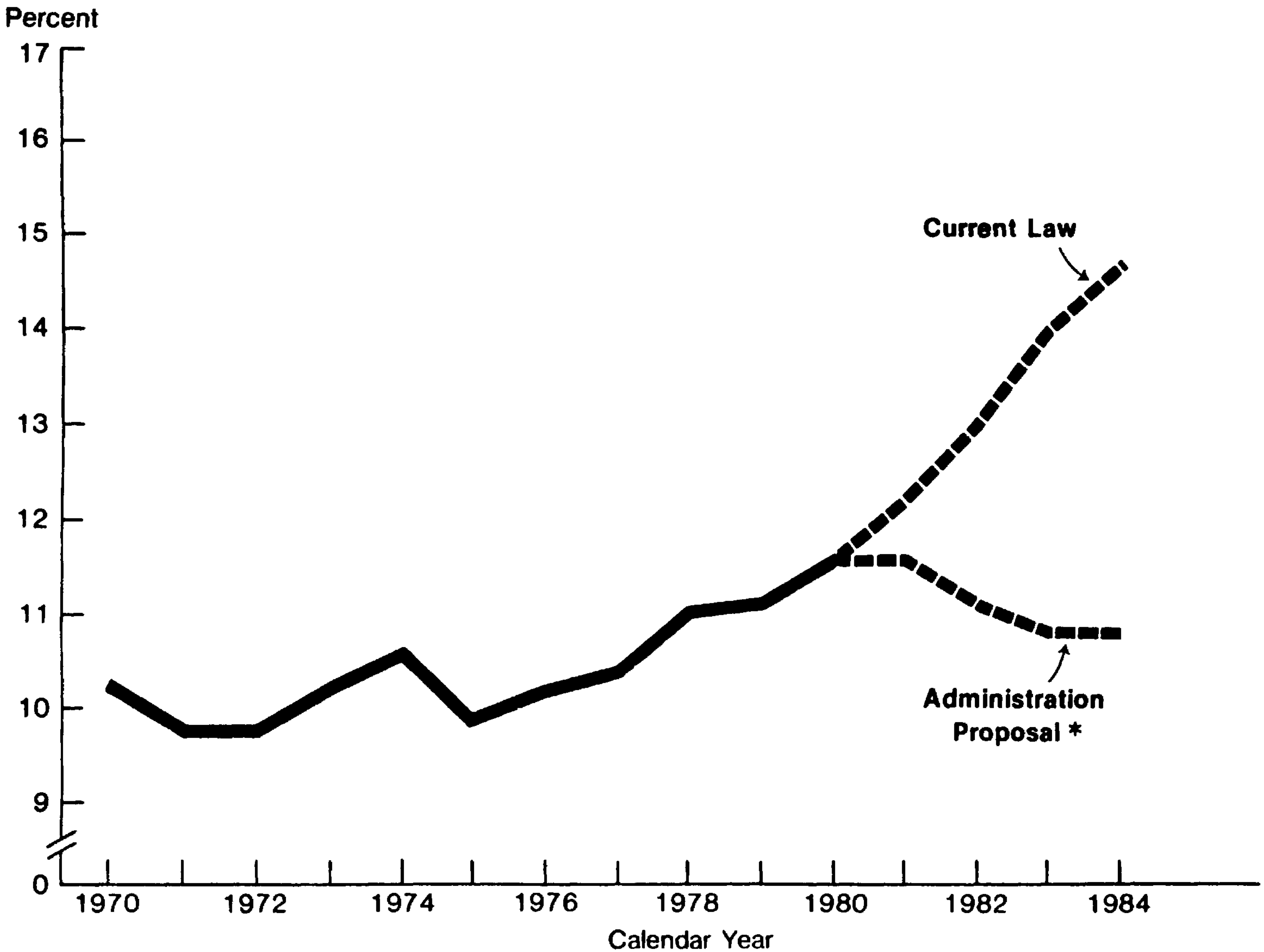

CHART 2

INDIVIDUAL INCOME TAX PLUS EMPLOYEE SOCIAL SECURITY CONTRIBUTIONS AS PERCENT OF PERSONAL INCOME

1970-1984

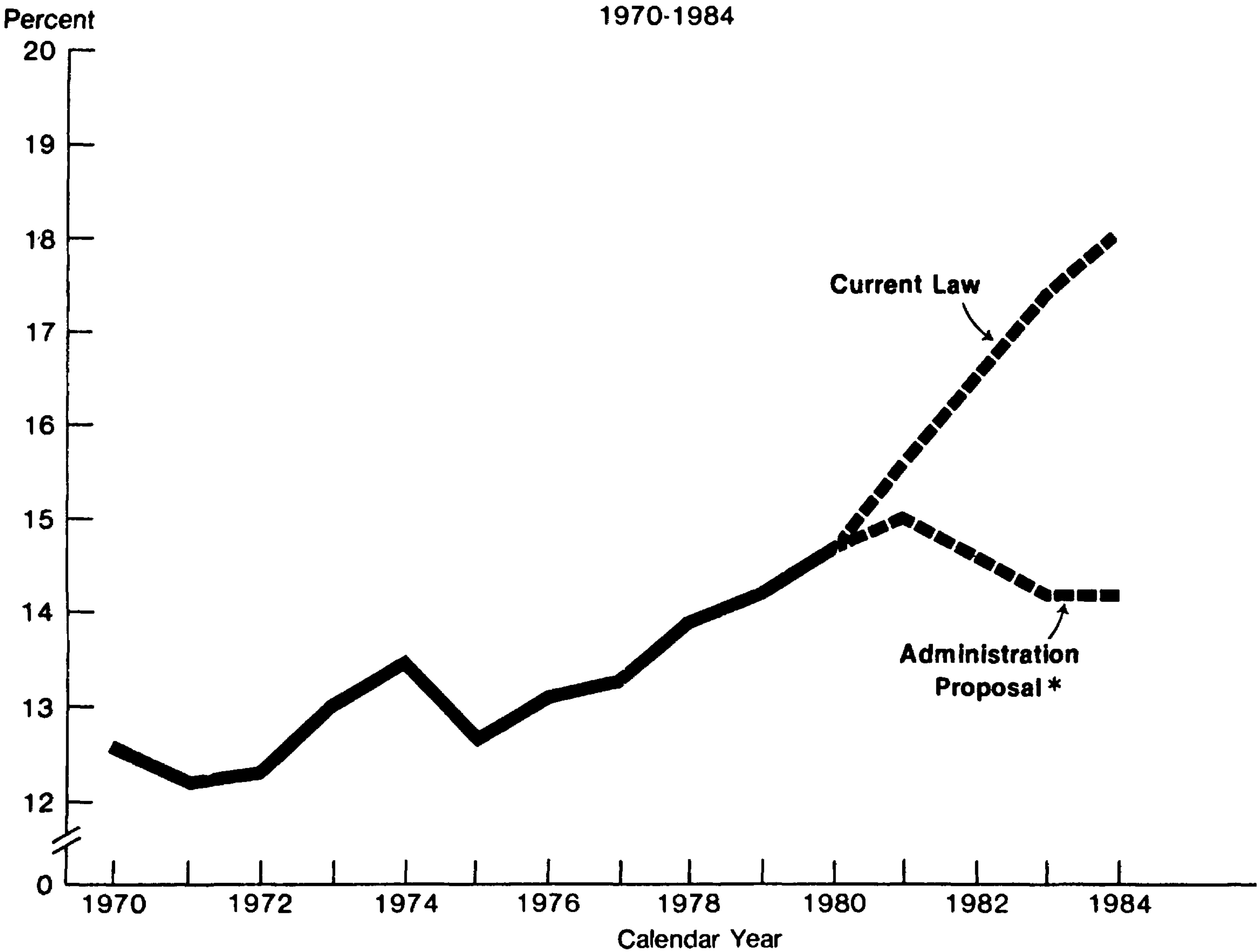

CHART 3

Marginal Tax Rates Under Current Law and the President's Proposal for 1984

(Joint Returns)

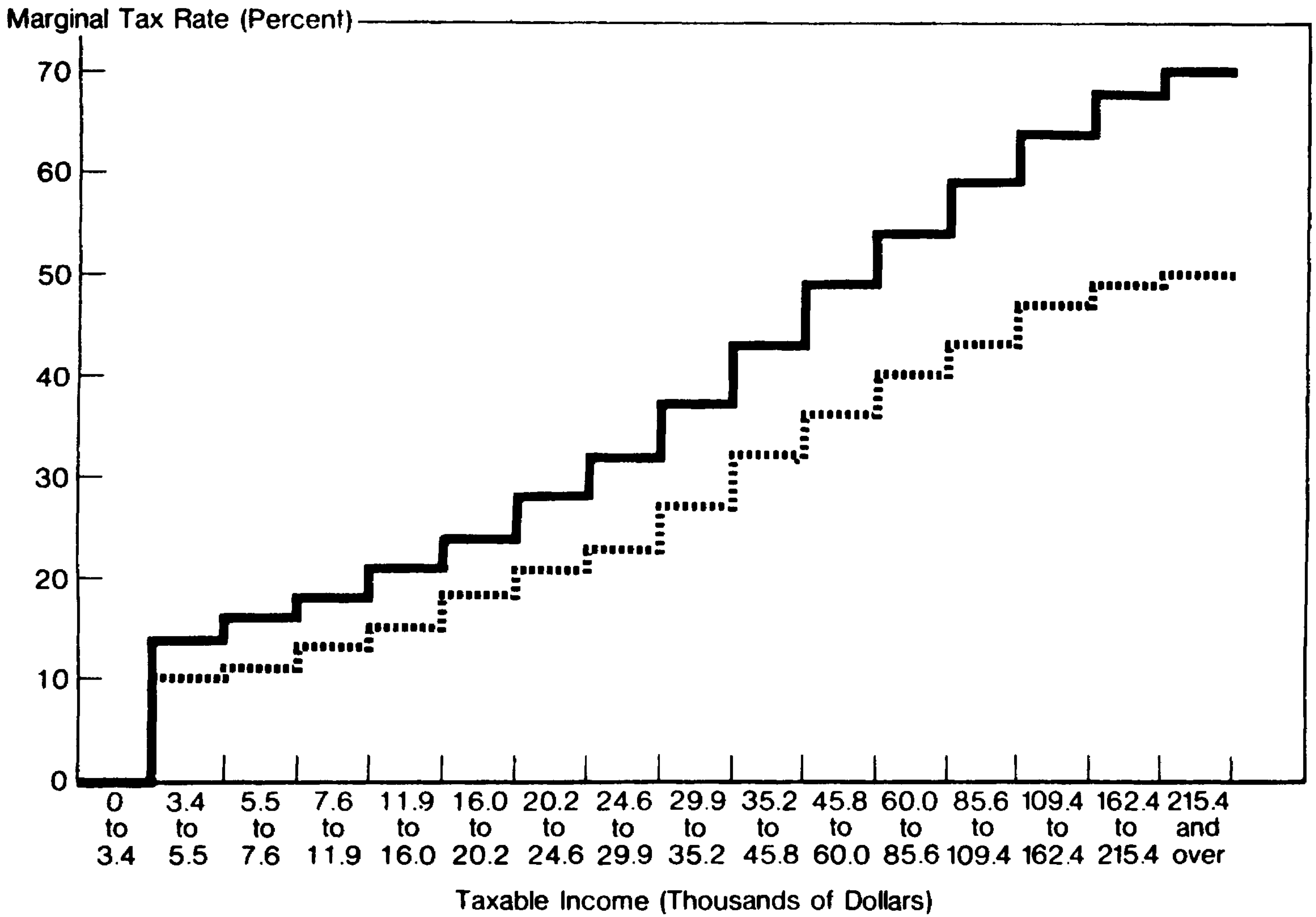

CHART 4

Marginal Tax Rates Under Current Law and the President's Proposal for 1984
(Single Returns)

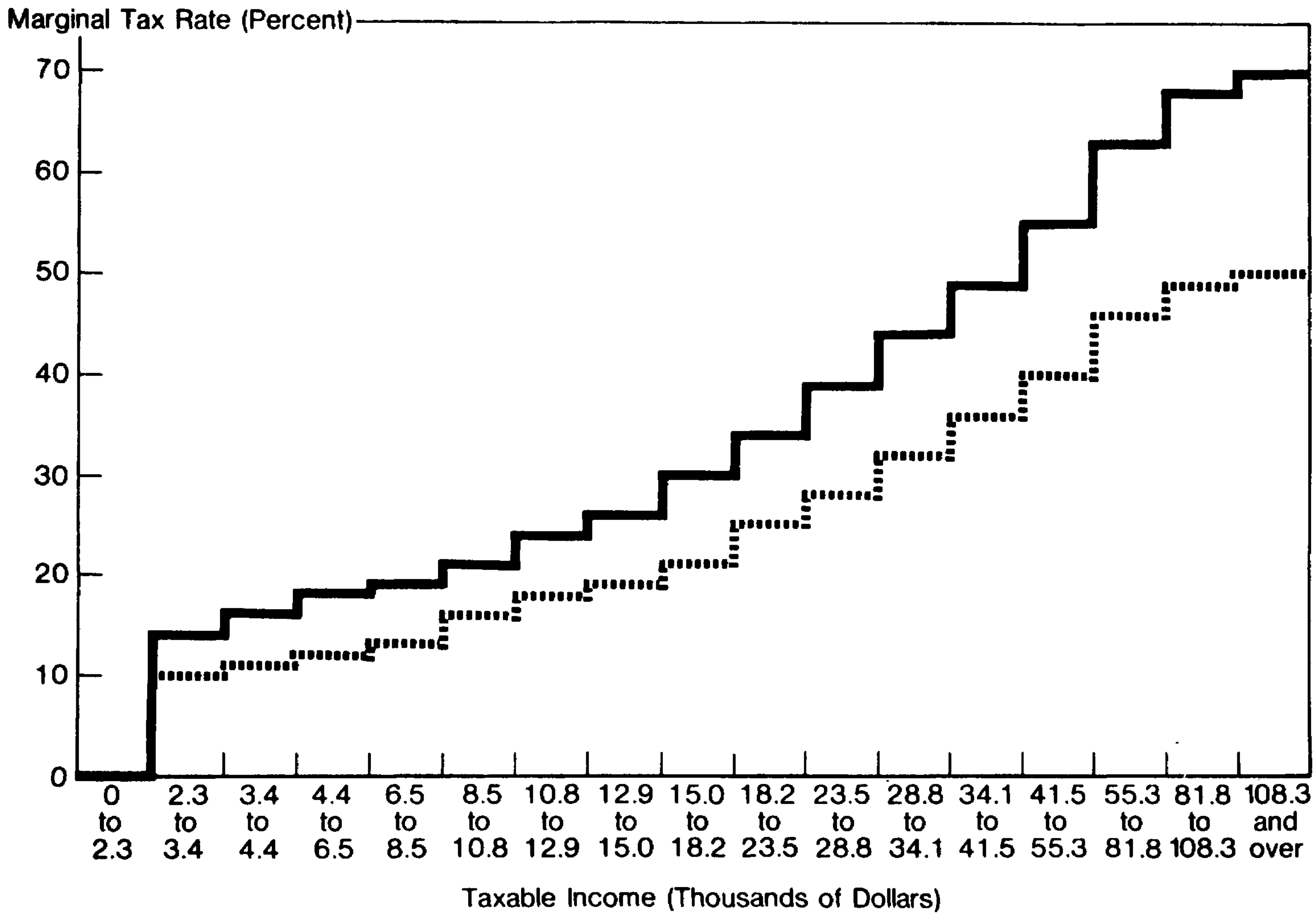

Table 1

The Administration's Proposed Tax Rate Schedules for 1981, 1982, 1983, and 1984

Joint Returns

Taxable income bracket	Present law		Administration Proposal: 1981		1982		1983		1984 and subsequent years	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
(..... dollars .....)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)
$ 0 - 3,400	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%
3,400 - 5,500	0	14	0	13	0	12	0	11	0	10
5,500 - 7,600	294	16	273	15	252	14	231	12	210	11
7,600 - 11,900	630	18	588	17	546	15	483	14	441	13
11,900 - 16,000	1,404	21	1,319	20	1,191	18	1,085	16	1,000	15
16,000 - 20,200	2,265	24	2,139	23	1,929	21	1,741	19	1,615	18
20,200 - 24,600	3,273	28	3,105	27	2,811	24	2,539	22	2,371	21
24,600 - 29,900	4,505	32	4,293	30	3,867	27	3,507	24	3,295	23
29,900 - 35,200	6,201	37	5,883	35	5,298	31	4,779	28	4,514	27
35,200 - 45,800	8,162	43	7,738	41	6,941	37	6,263	33	5,945	32
45,800 - 60,000	12,720	49	12,084	47	10,863	42	9,761	38	9,337	36
60,000 - 85,600	19,678	54	18,758	51	16,827	47	15,157	42	14,449	40
85,600 - 109,400	33,502	59	31,814	56	28,859	50	25,909	45	24,689	43
109,400 - 162,400	47,544	64	45,142	61	40,759	55	36,619	49	34,923	47
162,400 - 215,400	81,464	68	77,472	65	69,909	58	62,589	52	59,833	49
215,400 and over	117,504	70	111,922	66	100,649	60	90,149	53	85,803	50

Office of the Secretary of the Treasury, Office of Tax Analysis — February 13, 1981

1/ Compared with present law, tax rates are reduced approximately 5 percent in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984.

Table 2

The Administration's Proposed Tax Rate Schedules for 1981, 1982, 1983, and 1984

Single Returns

Taxable income bracket	Present law		Administration Proposal 1981		Administration Proposal 1982		Administration Proposal 1983		Administration Proposal 1984 and subsequent years	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
(..... dollars .....)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)
$ 0 - 2,300	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%
2,300 - 3,400	0	14	0	13	0	12	0	11	0	10
3,400 - 4,400	154	16	143	15	132	14	121	12	110	11
4,400 - 6,500	314	18	293	17	272	15	241	13	220	12
6,500 - 8,500	692	19	650	18	587	16	514	14	472	13
8,500 - 10,800	1,072	21	1,010	20	907	18	794	16	732	16
10,800 - 12,900	1,555	24	1,470	23	1,321	20	1,162	18	1,100	18
12,900 - 15,000	2,059	26	1,953	25	1,741	22	1,540	20	1,478	19
15,000 - 18,200	2,605	30	2,478	28	2,203	26	1,960	22	1,877	21
18,200 - 23,500	3,565	34	3,374	32	3,035	29	2,664	26	2,549	25
23,500 - 28,800	5,367	39	5,070	37	4,572	33	4,042	29	3,874	28
28,800 - 34,100	7,434	44	7,031	42	6,321	37	5,579	34	5,358	32
34,100 - 41,500	9,766	49	9,257	47	8,282	42	7,381	38	7,054	36
41,500 - 55,300	13,392	55	12,735	52	11,190	47	10,193	42	9,718	40
55,300 - 81,800	20,982	63	19,911	60	17,876	54	15,989	48	15,238	46
81,800 - 108,300	37,677	68	35,811	65	32,186	58	28,709	52	27,428	49
108,300 and over	55,697	70	53,036	66	47,556	60	42,489	53	40,413	50

Office of the Secretary of the Treasury, Office of Tax Analysis — February 13, 1981

1/ Compared with present law, tax rates are reduced approximately 5 percent in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984.

Table 3

The Administration's Proposed Tax Rate Schedules for 1981, 1982, 1983, and 1984

Head-of-Household Returns

Taxable income bracket	Present law		Administration Proposal							
			1981		1982		1983		1984 and subsequent years	
	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket	Tax at low end of bracket	Tax rate on income in bracket
(..... dollars .....)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)	(. dollars .)	(. percent .)
$ 0 - 2,300	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%	$ 0	0%
2,300 - 4,400	0	14	0	13	0	12	0	11	0	10
4,400 - 6,500	294	16	273	15	252	14	231	12	210	11
6,500 - 8,700	630	18	588	17	546	15	483	14	441	13
8,700 - 11,800	1,026	22	962	21	876	19	791	17	727	16
11,800 - 15,000	1,708	24	1,613	23	1,465	20	1,318	18	1,223	17
15,000 - 18,200	2,476	26	2,349	25	2,105	22	1,894	20	1,767	19
18,200 - 23,500	3,308	31	3,149	29	2,809	26	2,534	24	2,375	23
23,500 - 28,800	4,951	36	4,686	34	4,187	31	3,806	27	3,594	26
28,800 - 34,100	6,859	42	6,488	40	5,830	36	5,237	32	4,972	31
34,100 - 44,700	9,085	46	8,608	44	7,738	39	6,933	35	6,615	34
44,700 - 60,600	13,961	54	13,272	51	11,872	46	10,643	41	10,219	39
60,600 - 81,800	22,547	59	21,381	56	19,186	51	17,162	45	16,420	43
81,800 - 108,300	35,055	63	33,253	60	29,998	54	26,702	48	25,536	46
108,300 - 161,300	51,750	68	49,153	65	44,308	58	39,422	52	37,726	49
161,300 and over	87,790	70	83,603	66	75,048	60	66,982	53	63,696	50

Office of the Secretary of the Treasury, Office of Tax Analysis — **February 13, 1981**

1/ Compared with present law, tax rates are reduced approximately 5 percent in 1981, 15 percent in 1982, 25 percent in 1983, and 30 percent in 1984.

Table 4

Effect of the Administration's Proposed Tax Rate Reductions for 1981 Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/	
			Amount	Percentage
($000)	(. thousands ...)	(.......... $ millions	...........)	(.. percent ....)
Less than 3.0	10,933	-48	-1	3/
3.0- 5.0	7,363	27	-35	-129.6
5.0- 6.0	3,406	381	-48	-12.6
6.0- 8.0	6,623	2,073	-166	-8.0
8.0- 10.0	6,210	3,988	-256	-6.4
10.0- 12.5	7,164	7,425	-438	-5.9
12.5- 15.0	6,303	9,117	-514	-5.6
15.0- 17.5	5,602	10,570	-579	-5.5
17.5- 20.0	5,281	12,610	-692	-5.5
20.0- 25.0	9,377	28,615	-1,544	-5.4
25.0- 30.0	7,683	30,767	-1,590	-5.2
30.0- 35.0	5,592	28,229	-1,453	-5.1
35.0- 40.0	3,772	23,697	-1,232	-5.2
40.0- 50.0	4,185	34,758	-1,801	-5.2
50.0- 60.0	1,696	19,426	-987	-5.1
60.0- 70.0	813	12,267	-606	-4.9
70.0- 80.0	443	8,407	-411	-4.9
80.0- 90.0	289	6,735	-336	-5.0
90.0- 100.0	198	5,333	-263	-4.9
100.0- 200.0	546	23,765	-964	-4.1
200 and over	121	18,520	-682	-3.4
Total	93,599	$286,659	$-14,598	-5.1%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.

2/ Tax rates are reduced approximately 5 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 5 percent under this bill. Also, deviation from a flat 5 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.

3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 5

Effect of the Administration's Proposed Tax Rate Reductions for 1982 Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/	
			Amount	Percentage
($000)	(. thousands ...)	(.......... $ millions	...........)	(.. percent ....)
Less than 3.0	10,933	-48	-1	3/
3.0– 5.0	7,363	27	-70	-259.3
5.0– 6.0	3,406	381	-99	-26.0
6.0– 8.0	6,623	2,073	-386	-18.6
8.0– 10.0	6,210	3,988	-629	-15.8
10.0– 12.5	7,164	7,425	-1,115	-15.0
12.5– 15.0	6,303	9,117	-1,390	-15.2
15.0– 17.5	5,602	10,570	-1,627	-15.4
17.5– 20.0	5,281	12,610	-1,908	-15.1
20.0– 25.0	9,377	28,615	-4,243	-14.8
25.0– 30.0	7,683	30,767	-4,515	-14.7
30.0– 35.0	5,592	28,229	-4,169	-14.8
35.0– 40.0	3,772	23,697	-3,541	-14.9
40.0– 50.0	4,185	34,758	-5,209	-15.0
50.0– 60.0	1,696	19,426	-2,894	-14.9
60.0– 70.0	813	12,267	-1,817	-14.8
70.0– 80.0	443	8,407	-1,227	-14.6
80.0– 90.0	289	6,735	-977	-14.5
90.0– 100.0	198	5,333	-752	-14.1
100.0– 200.0	546	23,765	-2,902	-12.2
200 and over	121	18,520	-1,884	-10.2
Total	93,599	$286,659	$-41,358	-14.4%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.
2/ Tax rates are reduced approximately 15 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 15 percent under this bill. Also, deviation from a flat 15 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.
3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 6

Effect of the Administration's Proposed
Tax Rate Reductions for 1983
Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/ Amount	Change in tax 2/ Percentage
($000)	(. thousands ...)	(.......... $ millions	...........)	(.. percent ....)
Less than 3.0	10,933	-48	-2	3/
3.0- 5.0	7,363	27	-109	-403.4
5.0- 6.0	3,406	381	-167	-43.8
6.0- 8.0	6,623	2,073	-649	-31.3
8.0- 10.0	6,210	3,[illegible]	-1,055	-26.5
10.0- 12.5	7,164	7,425	-1,854	-25.0
12.5- 15.0	6,303	9,117	-2,235	-24.5
15.0- 17.5	5,602	10,570	-2,579	-24.4
17.5- 20.0	5,281	12,610	-3,069	-24.3
20.0- 25.0	9,377	28,615	-6,805	-23.8
25.0- 30.0	7,683	30,767	-7,174	-23.3
30.0- 35.0	5,592	28,229	-6,589	-23.3
35.0- 40.0	3,772	23,697	-5,564	-23.5
40.0- 50.0	4,185	34,758	-8,191	-23.6
50.0- 60.0	1,696	19,426	-4,585	-23.6
60.0- 70.0	813	12,267	-2,885	-23.5
70.0- 80.0	443	8,407	-1,955	-23.3
80.0- 90.0	289	6,735	-1,574	-23.4
90.0- 100.0	198	5,333	-1,220	-22.9
100.0- 200.0	546	23,765	-4,945	-20.8
200 and over	121	18,520	-3,183	-17.2
Total	93,599	$286,659	$-66,389	-23.2%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.
2/ Tax rates are reduced approximately 25 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 25 percent under this bill. Also, deviation from a flat 25 percent reduction at all income levels is explained by interaction with the current law 50 percent maximum tax on personal service income.
3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 7

Effect of the Administration's Proposed
Tax Rate Reductions for 1984
Distributed by Adjusted Gross Income Class

(1981 Levels of Income)

Adjusted gross income class	Number of returns	Present law tax liability 1/	Change in tax 2/ Amount	Change in tax 2/ Percentage
($000)	(. thousands ...)	(.......... $ millions	..........)	(.. percent ....)
Less than 3.0	10,933	-48	-3	3/
3.0- 5.0	7,363	27	-144	-533.3
5.0- 6.0	3,406	381	-215	-56.4
6.0- 8.0	6,623	2,073	-814	-39.3
8.0- 10.0	6,210	3,988	-1,309	-32.8
10.0- 12.5	7,164	7,425	-2,237	-30.1
12.5- 15.0	6,303	9,117	-2,648	-29.0
15.0- 17.5	5,602	10,570	-3,056	-28.9
17.5- 20.0	5,281	12,610	-3,640	-28.9
20.0- 25.0	9,377	28,615	-8,122	-28.4
25.0- 30.0	7,683	30,767	-8,563	-27.8
30.0- 35.0	5,592	28,229	-7,826	-27.7
35.0- 40.0	3,772	23,697	-6,551	-27.6
40.0- 50.0	4,185	34,758	-9,524	-27.4
50.0- 60.0	1,696	19,426	-5,275	-27.2
60.0- 70.0	813	12,267	-3,320	-27.1
70.0- 80.0	443	8,407	-2,255	-26.8
80.0- 90.0	289	6,735	-1,819	-27.0
90.0- 100.0	198	5,333	-1,412	-26.5
100.0- 200.0	546	23,765	-5,793	-24.4
200 and over	121	18,520	-3,762	-20.3
Total	93,599	$286,659	$-78,285	-27.3%

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Includes outlay portion of earned income credit.
2/ Tax rates are reduced approximately 30 percent. To avoid fractional marginal rates, each current law tax rate is not reduced exactly 30 percent under this bill. Also, deviation from a flat 30 percent reduction at all income levels is explained by interaction with the earned income credit and with the current law 50 percent maximum tax on personal service income.
3/ Calculation of a percentage reduction on a negative liability is not meaningful.

Note: Details may not add to totals due to rounding.

Table 8

Effect of the Administration's Proposed
Tax Rate Reductions for 1981

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(............	.... dollars	....	............)	(.. percent ....)
$ 5,000	$ 250	$ 233	$ -17	-6.8%
10,000	1,177	1,110	-67	-5.7
15,000	2,047	1,942	-105	-5.1
20,000	3,115	2,954	-161	-5.2
25,000	4,364	4,126	-238	-5.5
30,000	5,718	5,403	-315	-5.5
40,000	8,886	8,417	-469	-5.3
50,000	12,559	11,936	-623	-5.0
100,000	31,792	31,135	-657	-2.1
200,000	70,292	69,635	-657	-0.9
Property income:				
100,000	35,346	33,591	-1,755	-5.0
200,000	88,457	83,924	-4,533	-5.1

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 5 percent.

Table 9

Effect of the Administration's Proposed
Tax Rate Reductions for 1981

Four-person Family

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(...	... dollars ...	...	...)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	348	-26	-7.0
15,000	1,233	1,158	-75	-6.1
20,000	2,013	1,899	-114	-5.7
25,000	2,901	2,748	-153	-5.3
30,000	3,917	3,726	-191	-4.9
40,000	6,312	5,988	-324	-5.1
50,000	9,323	8,845	-478	-5.1
100,000	27,878	26,958	-920	-3.3
200,000	66,378	65,458	-920	-1.4
Property income:				
100,000	28,318	26,918	-1,400	-4.9
200,000	75,448	71,738	-3,710	-4.9

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 5 percent.

Table 10

Effect of the Administration's Proposed Tax Rate Reductions for 1982

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
	(... dollars		...)	(.. percent ....)
$ 5,000	$ 250	$ 216	$ -34	-13.6%
10,000	1,177	997	-180	-15.3
15,000	2,047	1,731	-316	-15.4
20,000	3,115	2,645	-470	-15.1
25,000	4,364	3,716	-648	-14.8
30,000	5,718	4,869	-849	-14.8
40,000	8,886	7,542	-1,344	-15.1
50,000	12,559	10,676	-1,883	-15.0
100,000	31,792	29,376	-2,416	-7.6
200,000	70,292	67,876	-2,416	-3.4
Property income:				
100,000	35,346	30,188	-5,158	-14.6
200,000	88,457	75,636	-12,821	-14.5

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 15 percent.

Table 11

Effect of the Administration's Proposed
Tax Rate Reductions for 1982

Four-person Family

(dollars)

Wage income	Tax liability 1/ Present law	Tax liability 1/ Administration's proposal 2/	Change in tax liability Amount	Change in tax liability Percentage
(......	......	dollars	......)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	322	-52	-13.9
15,000	1,233	1,048	-185	-15.0
20,000	2,013	1,713	-300	-14.9
25,000	2,901	2,486	-415	-14.3
30,000	3,917	3,363	-554	-14.1
40,000	6,312	5,391	-921	-14.6
50,000	9,323	7,940	-1,383	-14.8
100,000	27,878	24,535	-3,343	-12.0
200,000	66,378	62,759	-3,619	-5.5
Property income:				
100,000	28,318	24,347	-3,971	-14.0
200,000	75,448	64,739	-10,709	-14.2

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 15 percent.

Table 12

Effect of the Administration's Proposed Tax Rate Reductions for 1983

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(........	....	dollars	........)	(.. percent ....)
$ 5,000	$ 250	$ 193	$ -57	-22.8%
10,000	1,177	874	-303	-25.7
15,000	2,047	1,531	-516	-25.2
20,000	3,115	2,334	-781	-25.1
25,000	4,364	3,275	-1,089	-25.0
30,000	5,718	4,303	-1,415	-24.7
40,000	8,886	6,701	-2,185	-24.6
50,000	12,559	9,547	-3,012	-24.0
100,000	31,792	27,029	-4,763	-15.0
200,000	70,292	65,459	-4,833	-6.9
Property income:				
100,000	35,346	26,933	-8,413	-23.8
200,000	88,457	67,293	-21,164	-23.9

Office of the Secretary of the Treasurv
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 25 percent.

Table 13

Effect of the Administration's Proposed
Tax Rate Reductions for 1983

Four-person Family

(dollars)

Wage income	Tax liability 1/ Present law	Tax liability 1/ Administration's proposal 2/	Change in tax liability Amount	Change in tax liability Percentage
	(............ dollars	....	............)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	291	-83	-22.2
15,000	1,233	952	-281	-22.8
20,000	2,013	1,549	-464	-23.1
25,000	2,901	2,244	-657	-22.6
30,000	3,917	3,045	-872	-22.3
40,000	6,312	4,862	-1,450	-23.0
50,000	9,323	7,154	-2,169	-23.3
100,000	27,878	22,045	-5,833	-20.9
200,000	66,378	58,179	-8,199	-12.4
Property income:				
100,000	28,318	21,877	-6,441	-22.7
200,000	75,448	57,983	-17,465	-23.1

Office of the Secretary of the Treasury
Office of Tax Analysis

February 13, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 25 percent.

Table 14

Effect of the Administration's Proposed Tax Rate Reductions for 1984

Single Individual

(dollars)

Wage income	Tax liability 1/		Change in tax liability	
	Present law	Administration's proposal 2/	Amount	Percentage
(............................	dollars	....	..............)	(.. percent ....)
$ 5,000	$ 250	$ 176	$ -74	-29.6%
10,000	1,177	812	-365	-31.0
15,000	2,047	1,469	-578	-28.2
20,000	3,115	2,234	-881	-28.3
25,000	4,364	3,136	-1,228	-28.1
30,000	5,718	4,126	-1,592	-27.8
40,000	8,886	6,414	-2,472	-27.8
50,000	12,559	9,106	-3,453	-27.5
100,000	31,792	25,818	-5,974	-18.8
200,000	70,292	63,913	-6,379	-9.1
Property income:				
100,000	35,346	25,726	-9,620	-27.2
200,000	88,457	63,813	-24,644	-27.9

Office of the Secretary of the Treasury
Office of Tax Analysis

February 12, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 30 percent.

Table 15

Effect of the Administration's Proposed
Tax Rate Reductions for 1984

Four-person Family

(dollars)

Wage income	Tax liability 1/ Present law	Tax liability 1/ Administration's proposal 2/	Change in tax liability Amount	Change in tax liability Percentage
(...	... dollars ...	...	...)	(.. percent ....)
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	265	-109	-29.1
15,000	1,233	876	-357	-28.9
20,000	2,013	1,435	-578	-28.7
25,000	2,901	2,092	-809	-27.9
30,000	3,917	2,854	-1,063	-27.1
40,000	6,312	4,595	-1,717	-27.2
50,000	9,323	6,809	-2,514	-27.0
100,000	27,878	21,009	-6,869	-24.6
200,000	66,378	55,603	-10,775	-16.2
Property income:				
100,000	28,318	20,849	-7,469	-26.4
200,000	75,448	55,415	-20,033	-26.6

Office of the Secretary of the Treasury
Office of Tax Analysis

February 12, 1981

1/ Assumes deductible expenses equal to 23 percent of gross income.

2/ Tax rates reduced approximately 30 percent.

ACCELERATED COST RECOVERY SYSTEM

Present Law

Personal Property. Under present law, taxpayers may claim depreciation deductions for tangible personal property such as machinery and equipment used in a trade or business, including for lease or rental. These deductions are spread over the estimated "useful life" which is determined by the particular "facts and circumstances" of the anticipated use of the property or according to a system of guidelines known as the Asset Depreciation Range, or "ADR", system.

A taxpayer claiming depreciation on the basis of facts and circumstances must estimate the useful life and salvage value for each item of depreciable property. These estimates are subject to examination by auditing agents of the Internal Revenue Service.

The ADR system, established in 1971, sets out useful lives for classes of assets based upon the activity in which the assets are used (for example, mining, or manufacture of machinery) or according to the type of asset (e.g., automobiles or office furniture). A taxpayer electing to use the ADR system may rely on these lives without regard to the particular facts and circumstances. Further, taxpayers are permitted to choose useful lives within a range extending from 20 percent shorter to 20 percent longer than the established guideline for each class.

Whether useful lives are determined by facts and circumstances or by ADR guidelines, the taxpayer also has a choice of the "method" of depreciation. Depreciation deductions may be computed ratably over the useful life (the straight-line method) or certain accelerated methods (such as declining balance or sum-of-years-digits) may be used. Accelerated methods allow larger deductions in the earlier years of the useful life (and smaller deductions later).

When personal property is retired, such as by sale or exchange, any gain or loss, as measured by the difference between the amount realized and the remaining undepreciated (or "adjusted") basis, is usually recognized immediately as ordinary income. Any gain in excess of prior depreciation deductions will generally be taxed at the capital gains rates. Losses realized are allowed as ordinary or capital depending on the nature and use of the asset.

Real Estate. Present law also allows depreciation deductions for business buildings. A set of guideline periods or facts and circumstances may be used to establish recovery periods. Guidelines range from 25 years for farm buildings to 60 years for warehouses.

Instead of estimating the overall useful life and salvage value of a building, taxpayers may separately depreciate its various components (e.g., the building shell, wiring, plumbing, roof, ceiling, flooring). It is not uncommon for a single building to be divided into more than 100 components. New residential rental buildings may be depreciated under the declining balance method at a rate of up to 200 percent of the straight-line rate (or the sum-of-the-years digits method may be used to give approximately the same result). Other new buildings may be depreciated using 150 percent declining balance and used residential properties may use 125 percent declining balance. Expenditures for the rehabilitation of certain low income housing and certified historic structures may be written-off over 5 years.

Upon the disposition of a building, the taxpayer is required to recognize as ordinary income any amount of gain up to the difference between the accelerated depreciation and the depreciation deductions allowable under the straight line method. An exception is provided for certain types of subsidized low-income housing. Gains in excess of the amount recognized as ordinary income are treated as capital gains. As with leased personal property, real estate depreciation in excess of straight line is considered an item of tax preference for purposes of the add-on minimum tax.

Related Investment Credit Rules. The investment credit is less than 10 percent for eligible property with an expected useful life of less than 7 years. No credit is allowed if the expected useful life is less than 3 years. If the useful life is between 3 and 5 years, a credit of 3-1/3 percent applies; if the useful life is between 5 and 7 years, the credit is 6-2/3 percent. The investment credit is not generally available for real estate.

Current law also requires the taxpayer to repay, or "recapture," some or all of the investment credit when property is disposed of before the end of the anticipated useful life. The entire credit is recaptured if a property is held less than 3 years. If the property is held less than 5 years, any credit of more than 3-1/3 percent is recaptured and, similarly, credit taken in excess of 6-2/3 percent is recaptured for dispositions before the seventh year.

Reasons for Change

Acceleration of capital allowances is a key measure to improve incentives for business investment as a foundation for increased productivity and sustained economic growth. In recent years, the real value of depreciation allowances has been greatly eroded by inflation at the same time that the country's capital needs have become more urgent. Adoption of this proposal will reduce substantially the burden of Federal income taxes on the return to investing in business plant and equipment.

Together with other measures to encourage work and saving and to reduce the burdens of Federal regulation and government spending, this legislation will provide the conditions for increased capital investment needed to provide jobs and improve the U.S. competitive position in world markets. The long-term economic strength of the country and the future standard of living of its people depend importantly on this program.

The Accelerated Cost Recovery System will also reduce the burden of accounting and tax planning for taxpayers and will remove sources of dispute between taxpayers and the Federal Government. This system will eliminate much of the complexity of depreciation rules that have built up in layers over the years through changes in law, regulations, and administrative practice. The proposed system makes a clean break with most of present cost recovery provisions and, yet, is built on familiar concepts and definitions. In the new system, classes of capital assets are broad and well defined; cost recovery periods and accounting rules are certain and standardized.

General Explanation

The Accelerated Cost Recovery System will provide for faster write-off of capital expenditures by means of simplified and standardized rules. The system will replace the present complex provisions for determination of depreciation allowances. It substitutes easily identifed classes, each with a standard schedule of deductions to be taken over a fixed recovery period. The proposed legislation adopts the now-familiar 10-5-3 concept for machinery and equipment used in business and for owner-occupied structures used for manufacturing and distribution. In addition, audit-proof lives are provided for two classes of real estate. Brief descriptions of the 3-, 5-, and 10-year classes summarize the essentials of the system.

- 3-year property. This class consists of autos and light trucks plus machinery and equipment used in research and development activities. Expenditures for these assets will be written-off in three years according to an accelerated schedule -- 33 percent in the first year, 45 percent in the second, and 22 percent in the third. An investment credit of 6 percent will also apply to this class, an increase of 2-2/3 percentage points over the present law for property written-off in three years.

- 5-year property. All other outlays for machinery and equipment, including public utility property with present guideline lives of 18 years or less, are assigned to a 5-year class. After a phase-in period, additions to this class will be written-off according to an accelerated 5-year schedule -- 20 percent in the year acquired, and then in succeeding years 32 percent, 24 percent, 16 percent, and 8 percent of original cost. The full 10 percent investment credit will be allowed for this class.

- 10-year property. Factory buildings, retail stores, and warehouses used by their owners, and public utility property for which present guidelines exceed 18 years will be written-off over 10 years. The annual sequence of deductions for this class is also accelerated -- 10 percent, 18 percent, 16 percent, 14 percent, 12 percent, 10 percent, 8 percent, 6 percent, 4 percent, and 2 percent. As under present law, the 10 percent investment credit applies to public utility property in this class, but is not generally available for real property.

Audit-proof lives are prescribed for other classes of real estate.

- o <u>15-year life</u>. Non-residential structures not included in the 10-year class and low-income rental housing will be written-off in 15 years by the straight-line method. This treatment applies to each building as a composite.

- o <u>18-year life</u>. Other residential structures for rental, such as apartment buildings, will each be written-off, as a composite, over 18 years according to the straight-line method.

Unlike present law, all of the cost recovery rules apply alike to new and used property, and no estimate of salvage value is required.

<u>Accounting rules</u>. An asset acquired at any time in the tax year is added to the "vintage" account for its class and kept in that account until fully written-off or retired. A "half-year convention" for the year of acquisition is built-in to the recovery schedule. Gain or loss is generally recognized on disposition of an asset. Gains on property for classes with accelerated recovery (the 3-, 5-, and 10-year classes) will generally be recognized as ordinary income to the extent of prior allowances. However, no ordinary income recapture applies to the 15- and 18-year, straight-line recovery classes.

Taxpayers must pay back, or "recapture," a portion of the investment credit in the case of early retirements up to the fifth year that an asset is held. In these cases, the taxpayer may keep a credit of 2 percent for each full year the property is held, up to the amount of credit originally claimed.

<u>Phase-in period</u>. The 5-, 10-, and 15-year recovery period are phased-in over a 5-year period. However, the investment credit rules, the 3-year recovery period, and the 18-year audit-proof lives will begin with the effective date.

<u>Effective Date</u>

The Accelerated Cost Recovery System will be effective for property acquired or placed in service after December 31, 1980.

Accelerated Cost Recovery System

Technical Explanation

Summary

The Administration's Accelerated Cost Recovery System ("ACRS") provides accelerated recovery of capital costs of machinery and equipment and certain industrial and commercial buildings over a period of 3, 5 or 10 years. Additionally, the program provides shortened, audit proof recovery periods for other depreciable real property. ACRS standardizes tax accounting rules by defining easily identifiable classes of assets and prescribing standard recovery periods and accounting methods for these classes. It also divorces the capital recovery period from the concept of useful life, and eliminates costly and time consuming disputes between taxpayers and the Internal Revenue Service over those useful lives. ACRS is applicable for capital investment made after December 31, 1980.

I. 10-5-3 for Equipment and Certain Real Property

1. Coverage

Generally, the 10, 5 and 3 year classes include all tangible personal property used in a trade or business or held for the production of income, and owner-occupied industrial structures and distribution facilities. Public utility property is also covered, but only if a normalization method of accounting is used. No distinction is made under the proposal between new and used property. However, separate recovery periods and methods are prescribed for foreign assets. The system does not include property that is properly amortized (in lieu of depreciation) or property that is depreciated under a method not expressed in terms of years (such as the unit of production method), except that assets depreciated under the retirement-replacement-betterment method are included in ACRS.

The system is mandatory with respect to the included assets. Accordingly, ADR and facts and circumstances depreciation will no longer apply.

2. Classes.

ACRS establishes three classes for equipment and certain real property, each having a different recovery period, as follows:

10-year property -- Industrial structures, retail and wholesale distribution facilities, (including their structural components) used by their owners, and public utility property with an ADR Guideline Period as of January 1, 1981 of greater than 18 years.

5-year property -- Tangible personal property other than 3-year or 10-year property.

3-year property -- Automobiles, light duty trucks, and machinery and equipment used for research and development.

Capital investment made during the taxable year is classified among these three categories and the aggregate investment in each class is recovered over the prescribed period. As described below, these recovery periods are effective after ACRS is fully phased-in.

3. Recovery allowance

The recovery allowance is computed under accelerated method principles. When fully phased-in, (as described below), the recovery percentages in the following table will apply. These percentages approximate the application of the double declining balance method (DDB) for the first year, and the sum-of-years-digits method (SYD) over the remainder of the recovery period. To determine the recovery allowance, these percentages are applied against the original unadjusted basis of the property. Full recovery is generally concluded in ten, five, and three taxable years, respectively. The amount of recovery allowance is not reduced to reflect salvage value.

Table

Ownership Year	Class of Investment 10-year	5-year	3-year
1	10%	20%	33%
2	18%	32%	45%
3	16%	24%	22%
4	14%	16%	
5	12%	8%	
6	10%		
7	8%		
8	6%		
9	4%		
10	2%		
	100%	100%	100%

4. Half-year convention

Present law provides various averaging conventions for purposes of computing depreciation for the year in which an asset is acquired. These conventions allow a full year, a half-year, or no depreciation depending on the convention chosen and the timing of the acquisition. ACRS adopts the half-year convention. Thus, the recovery percentage for the first year provides for a half-year's depreciation regardless of when during the year the asset is acquired. No recovery allowance is provided in the year of disposition.

5. Gain or loss on dispositions or other retirements

Upon disposition or other retirement of an asset, gain or loss is recognized. Gain reflecting prior recovery allowances is taxed as ordinary income (section 1245 rules). Unlike prior law (section 1250), there is no preferential recapture rule for buildings in the 10-year class.

Special rules are provided for taxpayers who deal in mass assets and who may find it burdensome to keep track of specific assets. These taxpayers may make no adjustment to their records to reflect dispositions and may instead treat all realized proceeds as ordinary income.

6. Increase in Carryover Period

A mandatory system of accelerated allowances may result in increased net operating losses (NOLs) or lower credits used for certain taxpayers -- especially new businesses with start up losses. For these taxpayers the NOLs and credits may expire unused after the present 7-year carryover period. For this reason, the proposal increases the NOL and investment credit carryover periods from seven to ten years.

7. Placed-in-service rules modified

Under the proposal, investment in property with a construction period of two years or more qualifies for both the investment tax credit and recovery allowance at the earlier of the date the taxpayer makes payments for the construction of the property or the date the property is placed in service. Thus, for property with long construction times, the investment tax credit and commencement of recovery allowance are generally available immediately with respect to the funds expended in the current year to construct the property rather than being delayed to the year in which the property is placed in service. However, the amount on which the investment tax credit and the recovery allowance are computed may not exceed the portion of the overall cost of construction which is attributable to the portion of the construction completed by the end of the taxable year. Taxpayers with public utility property are given a one time election to continue under the prior placed-in-service rules or to use the more liberal rules provided under the proposal.

8. Special Rules

a. Earnings and profits

Under present law (section 312(k)), for purposes of computing the earnings and profits of a corporation, the allowance for depreciation is the amount allowable if the straight-line method were used. For this purpose, the applicable life includes the 20 percent variation permitted under ADR. This provision was enacted to prevent the distribution of tax-free dividends from accelerated depreciation.

To prevent ACRS from being used by corporations to generate dividends that are tax free to their shareholders, the proposal provides a special set of recovery allowances for earnings and profits purposes. These recovery allowances are determined by modifying the recovery period and method. The modified recovery periods are 30 years for real property, 20 years for 10-year personal property, 10 years for 5-year property, and 5 years for 3-year property. As under present law, the straight line recovery method is used over these periods. Thus, the earnings and profits allowances are: for real property, 3.33% per year; for 10-year personal property, 5 percent; for 5-year property, 10 percent; and for 3-year property, 20 percent.

b. Foreign assets and minimum tax

Present law provides that assets used outside the United States may be assigned guideline lives under ADR. However, the 20 percent variation is not applicable. Accelerated depreciation is generally permitted for foreign assets over the applicable lives.

The minimum tax provisions of present law (section 57 (a) (3)) provide that, for non-corporate lessors, the excess of accelerated over straight line depreciation on leased personal property is a tax preference item. As in the case of assets used outside the United States, the 20 percent variation allowed generally under ADR is not applicable in computing straight line recovery for minimum tax purposes.

Consistent with the special depreciation rules of present law, the modified recovery periods of 30 years for real property, 20 years for 10-year personal property, 10 years for 5-year property, and 5 years for 3-year property will also apply to recovery of investment in foreign assets and for minimum tax purposes. Also, the straight line method will be used.

9. Investment tax credit

a. Generally

ACRS retains the rules of present law governing the character of property eligible for the investment tax credit

(ITC). It does, however, change the rules which make useful life determinative of eligibility for, and which pertain to recapture of, that credit.

Under ACRS, a full regular ten percent investment tax credit is allowed for all eligible 10-year and 5-year personal property and a six percent credit is allowed for all eligible 3-year property. Conforming rules are provided with respect to the ESOP and energy credits. Eligible property is the same as under present law. Thus, the credit does not apply to 10-year real property other than substantially rehabilitated structures with respect to which the credit is allowed under present law.

Accordingly, under ACRS the amount of credit no longer depends upon the estimated useful life of the property. However, if the property is not held for at least one full year after it is placed in service, the entire credit is recaptured. For 10-year and 5-year property, 80, 60, 40, or 20 percent of the credit is recaptured if the asset is not held for at least two, three, four, or five full years, respectively. For 3-year property, the recapture percentages are 67 and 33 percent for a failure to hold for two or three full years, respectively.

b. Application of at risk rules

Under present law (section 465), a taxpayer may not deduct losses from an activity in excess of amounts at risk. To limit the use of ACRS in highly leveraged tax shelter activities, the proposal extends the at risk rules to the investment credit allowed under ACRS.

10. Repeal of section 179

ACRS provides substantial benefits to small business stemming from the more liberal recovery allowances and investment credit provided and from the simplification of the system generally. Accordingly, section 179 of the Code, providing for additional first year depreciation, will not continue to offer significant advantages after the enactment of the proposal. Thus, the proposal provides for repeal of section 179.

11. <u>Effective date and transition rules</u>

ACRS applies generally to property placed in service by the taxpayer after December 31, 1980. A special rule is provided to prevent property placed in service before that date from being brought within the system by post-December 31, 1980 transactions between related taxpayers.

A five year phase-in applies to the recovery allowances for 10-year and 5-year property. All provisions pertaining to 3-year property will begin with the effective date, as will the ten percent investment credit for the 10- and 5-year classes.

The phase in of the 5-year class is based on the present ADR guideline classes and lives. For 1981, machinery and equipment will be assigned to five subclasses according to the following table:

Shortest ADR life	Recovery period
9 or more years	9
8 or 8.5 years	8
7 or 7.5 years	7
6 or 6.5 years	6
5.5 or fewer years	5

The accelerated recovery schedule applies to each recovery period as under the proposal generally. The recovery schedule is based on similar methods used for the fully phased-in schedule, <u>i.e.</u>, double declining balance, with a half-year convention, for the first year, and sum-of-the-years digits for the remainder of the recovery period. For assets placed in service between 1981 and 1985 the recovery period for each subclass is reduced, but not below five years, in one year increments. Thus, an asset of the type now written off over eight years that is acquired in 1984 will be written off over five years at rates reflecting the DDB/SYD method.

For assets in the 10-year class acquired in 1981, the recovery period is 18 years. For assets acquired in each succeeding year, the period is reduced annually in increments of two years until the ten year period is established for acquisitions in 1985 and thereafter. Again, an accelerated rate schedule based on the DDB/SYD method applies to these phase-in recovery periods.

The schedule of phase-in rates for the 10-year and 5-year classes is set forth in the appendix. However, a special rule is provided to make the transition period simpler for small businesses. Thus, under the proposal, during the transition period $100,000 of additions to the capital account for 5-year property will be subject to the full five year recovery rate immediately. As a result, for such investment the bookkeeping generally required under the sliding scale transition rules will not be necessary.

II. Audit Proof Lives for Real Estate

The ACRS proposal also simplifies and accelerates the recovery allowances for real estate not included in the 10-year class. These rules eliminate the costly and time consuming disputes that presently arise between taxpayers and the Internal Revenue Service over the useful lives of buildings, and simplify real estate cost recovery and collateral areas such as component depreciation. At the same time, the tax burden on real estate investment is reduced.

Thus the proposal establishes mandatory recovery periods for real estate and all structural components which are not subject to challenge by the Internal Revenue Service. Cost recovery of the investment will be over the specified period on a straight line basis. Consistent with this straight line recovery approach, ordinary income recapture on sales and minimum tax exposure have been eliminated. The recovery periods provided for the different classes of real estate are as follows:

- Industrial and commercial buildings not included in the 10-year 10-5-3 class (i.e. leased industrial structures, retail, and wholesale distribution facilities, and all office buildings) -- 15 years.
- Low income housing -- 15 years.
- Other residential real estate -- 18 years.

These provisions apply generally for property acquired or placed in service after December 31, 1980. The provisions pertaining to the 18-year class are effective immediately, while a three year phase in applies to the 15-year classes.

For these latter classes, assets acquired in 1981 will be written off over 18 years, those acquired in 1982 over 16 years, and those acquired in 1983 over 15 years.

For foreign real property and for purposes of determining earnings and profits, the recovery period is 30 years, and the method is straight line.

Appendix

Recovery Percentages During Phase-in Period

Ownership Year	Recovery Period 18	16	14	12	9	8	7	6
1	6%	6%	7%	8%	11%	13%	14%	17%
2	11	12	14	15	20	22	25	28
3	10	11	13	14	17	19	21	22
4	9	10	11	13	15	16	16	16
5	9	9	10	11	12	12	12	11
6	8	9	9	10	10	9	8	6
7	7	8	8	8	7	6	4	
8	7	7	7	7	5	3		
9	6	6	6	6	3			
10	5	5	5	4				
11	5	5	4	3				
12	4	4	3	1				
13	4	3	2					
14	3	2	1					
15	2	2						
16	2	1						
17	1							
18	1							
	100%	100%	100%	100%	100%	100%	100%	100%

THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 4:00 P.M. (E.S.T.) AND
EMBARGOED FOR RELEASE UNTIL
9 P.M. (E.S.T.), Wednesday, February 18, 1981

February 18, 1981

FACT SHEET

President Reagan's Initiatives to Reduce Regulatory Burdens

Summary: President Reagan today announced the details of a far-reaching program to reduce the burden of Federal regulations and paperwork, and to reduce the intrusion of the Federal Government into our daily lives.

BACKGROUND

- During the campaign, President Reagan promised swift action to ease the economic burden of government regulation.
- Previous administrations have instituted programs to manage the regulatory process. But, despite these measures, regulations have continued to proliferate, often based on inadequate analysis of the costs and benefits that would result.
- During the last month of the Carter Administration, regulatory agencies in the Executive Branch issued more than 150 final regulations. Of these so-called "Midnight Regulations," over 100 were scheduled to become effective within the next 60 days. Many of these new regulations impose substantial new burdens on the economy.
- Often, the high cost of regulatory compliance is due to the cumulative effect on an industry of many agencies' rules, rather than to a single major rule. For example, at least five Federal agencies directly regulate the auto industry, and these five agencies are now considering more than 50 significant new auto rules.
- This year, the Federal government is forcing Americans to spend over a billion hours providing information to the government.

ACTIONS TAKEN SINCE JANUARY 20

Since taking office on January 20th, the President has taken a number of actions as a part of a broad effort to free the economy, wherever feasible, of the hidden tax of complying with Federal rules and paperwork requirements which do not contribute to the public welfare. This effort will also seek to assure that regulations essential to the goal of protecting the public health and safety achieve their goal in the most efficient manner.

1. Task Force on Regulatory Relief

   President Reagan announced the creation of a Presidential Task Force on Regulatory Relief on January 22, 1981. It is chaired by the Vice President. The other members are the Secretary of the Treasury, the Attorney General, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Management and Budget, the Assistant to the President for Policy Development, and the Chairman of the Council of Economic Advisers.

This Task Force has ongoing responsibilities which will be reinforced by the President's Executive Order on Federal Regulation. The Task Force will:

- Review major regulatory proposals by executive branch agencies, especially those proposals that would appear to have major policy significance or where there is overlapping jurisdiction among agencies.
- Assess executive branch regulations already on the books, especially those that are burdensome to the national economy or to key industrial sectors.
- Oversee the development of legislative proposals in response to Congressional timetables (e.g., the Clean Air Act must be reauthorized this year), and codify the President's views on the appropriate role and objectives of regulatory agencies.
- Seek to increase public awareness of regulations and their impact, including regulatory expenditures that do not show up in the Federal budget.
- Make recommendations to the President on regulatory personnel and how to reform regulation through Executive Orders, agency actions, and legislative changes.

2. Termination of CWPS's Wage-Price Program

On January 29, President Reagan issued Executive Order 12288 terminating the Council on Wage and Price Stability's wage-price standards program.

The Council on Wage and Price Stability (CWPS) was created in 1974 to study and encourage wage and price restraint, monitor inflation in the economy, encourage productivity, and review the inflationary impact of government programs and regulations. In 1978, President Carter directed CWPS to establish a program of "voluntary" wage and price standards. The Office of Federal Procurement Policy was ordered to issue regulations denying Federal contracts to violators of these standards. The CWPS staff grew from approximately 50 to 238 in 1979. As of January 20, 1981, employment was 170.

The CWPS program of wage-price standards proved ineffective in halting the rising rate of inflation. It proved to be an unnecessary burden on labor and industry, and a waste of taxpayers' money.

About $1.5 million will be saved in 1981 by this action, employment in the Executive Office of the President will be reduced by about 135 people, and Federal requirements that businesses submit voluminous reports will be ended. Companies spent some $300 million to comply with the reporting requirements alone of this program (more than 5,000 company reports were submitted to CWPS). CWPS's small regulatory staff will work closely with OMB and the Presidential Task Force on Regulatory Relief to carry out the program of regulatory relief.

3. Postponement of Pending Regulations

On January 29, President Reagan requested the heads of 12 departments and agencies, to the extent permitted by law, to postpone the effective dates of regulations that otherwise would have become effective before March 29 and refrain from issuing any new final regulations during this same 60-day period. This suspension in the effective date of new regulations was to:

- Allow the new Administration time to review the "midnight" regulations issued during the last days of the Carter Administration to assure that they are cost-effective and in concert with this Administration's policies.
- Allow time for this Administration's appointees to come aboard and to become familiar with the details of the various programs for which they will be responsible.

- Allow time for this Administration, through the Presidential Task Force, to develop improved procedures for management and oversight of the regulatory process.

The request was sent to the heads of the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, Transportation and Treasury, and the Environmental Protection Agency.

With certain exceptions, the effective dates of all rules that would have become legally effective during the 60-day period have been extended. The Office of Management and Budget has received and has granted several requests for waivers of this regulatory suspension. Most such cases involve regulatory actions necessary for economic activity to go forward.

4. Initial Regulatory Actions

The program of regulatory relief is underway. Several cabinet departments and agencies, on their own initiative and in coordination with the President's Task Force, have taken action on several significant issues:

- On February 2, the Secretary of Education withdrew the proposed bilingual education rules. These rules would have required all school systems to offer bilingual instruction to each child whose primary language is other than English. The Department estimated that the proposed rule could have cost up to $1 billion over the first 5 years of the program and an annual maintenance cost of between $72 million and $157 million thereafter.

- On February 9, the Secretary of Transportation proposed a one-year delay in a regulation which would have mandated the installation of passive restraints, beginning with large cars, in September 1981. The implementation of this regulation could have resulted in consumers paying as much as $800 more per vehicle equipped with air bags. Moreover, this requirement would have hit U.S. auto producers hardest. Before the government imposes additional costs on the consumer and puts an additional financial burden on an already troubled industry, it must be sure that such an action is warranted. A one-year delay will provide the opportunity for such an evaluation.

- On February 9, the EPA asked the D.C. Court of Appeals to remand to it a rule setting noise emission standards for garbage trucks. This request set in motion a process in which EPA will review regulatory alternatives suggested by the garbage truck industry. During this review, EPA will not enforce any aspect of the rule. When the rule was issued, EPA estimated that it would cost $25 million annually to comply with the rule, most of which would be borne by municipalities.

- On February 12, the Secretary of Labor announced action on three major rules.

  - An OSHA rule requiring that chemicals in the workplace be labeled was withdrawn for reconsideration. This rule, if issued in final form, would have cost between $643 million and $900 million initially, and between $338 million and $473 million annually according to Labor Department figures. Lower-cost means of assuring worker protection will be sought.

  - New rules under the Fair Labor Standards Act were postponed indefinitely. These would have raised the salary levels used as tests, in part, to determine whether executives must be paid overtime. This would have cost employers over $50 million annually, would have reduced employment opportunities, and would have raised prices, especially in the fast foods industry.

  - The implementation of new rules under the Service Contract Act was postponed. These rules would have extended Davis-Bacon "prevailing wage" principles to those timber sales, automatic data processing, and research and development firms under contract with the Federal government. The Department estimated that these rules would have cost at least $68 million annually.

- On February 14, OMB withdrew the policy memorandum on Federal Support for Hospital Construction issued by the previous Administration. This policy set out an elaborate review process to prevent Federal support for unnecessary hospital construction and renovation projects. In the Administration's judgment, the objectives of the policy could be met more simply and effectively through other means.

- On February 17, the President rescinded the mandatory Federal controls on building temperatures which had been imposed by the previous Administration. This action allows operators of non-residential buildings to choose the methods of conserving energy that best suit their circumstances.

- On February 17, the Secretary of Energy took several actions:

  - Announced that national energy efficiency standards for major household appliances will not be issued until a thorough review is completed. The 1980 proposal would require producers to redesign, by 1986, virtually all existing models of these appliances and to retool their production lines. As a result, many small firms would probably be forced out of business. Consumers would face sharply higher purchase prices —about $500 million annually. Low-income families could be especially hard-hit, since the standards would prohibit continued production of the kinds of lower cost appliances they can afford.

  - Withdrew proposed standby energy conservation measures involving a compressed work week, vehicle use stickers, and the part of the employer-based commuter and travel measures concerning working hours and transit subsidies. In addition, the Secretary has proposed to withdraw several interim final measures, including odd-even day motor fuel purchases, additional employer-based commuter and travel measures, increased enforcement and/or reduction of the 55 m.p.h speed limit and mandatory temperature restrictions. This action will remove measures which, if implemented, would interfere excessively in the daily life and business of Americans.

- On February 17, the Director of OMB revoked the Department of Energy's clearance under the Federal Reports Act for the collection of industrial energy consumption data.. A number of respondents have provided data which demonstrated that the information requested is needlessly detailed and unduly burdensome. This action will terminate the collection of industrial energy data for sites not subject to Federal regulation and preclude the Federal Government from expanding its regulatory programs.

- On February 17, President Reagan revoked Executive Order 12264, which established a cumbersome, duplicative and burdensome regulatory policy regarding the export of some hazardous substances. The rescinded Executive Order would have threatened American workers' jobs and could have disrupted production abroad where affected U.S. exports serve as vital material inputs. Procedures already exist which inform foreign governments of hazards associated with exported American products. Thus, each foreign government can decide for itself whether to import the products and what precautions to take.

<u>NEW ACTIONS ANNOUNCED BY THE PRESIDENT</u>

Building on the steps taken since January 20th, today the President announced the following additional actions taken by his Administration:

1. <u>The Executive Order on Federal Regulation</u>

Yesterday, the President signed a new Executive Order designed to improve coordination and management of the Federal regulatory process. This Order will produce better quality regulation and reduce the excess burden of regulation on the American people. The Order:

- Instructs the agencies on what is expected of them with respect to their regulatory work and provides reassurance to the American people of the government's ability to control its regulatory activities.
- Charges the Office of Management and Budget with administering the new order, subject to the overall direction of the Presidential Task Force on Regulatory Relief.
- Emphasizes that: regulatory decisions should be based on adequate information; actions should not be undertaken unless the potential benefits to society outweigh the potential costs; and regulatory priorities should be set on the basis of net benefits to society.
- Directs agencies to determine the most cost-effective approach for meeting any given regulatory objective, and requires that factors such as the economic condition of industry, the national economy, and prospective regulations be taken into account.
- Requires each agency to perform certain tasks as part of the development of an important regulation. A Regulatory Impact Analysis is required to evaluate potential benefits and costs in light of the regulatory objectives. A determination must be made that any proposed rule is consistent with applicable legal authority and Presidential policy and that it reflects careful evaluation of the comments of all persons affected by or interested in the regulation. The Task Force is to oversee this process; the Office of Management and Budget is to make substantive comments on regulatory analyses, help determine which new and existing regulations should be so analyzed, and oversee the publication of semiannual regulatory agendas.

2. Integrating the Goals of Regulatory Relief with Paperwork Reduction

The Administration's program to reduce regulatory burdens will be integrated with its program to implement the Paperwork Reduction Act of 1980. During 1981, given present requirements, Americans will spend over 1.2 billion hours filling out government forms. This is equivalent to the annual labor input for the entire steel industry.

The costs of Federal paperwork and regulation discourage Americans from opening small businesses, doctors from accepting Medicare patients, and State and local governments from requesting needed Federal aid. The Office of Management and Budget has exercised some control over the paperwork burdens of the cabinet departments since 1942. Last year, OMB supervised an effort which resulted in a reduction of almost 10 percent in the burden imposed by agencies subject to OMB Federal Reports Act authority. However, agencies not subject to OMB information collection review increased their paperwork load last year by more than 10 million hours.

The Paperwork Reduction Act of 1980 brings the independent regulatory agencies under OMB authority, directs that the paperwork burden be reduced by 15 percent by October 1, 1982, and relates the effort to reduce paperwork burden to the need to minimize regulatory burden.

This Act creates an Office of Information and Regulatory Affairs within OMB and directs the agency to review Federal regulations that contain a recordkeeping or reporting requirement under a variety of different procedures. It provides that no agency may impose civil or criminal penalties on any person who fails to comply with a recordkeeping or reporting requirement that has not received OMB approval.

3. Future Candidates for Regulatory Review

The Administration is completing a comprehensive initial review of the regulations of 14 key executive branch agencies: Departments of Treasury, Justice, Interior, Agriculture, Commerce, Labor, Health and Human Services, Housing and Urban Development, Transportation, Energy and Education, and the Environmental Protection Agency, the Equal Employment Opportunity Commission and the Office of Management and Budget. This review covers both rules under development as well as rules now in effect. Regulations now under development can usually be withdrawn, modified, or cancelled by the agency head at his or her direction. In the case of existing rules, the agency head will have to issue a new notice of proposed rulemaking and follow usual procedures before making substantive change. That is, revision or withdrawal of these existing rules would require that the agency propose the revision or withdrawal and obtain public comment before taking final action.

During the coming weeks and months, agencies will be conducting intensive reviews of many existing and proposed regulations -- at their own initiative, and in response to requests from the Task Force on Regulatory Relief.

4. Legislative Changes

The Administration will examine all legislation that serves as the foundation for major regulatory programs. This review will be led by the Presidential Task Force on Regulatory Relief and will result in recommendations to reform these statutes.

Not all of our regulatory problems can be solved satisfactorily through more effective regulatory management and decision-making. Statutory constraints often preclude effective regulatory decisions. Also, the Administration's efforts to better control the regulatory process may, in some cases, require further Congressional action. For example:

- Many of the statutes are conflicting, overlapping, or inconsistent. Some force agencies to promulgate regulations while giving them little discretion to take into account changing conditions or new information. Other statutes give agencies extremely broad discretion, which they may sometimes exercise unwisely. Statutes should not force agencies to promulgate inefficient regulations: they should provide agencies with requisite discretion and sufficient direction so that they act wisely.

- Compliance deadlines are often established in various laws. In general, they are imposed to ensure that agencies move forward expeditiously in implementing the law. However, these deadlines are often impossible to meet, especially if the rules developed are to be based on adequate information. Deadlines in statutes also constrain agencies' ability to tailor rules to the economic conditions of the affected parties. Where deadlines are unreasonable, changes will be sought.

Over the past few years numerous procedural reforms have been introduced in Congress that would respond to increasingly burdensome and intrusive regulations being imposed by the Federal Government. They have included requirements for regulatory analyses, an across-the-board legislative veto, and broader judicial review of the substance of regulations. While supportive of the goals of such proposals, the Administration is concerned about legislation that may result in excessive layering of review or an undue broadening of control responsibility. Legislative proposals should be developed in a manner to ensure they do not make the process even more complex, increase the size of the federal bureaucracy, make it more difficult to make needed changes in regulations, create additional delay and uncertainty, or contribute to the waste that results from the current adversarial nature of the rulemaking process.

The Economic Plan

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THE WHITE HOUSE

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UNTIL 4 P.M. (E.S.T.)
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SUMMARY FACT SHEET

A Program for Economic Recovery

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SUMMARY FACT SHEET

The President's Economic Program

Summary: President Reagan tonight presented to a Joint Session of the Congress a comprehensive program to bring about a recovery of the Nation's economy to reduce the burdens of high inflation, high taxation and over-regulation. The program calls for fundamental redirection in the role of the federal government, including:

- Reductions in personal tax rates and business taxes;
- Spending cuts and other measures to reduce the budget deficit;
- Reductions in the burden and the intrusion of Federal regulations; and
- A new commitment to a stable monetary policy.

BACKGROUND:

- Immediately upon taking office, President Reagan asked for a comprehensive audit of our Nation's economic situation. He described the findings in a Nationwide television address on February 5, 1981. Among the serious economic problems that he found upon taking office were:
  - Rates of consumer price inflation were 13.3% in 1979 and 12.4% in 1980, up from 4.8% in 1976.
  - Interest rates for short term credit had reached 20%, and home mortgage rates were over 15%, two and one-half times 1960 levels.
  - Almost eight million people were unemployed.
  - Under the previous Administration the Federal budget was out of control:
    - Estimates made in March 1980 of Federal spending in fiscal year 1981 were low by at least $50 billion, and estimates of the deficit were low by over $70 billion.
    - Recent Federal spending has been growing by about 16% per year.
    - Deficits this year are now expected to be around $80 billion, including over $55 billion that shows up in the Federal budget and about $25 billion which is hidden in so-called "off-budget" programs.
    - The national debt is approaching $1 trillion.
  - The percentage of income paid by individuals in Federal taxes has doubled since 1960 -- all to pay the costs of expanding Federal programs.
  - Government regulation has expanded rapidly, adding to the cost of all consumer goods, impeding new industrial development, and substituting Washington-based decisions for those of individuals, businesses, and State and local governments.

- During his first few days in office, the President:
  - Took initial steps to bring government spending under control, including a freeze on government hiring and procurement, reductions in government travel, and reductions in the use of consultants and contracts.
  - Created a task force under the direction of the Vice President to coordinate efforts to reduce the regulatory burden, placed a freeze on new regulations, and withdrew certain regulations issued in the final days of the Carter Administration.

NEW ACTIONS ANNOUNCED TODAY

In his address to a Joint Session of the Congress and in detailed economic and budget reform messages, the President described his proposals and plans for:

- The first round of major reductions in Federal spending. Additional spending reductions will be presented on March 10, 1981, in a full revision of the 1982 budget. Together, these proposals will reduce FY 1982 spending $41.4 billion below current policy levels, they will also result in $2.0 billion in user fees and $5.7 billion in off-budget cuts for a total of $49.1 in savings.
- A major reduction in individual and business taxes.
- Additional measures to reduce the cost, burden and intrusion of government regulations.

The principal effects of the President's program, if it is approved by the Congress, will be to:

- Reduce inflation rates.
- Reduce the nonproductive burden imposed by the Federal government, particularly through regulations.
- Reduce the heavy tax burden on the American taxpayer.
- Reduce the size and role of the Federal government, and its intrusion in decisions that could better be made by individuals, businesses, and State and local governments.
- Reduce interest rates for credit purchases and borrowing of money by reducing government borrowing made necessary to cover massive deficits.
- Increase real incomes by spurring capital investment and enhancing productivity .

The President's proposals are summarized below and described more fully in documents being sent to the Congress.

BUDGET OUTLOOK WITH THE PRESIDENT'S BUDGET SAVINGS AND TAX REDUCTION PROGRAM.

Official budget estimates showing the President's tax and budget savings proposals will be provided in the March 10th revision of the 1982 Budget. The table below provides a preliminary estimate of the renewed fiscal balance when the President's measures are fully implemented:

	1981	1982	1983	1984	1985	1986
Proposed Outlay Ceilings	654.7	695.5	733.1	771.6	844.0	912.1
Receipts with tax plan	600.2	650.5	710.2	772.1	850.9	942.1
Target Deficit (-) or Surplus	-54.5	-45.0	-22.9	+0.5	+6.9	+29.9
Share of GNP						
Outlays	23.0	21.8	20.4	19.3	19.2	19.0
Receipts	21.1	20.4	19.7	19.3	19.3	19.6

THE PRESIDENT'S BUDGET REFORM PLAN

In his address to the Joint Session and in a detailed Budget Reform Plan sent to the Congress, the President described the first major steps in a comprehensive redirection of Federal Government activity including:

- Cutbacks in lower priority Federal activities;
- Sharply constrained overall spending levels; and
- Dramatic shifts in internal budget priorities.

A. Past Actions Have Contributed to Today's Economic and Budget Problems.

The rate of increase in Federal spending has risen sharply over the past 25 years:

	Average Annual Rate of Increase
• From 1955 - 1964:	6.3%
• From 1976 - 1981:	11.9%
• From 1979 - 1981:	15.9%

Spending increased even more rapidly than tax revenues, which were pushed up by inflationary movement of taxpayers into higher tax brackets.

The results have included increased tax burden, reduced incentives for working, saving and investing and a slow down in the economy. As a result, Federal deficits and borrowing continue to increase.

Also, national defense was underfunded because of the failure to control domestic program expansion.

B. New Priorities.

Achieving the President's budget savings targets will require an end to the proliferation of new Federal programs and a reversal of the trend toward greater Federal roles in economic and social programs. The President's program stresses two overriding priorities:

- Sufficient budget resources must be provided to rebuild the Nation's defense capacities;
- The Social Safety Net of income security measures erected in the 1930's to protect the elderly (including cost of living protection for the elderly), unemployed, and poor, as well as veterans, must be maintained.

Beyond these two priorities, all other Federal programs are being subjected to thorough scrutiny and widespread reduction.

C. Criteria Used in Evaluating Programs and Funding Levels.

Eight basic criteria have been used in evaluating and making decisions on all other programs:

1. Entitlement Programs must be revised to eliminate unwarranted beneficiaries and payments.
2. Subsidies and benefits for middle and upper income levels must be reduced.
3. Allocable costs of government programs must be recovered from those benefiting from the services provided, such as airports and airways, inland waterways and Coast Guard services to yacht and boat owners.
4. Sound economic criteria must be applied to economic subsidy programs such as synthetic fuels, Export-Import Bank loans, and subsidized loans.
5. Capital investments in public sector programs — such as highways, waste treatment plants and water resource projects — must be stretched out and retargeted.

6. Fiscal restraint must be imposed on programs that are in the national interest but are lower in priority than the national defense and safety net programs. Examples include NASA, National Science Foundation, and the National Institutes of Health, which would be allowed to grow at lower rates than planned.

7. Large numbers of categorical grants must be consolidated into block grants permitting less Federal administrative overhead, greater flexibility for State and local governments, greater efficiency in management and reduced overall costs. Examples include elementary and secondary education, and health and social services.

8. Federal personnel and overhead costs, and program waste and inefficiency must be reduced.

D. Major features of the President's Program

Major features of the President's program include:

- A $41.4 billion reduction in FY 82 outlays compared to the current policy base, together with $2.0 billion in user charges and $5.7 billion in off-budget outlay reductions for a total of $49.1 billion in fiscal savings.
- A dramatic downward shift in Federal spending growth rates, bringing the 16% trend of the recent period to about 7% over the next several fiscal years.
- A steady reduction in the Federal deficit, resulting in a balanced budget in 1984 and modest surpluses thereafter.
- The first comprehensive proposal in more than a decade to overhaul the Nation's overgrown $350 billion entitlements system. Proposed revisions of food stamp, extended unemployment benefits, trade adjustment assistance, student loans, various secondary social security benefits, medicaid and other entitlement programs would save $9.4 billion in fiscal year 1982, with savings growing to $18.9 billion by FY 86.
- Substantial cutbacks or actual elimination of non-essential or ineffective Federal programs, including CETA public service jobs, AMTRAK, energy technology commercialization programs, impact aid, and Federal support for the arts.
- Proposed consolidation of nearly 100 narrow categorical grant programs into a few flexible block grants for State and local support of education, health, and social services. Savings by FY 1983 would exceed $4 billion.
- Sharp reductions in direct Federal subsidies for synfuels development, Export-Import Bank activities and the dairy industry, along with a substantial stretch-out of funding for highways, airports, sewage treatment plants and water projects.
- Increased user fees for barge operators, airway system users and commercial and recreational vessels.

Specific program reductions proposed in the President's Budget Reform Program are listed by department and agency in the attached 10 page table. This table shows esimated reductions in budget authority and outlays, as well as increased receipts from user charges, for fiscal years 1981-1986.

E. A Stronger National Defense within Restrained Overall Spending Levels.

The President has decided that budget resources must be devoted to national defense to improve and sustain the readiness of U.S. forces and to increase their ability to deter and, should deterrence fail, to prevail in response to aggression against U.S. interests. The defense budget has been reviewed closely to achieve cost savings. Part of the defense growth will be financed by the savings that result from increased efficiency and reductions in travel and other marginal activities.

The President has also decided that Federal spending growth must be held to 6% in FY 82 and that similar restraint must be exercised in future years. To provide $7.2 billion extra for defense in 1982, overall spending levels must be reduced by $41.4 billion or by 6% from the current policy base.

The 83 major policy and program changes described in the President's Budget Reform Plan and listed in the appendix to this Fact Sheet provide most of the savings required in FY 1982, with larger reductions in future years. In summary, the President's Budget Savings Plan would provide the following:

	Outlays Fiscal years ($ in Billions)					
	1981	1982	1983	1984	1985	1986
Existing budget status						
Current policy base	657.8	729.7	792.1	849.0	911.4	972.8
Added Defense funds	1.3	7.2	20.7	27.0	50.2	63.1
Current policy base with adequate defense	659.1	736.9	812.8	876.0	961.6	1035.9
President's Budget Plan						
Proposed spending ceiling	654.7	695.5	733.1	771.6	844.0	912.1
Budget savings target	4.4	41.4	79.7	104.4	117.6	123.8
President's Budget Savings Proposals						
Actions recommended now or to be included in March Budget Revisions:						
Budget Outlay reductions	4.8	41.4	58.5	73.7	86.6	95.8
User charges (receipts)	-	(2.0)	(2.6)	(3.0)	(3.5)	(3.9)
Off-budget outlay reductions	(.7)	(5.7)	(7.4)	(9.2)	(11.1)	(13.1)
Subtotal	(5.5)	(49.1)	(68.5)	(85.9)	(101.2)	(112.8)
Budget savings to be proposed subsequently	-	-	21.2	30.7	31.0	28.0

F. The Resulting Shift in Spending.

The shift in government spending priorities as a result of the rigorous review conducted by the President and the Cabinet is shown in the tables below:

(Dollar amounts in billions)	1962	1981	1984
Department of Defense–Military	46.8	157.9	249.8
Safety net programs	26.2	239.3	313.0
Net interest	6.9	64.3	66.8
All other		193.2	142.0
Total	106.8	654.7	771.6
Outlay Shares (Percent)			
Department of Defense–Military	43.8	24.1	32.4
Safety net programs	24.5	36.6	40.6
Net interest	6.4	9.8	8.6
All other	25.2	29.5	18.4
Total	100.0	100.0	100.0

G. The First Step in Budget Reform.

The Budget Reform Message forwarded to the Congress is the first step in the President's program to reduce budget deficits. The reform package provides details on 83 major policy and program actions to achieve budget savings. These major actions are being provided now to permit the Congress to begin work immediately and meet its schedule for reconciling fiscal year 1981 spending levels and setting the course for fiscal year 1982.

H. The Fully Revised 1982 Budget.

On March 10, 1981, the President plans to submit his fully revised 1982 budget to the Congress. This new budget will provide details on the additional 1981 and 1982 budget savings that are needed to achieve the President's goai of a $41.4 billion reduction in 1982 outlays below the current policy base.

THE PRESIDENT'S PROPOSAL TO REDUCE TAXES

President Reagan's plan for reducing taxes proposes:

- Reducing individual tax rates by 10% a year for 3 years.
- Increasing the incentive for productive investments by business and industry in new plant and equipment by allowing more rapid write-off of recosts of investments.

A. Reducing individual income tax rates. Tax rates will be reduced by 10% effective July 1, 1981; a second 10% on July 1, 1982; and the third 10% on July 1, 1983.

The net effect will be a 5% reduction in 1981 individual taxes, a 15% reduction in 1982 taxes, a 25% reduction in 1983 taxes and a 30% reduction in 1984 taxes.

1. Background. Individual tax burdens have been increasing steadily over the past few years as inflation pushes individuals into higher tax brackets and social security tax rates have increased. This has reduced the incentive to work and the ability to save.
2. Effect on tax rates. At present, under each of the four taxpayer rates schedules -- joint, single, married filing separately, and head of household -- individuals pay tax at marginal rates ranging between 14% and 70%. When the tax cut proposed by the President is fully implemented, rates will range between 10% and 50%.
3. Implementing the tax reductions. Under the President's proposal, reductions will begin July 1, 1981. At that time, withholding will be reduced by roughly 10% for individual taxpayers.
4. Expected effects. The cut in tax rates will provide individuals greater incentives for productive employment and for savings. Also, reduced tax rates will make tax shelters less attractive and productive investments more attractive. Thus, cuts in individual taxes are expected to contribute to increased investments that will expand the productive base of the economy and create more jobs.

B. Encouraging Productive Investments by Business and Industry.

The second major part of the President's tax proposals -- called the Accelerated Cost Recovery System -- would establish a new system for treating investments by business and industry. This system will determine the periods of time over which the costs of investments can be "recovered" or "written off" when calculating taxes. The system will result in fixed periods, known in advance, over which the cost of investments in particular plant and equipment can be charged off as expenses of doing business and thus deducted from gross income before calculating taxes.

1. The New System.

Most business property will, for purposes of calculating taxes, fall into one of the three write-off periods listed below. An accelerated costs recovery schedule is provided for each.

- 3 years: This class consists of autos and light trucks and machinery and equipment used for research and development. Expenditures can be written off in 3 years: 33% in the first year, 45% in the second year, and 22% in the third. An investment credit of 6% will also appy to this class, up 2-2/3 percentage points from present law for property written off in 3 years.

- 5 years: This class consists of other machinery and equipment, except for certain long-lived public utility property. After a phase-in period, the original cost of additions can be written off according to an accelerated 5-year schedule:

  - 20% in the year acquired.
  - 32% in the 2nd year.
  - 24% in the 3rd year.
  - 16% in the 4th year.
  - 8% in the 5th year.

  The full 10% investment credit will be allowed for this class.

- 10 years: This class consists of factory buildings, retail stores, and warehouses used by their owners; and public utility property for which present guidelines exceed 18 years. The accelerated schedule for deductions is as follows:

  - 10% in the 1st year
  - 18% in the 2nd year.
  - 16% in the 3rd year.
  - 14% in the 4th year
  - 12% in the 5th year
  - 10% in the 6th year.
  - 8% in the 7th year.
  - 6% in the 8th year.
  - 4% in the 9th year.
  - 2% in the 10th year.

As in present law, the 10% investment credit applies to public utility property in this class, but is not generally available for real property.

Specific depreciation periods, not requiring subsequent audit, would be established for write-off of other depreciable real estate -- on a straight line basis (i.e., the same % share of the original cost each year). These are:

- 15 years: for other nonresidential buildings, such as offices and leased stores and for low-income housing.

- 18 years: for other rental residential structures.

2. Effective Dates.

The new system would be effective for property acquired or placed in service after December 31, 1980. A 5-year phase in period would provide progressively shorter recovery periods for long-lived machinery and buildings acquired before 1985.

3. Principal Changes from the Current System.

The proposed new capital recovery system improves upon the current system in several ways. Specifically, it would:

- Substantially increase the incentive for business investments for increased productivity, higher real wages, and sustained economic growth.
- Provide the basis for creating new jobs.
- Improve U.S. competitive position in world markets.
- Reduce the accounting and tax planning burden for taxpayers, by replacing the current, complex concepts such as "useful life" and "facts and circumstances of the anticipated use" which require estimates by taxpayers and later audit by IRS agents and which result in years of dispute and litigation.
- Reduce the auditing burden on the Internal Revenue Service.

Details of both tax proposals are being provided in material released by the Secretary of the Treasury.

C. Estimated Receipts with the Tax Reduction Program.

The table below shows current estimates of receipts and taxes as a share of GNP — before and after the President's Tax reduction program:

	Fiscal years ($ in Billions)					
	1981	1982	1983	1984	1985	1986
Current law receipts	609.0	702.4	807.6	917.2	1033.2	1159.8
Individual Income tax reductions	–6.4	–44.2	–81.4	–118.1	–141.5	–162.4
Depreciation Reform	–2.5	–9.7	–18.6	–30.0	–44.2	–59.3
Proposed user charges	–	2.0	2.6	3.0	3.5	3.9
Receipts with new tax policy	600.2	650.5	710.2	772.1	850.9	942.0
Share of GNP						
Current Law	21.4	22.0	22.4	22.9	23.5	24.1
After tax reduction program	21.1	20.4	19.7	19.3	19.3	19.6

THE PRESIDENT'S PROGRAM TO REDUCE REGULATORY BURDEN

In his address to a Joint Session of the Congress, the President reviewed the actions taken since January 20th and new steps to reduce the burden, cost and intrusion of government regulatory efforts that are unnecessary, duplicative, inefficient, ineffective, or simply not justified on the basis of benefits.

A. Actions Taken Since January 20th.

The actions taken by the President since January 20th include:

- Creation of a Task Force on Regulatory Relief on January 22, 1981. The Task Force is chaired by the the Vice President and has seven cabinet-level members.
- Termination on January 29, 1981, of the Council on Wage and Price Stability's wage-price standards program which has been ineffective in halting the rising rate of inflation, has proven unnecessarily burdensome and a waste of taxpayer money.

- Postponement of regulations on January 29. The President requested the heads of 12 departments and agencies to postpone, to the extent permitted by law, the effective dates of regulations that would otherwise become effective before March 29, 1981, and to refrain to the extent permitted by law from issuing new regulations during that same 60–day period.
- Withdrawal or modification of regulations. In response to the President's request for a close review of existing and proposed regulations, the Secretaries of Education, Transportation, Labor and Energy, and the heads of EPA and OMB already have modified or revoked a number of regulations.

B. New Actions Announced by the President.

The President announced two additional actions in his continuing program to reduce unnecessary regulation. These are:

- Issuance of an Executive Order designed to improve management of the Federal regulatory process.
- Integration of the goals of regulatory relief with paperwork reduction, principally as is carried out under the recently enacted Paperwork Reduction Act of 1980 which provides, in effect, for OMB review of most regulations.

Changes from Current Base
Summary Table of Budget Authority and Outlay Savings by Agency
and Increases to Governmental Receipts
FY 1981 - 1986
(in millions of dollars)

I. Budget Authority and Outlay Savings

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Agriculture														
Dairy price supports (Commodity Credit Corporation).........	---	138	---	1,095	---	1,614	---	1,887	---	2,263	---	2,727	---	9,724
Food Stamps...........	150	150	1,828	1,822	2,012	2,004	2,462	2,451	2,636	2,624	2,771	2,759	11,859	11,810
Child Nutrition.......	145	42	1,657	1,575	1,800	1,709	1,934	1,835	2,046	1,940	2,158	2,045	9,740	9,146
Rural Electrification Administration (off-budget)..............	(38)	(38)	(1,142)	(1,142)	(2,328)	(2,328)	(3,603)	(3,603)	(4,975)	(4,975)	(6,450)	(6,450)	(18,536)	(18,536)
(Loan guarantee commitments)......	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)		(32,427)	
Farmers Home Admin....	---	30	---	105	30	179	105	255	179	331	255	407	569	1,307
(Direct loan obligations)......	(565)		(2,354)		(2,354)		(2,354)		(2,354)		(2,354)		(12,335)	
Alcohol Fuels/Biomass Loans 1/.............	505	46	---	94	---	3	---	4	---	3	---	3	505	153
Subtotal...........	800	406	3,485	4,691	3,842	5,509	4,501	6,432	4,861	7,161	5,184	7,941	22,673	32,140
Department of Commerce														
Economic and Regional Development (including Appalachian Regional Commission 2/).......	502	24	769	440	854	644	934	755	1,010	882	1,085	997	5,154	3,742
National Oceanic and Atmospheric Admin....	9	6	152	69	202	148	238	216	250	253	241	223	1,092	915
Subtotal...........	511	30	921	509	1,056	792	1,172	971	1,260	1,135	1,326	1,220	6,246	4,657
Department of Defense-Military														
Personnel.............	68	68	2,387	2,387	3,736	3,736	4,152	4,152	4,369	4,369	4,544	4,544	19,256	19,256
Program and all other.	360	280	840	530	1,360	1,050	2,180	1,700	2,860	2,400	3,560	3,000	11,160	8,960
Subtotal...........	428	348	3,227	2,917	5,096	4,786	6,332	5,852	7,229	6,769	8,104	7,544	30,416	28,216

Summary Table (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Department of Education														
Elementary and Secondary Grants Consolidation........	---	---	1,498	106	1,761	1,217	1,998	1,766	2,366	2,051	2,617	2,272	10,240	7,412
School Assistance In in Federally Affected Areas (Impact Aid)...	67	82	474	450	523	500	567	551	608	584	632	613	2,871	2,780
Vocational Education..	---	---	236	220	242	242	259	252	277	269	294	283	1,308	1,266
Student Assistance....	338	106	1,016	803	1,659	1,499	1,857	1,808	2,074	2,019	2,287	2,233	9,231	8,468
National Institute of Education............	---	---	20	22	22	20	23	20	25	21	27	22	117	105
Institute of Museum Services............	12	2	14	12	15	13	16	14	18	16	19	18	94	75
Subtotal...........	417	190	3,258	1,613	4,222	3,491	4,720	4,411	5,368	4,960	5,876	5,441	23,861	20,106
Department of Energy														
Synthetic Fuels.......	545	275	1,028	864	1,064	859	362	676	140	224	25	256	3,164	3,154
Fossil Energy.........	70	59	373	361	522	433	605	549	676	657	602	604	2,848	2,663
Solar Energy..........	99	79	363	365	428	414	372	406	330	330	275	275	1,867	1,869
Other Energy Supply...	148	37	186	156	178	177	178	170	169	158	176	163	1,035	861
Energy Conservation...	254	66	677	310	597	611	427	589	374	433	373	373	2,702	2,382
Energy Information and Departmental Overhead	13	3	38	27	62	62	67	67	73	73	78	78	331	310
Energy Regulation.....	33	33	150	127	138	140	131	132	127	123	118	117	697	672
Alcohol fuels Subsidy 1/...........	745	114	---	29	---	13	---	15	---	15	---	15	745	201
General Science.......	5	4	40	29	45	43	61	61	72	72	84	84	307	293
Subtotal...........	1,912	670	2,855	2,268	3,034	2,752	2,203	2,665	1,961	2,085	1,731	1,965	13,696	12,405
Department of Health and Human Services														
Social Security- Minimum Benefits.....	---	50	---	1,000	---	1,100	---	1,100	---	1,100	---	1,100	---	5,450
Disability Insurance.	---	65	---	550	---	1,175	---	1,700	---	2,225	---	2,750	---	8,465
Student Benefits.....	---	20	---	700	---	1,200	---	1,500	---	1,700	---	1,700	---	6,820
Aid to Families with Dependent Children...	*	*	520	520	670	670	722	722	795	795	824	824	3,531	3,531
Medicaid..............	353	100	1,237	1,013	2,213	1,986	3,166	2,930	4,181	3,916	5,318	5,021	16,468	14,966
Health and Social Services grant Consolidation 3/.....	---	---	2,697	2,540	3,148	2,993	3,532	3,347	3,863	3,676	4,084	3,929	17,324	16,485

Summary Table (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Regulation of Health Care Industry														
-Health Planning.....	28	10	100	62	168	87	180	159	190	188	199	197	865	703
-PSRO'S...............	6	38	15	117	19	134	27	212	29	223	31	234	127	958
(PSRO obligations)..	(38)		(119)		(136)		(215)		(227)		(238)		(973)	
National Institutes of Health 4/.........	126	54	197	145	373	336	512	468	628	584	726	682	2,562	2,269
Health Professions Education............	219	32	280	126	309	221	336	260	361	297	385	313	1,890	1,249
Health Maintenance Organizations........	37	6	24	18	57	27	66	50	69	61	72	73	325	235
National Research Service Awards (ADAMHA) 4/..........	4	1	5	4	5	4	6	6	6	5	7	6	33	26
Merchant Seamen (PHS) 5/.............	39	39	110	110	183	183	194	194	205	205	215	215	946	946
National Health Service Corps Scholarship....	16	3	31	14	45	37	54	45	65	54	80	65	291	218
Subtotal...........	828	418	5,216	6,919	7,190	10,153	8,795	12,693	10,392	15,029	11,941	17,109	44,362	62,321
Department of Housing and Urban Development														
Planning Assistance....	34	3	37	26	39	36	42	39	44	41	46	44	242	189
Rehabilitation Loan Fund...................	130	63	130	191	134	210	138	211	140	213	142	214	814	1,102
Neighborhood Self-Help Development...........	8	4	10	9	11	10	11	11	12	11	12	12	64	57
Community Development Support Assistance....	---	---	584	12	678	67	837	271	882	702	926	814	3,907	1,866
Subsidized Housing														
-program level........	---	1	3,536	10	3,026	39	3,440	95	3,437	223	3,624	371	17,063	739
-rent contributions...	500	9	4,916	232	4,574	538	5,587	1,018	6,066	1,748	6,269	2,445	27,912	5,990
Public Housing Modernization.........	(300)**	---	800	---	800	---	800	20	800	60	800	100	4,000	180
Solar Energy and Conservation Bank.....	121	47	132	149	141	137	150	147	158	157	166	162	868	799
Subtotal...........	793	127	10,145	629	9,403	1,037	11,005	1,812	11,539	3,155	11,985	4,162	54,870	10,922

Summary Table (con't)
(in millions of dollars)

	1981 BA	1981 O	1982 BA	1982 O	1983 BA	1983 O	1984 BA	1984 O	1985 BA	1985 O	1986 BA	1986 O	Item Totals BA	Item Totals O
Department of the Interior														
Improved targeting of conservation expenditures..................	573	91	566	270	512	286	465	365	471	349	605	403	3,192	1,764
Youth Conservation Corps...................	56	52	60	59	60	60	60	60	60	60	60	60	356	351
Subtotal............	629	143	626	329	572	346	525	425	531	409	665	463	3,548	2,115
Department of Labor														
Unemployment Insurance-Extended Benefits......	400	523	700	1,231	700	477	100	196	100	284	200	287	2,200	2,998
Unemployment Insurance-Work Test.............	---	---	---	---	---	285	---	285	---	272	---	264	---	1,106
Unemployment compensation for ex-service members................	60	60	175	175	175	175	181	181	183	183	183	183	957	957
Trade Adjustment Assistance............	---	---	1,150	1,150	760	760	380	380	380	380	380	380	3,050	3,050
Comprehensive Employment and Training (CETA)..................	133	635	4,644	3,566	4,236	4,075	4,578	4,408	4,946	4,762	5,341	5,143	23,898	22,587
Young Adult Conservation Corps...........	---	53	250	179	256	248	262	262	269	268	275	274	1,312	1,284
Federal employees injury compensation (FECA)...	---	---	102	102	114	114	126	126	138	138	151	151	631	631
Subtotal............	613	1,271	7,021	6,403	6,241	6,132	5,627	5,838	6,016	6,287	6,530	6,682	32,048	32,613
Department of Transportation														
Federal Highway Construction..........	---	---	1,390	244	1,964	1,211	2,546	1,700	3,243	2,088	3,437	2,234	12,580	7,477
Urban Mass Transportation-Capital Grants........	210	31	950	270	1,047	545	1,220	975	1,368	1,284	1,497	1,480	6,292	4,585
Operating Subsidies..	---	---	103	96	581	256	1,059	600	1,528	1,083	1,626	1,356	4,897	3,391
Airport Construction....	272	120	250	140	278	161	305	196	330	219	371	239	1,806	1,075
AMTRAK Subsidies........	25	23	431	325	606	485	760	688	964	904	1,056	1,050	3,842	3,477
Northeast Corridor Improvement Project...	---	25	288	95	-13	114	20	51	15	25	---	---	310	310
Low volume railroad branch lines..........	80	8	88	32	96	62	104	80	112	103	119	110	599	395
Highway Safety Grants..	---	---	167	16	125	112	138	138	162	150	178	163	770	579
Cooperative Automotive Research Program......	12	6	13	9	14	13	15	14	16	14	17	15	97	71
Subtotal............	599	215	3,680	1,227	4,698	2,939	6,167	4,442	7,738	5,870	8,301	6,647	31,193	21,360

Summary Table (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Other Independent Agencies														
EPA Waste Treatment Grants	1,000	---	3,610	125	1,540	1,045	1,860	1,970	2,170	1,960	2,465	1,950	12,645	7,050
NASA	75	60	330	241	248	334	-90	86	-390	-156	-200	-124	-27	441
Civil Aeronautics Board-Airline subsidy.	---	---	56	50	64	64	54	54	34	34	2	2	210	204
Corporation for Public Broadcasting	---	---	43	43	52	52	73	73	98	98	111	111	377	377
Export-Import Bank	750	60	1,980	410	2,110	990	2,250	1,380	2,410	1,600	2,560	1,710	12,060	6,150
Foreign Aid (FAP)	616	85	1,854	402	205	584	2,513	1,063	2,978	1,527	3,187	1,827	11,353	5,488
National Consumer Cooperative Bank	91	82	136	128	160	152	185	178	185	175	200	190	957	905
National Endowment for the Arts/Humanities	---	---	165	85	186	131	203	193	222	223	239	231	1,015	863
National Science Foundation	63	26	66	15	90	81	120	109	153	141	183	155	675	527
Office of Personnel Management - Institution of annual COLA	---	---	558	510	472	424	430	389	416	366	417	367	2,293	2,056
Postal Service Subsidies	250	250	632	632	690	690	765	765	779	779	779	779	3,895	3,895
Student Loan Marketing Association (off-budget)	---	---	---	(1,923)	---	(2,500)	---	(3,000)	---	(3,500)	---	(4,000)	---	(14,923)
Water Resource Development Construction programs.	---	---	95	90	340	337	545	544	515	514	215	217	1,710	1,702
Corps of Engineers	(---)	(---)	(50)	(50)	(296)	(296)	(485)	(485)	(439)	(439)	(179)	(179)	(1,449)	(1,449)
Water & Power Resources Service	(---)	(---)	(35)	(35)	(28)	(28)	(43)	(43)	(57)	(57)	(20)	(20)	(183)	(183)
Soil Conservation Service	(---)	(---)	(10)	(5)	(16)	(13)	(17)	(16)	(19)	(18)	(16)	(18)	(78)	(70)
U.S. Railway Association Conrail subsidies	-350	-250	400	300	550	550	300	300	150	150	100	100	1,150	1.150
Subtotal	2,495	313	9,925	3,031	6,707	5,434	9,208	7,104	9,720	7,411	10,258	7,515	48,313	30,808
Federal Personnel Reduction not related to above reductions	386	386	1,342	1,342	1,811	1,811	2,264	2,264	2,763	2,763	3,263	3,263	11,829	11,829
Effects on civilian agency pay costs of revising the Federal Pay Comparability Standard	---	---	2,165	2,079	2,938	2,907	3,463	3,356	3,740	3,698	3,990	3,873	16,296	15,913
Mineral Leasing on Outer Continental Shelf and Federal Lands 6/	250	250	800	800	2,000	2,000	3,100	3,100	3,500	3,500	3,500	3,500	13,150	13,150

Summary Table (con't)
(in millions of dollars)

	1981		1982		1983		1984		1985		1986		Item Totals	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
TOTAL, On-Budget Authority and Outlay Savings	10,661	4,767	54,666	34,757	58,810	50,109	69,082	61,365	76,618	70,232	82,654	77,325	352,491	298,555
Off-budget items - Rural Electrification Administration	38	38	1,142	1,142	2,328	2,328	3,603	3,603	4,975	4,975	6,450	6,450	18,536	18,536
(Loan guarantee commitments)	(187)		(5,495)		(5,935)		(6,405)		(6,925)		(7,480)		(32,427)	
Student Loan Marketing Association	---	---	---	1,923	---	2,500	---	3,000	---	3,500	---	4,000	---	14,923
TOTAL, Budget Authority and Outlay Savings	10,699	4,805	55,808	37,822	61,138	54,937	72,685	67,968	81,593	78,707	89,104	87,775	371,027	332,014

* Less than $500 thousand

** Deferral

1/ The appropriations for the Alcohol Fuels and Biomass programs are in the Department of the Treasury.

2/ Funds for the Appalachian Regional Commission are appropriated to the President.

3/ Some of these savings are to be derived from agencies other than the Department of Health and Human Services.

4/ Elimination of National Research Service Awards is also included in National Institutes of Health reduction.

5/ These savings to the Public Health Service will be partially offset by additional costs to the U.S. Coast Guard, the Merchant Marine and several other agencies.

6/ Offset included for Department of Interior operating costs and payments to states.

II. Other Reductions to the Deficit

	(in millions of dollars)					
	1981	1982	1983	1984	1985	1986
Black Lung Trust Fund reform....................	30	378	354	353	382	469
Smaller reductions (for agencies listed above and for other agencies) that have been identified (outlays)........................	---	6,300	8,000	12,000	16,000	18,000
Total, Other reductions to the budget deficit................................	30	6,678	8,354	12,353	16,382	18,469
Off-budget items:						
Smaller reductions that have been identified.	706	2,617	2,565	2,603	2,637	2,615
Total, Other reductions to the deficit, including off-budget items................	736	9,295	10,919	14,956	19,019	21,084

III. <u>Increases to Governmental Receipts</u>

	1981	1982	1983	1984	1985	1986
			(in millions of dollars)			
Corps of Engineers						
Inland Waterway User Charges						
Increase fuel tax to recover operation, maintenance, and replacement costs and capital costs on new waterways............	---	---	258	275	300	315
Transportation						
Coast Guard						
Phase-in fees for Coast Guard Services.....	---	100	200	300	400	500
Federal Aviation Administration						
Increase trust fund taxes to cover all operating expenses........................	---	1,882	2,159	2,442	2,753	3,104
Subtotal................................	---	1,982	2,359	2,742	3,153	3,604
Total, increases to governmental receipts............................	---	1,982	2,617	3,017	3,453	3,919

IV. Summary effects on the deficit

	1981	1982	1983	1984	1985	1986
	(in millions of dollars)					
Listed outlay savings (Table I)................	4,767	34,757	50,109	61,365	70,232	77,325
Other outlay reductions (Table II).............	30	6,678	8,354	12,353	16,382	18,469
Total, effect on outlays...............	4,797	41,435	58,463	73,718	86,614	95,794
Increases to governmental receipts (Table III).	---	1,982	2,617	3,017	3,453	3,919
Total, effect on the budget deficit....	4,797	43,417	61,080	76,735	90,067	99,713
Off-budget outlays listed above (Table I)......	38	3,065	4,828	6,603	8,475	10,450
Other changes in off-budget entities that have been identified (Table II)..................	706	2,617	2,565	2,603	2,637	2,615
Total, off-budget changes..............	744	5,682	7,393	9,206	11,112	13,065
Effect on the deficit, including effects on off-budget entities.........................	5,541	49,099	68,473	85,941	101,179	112,778

II. Fact Sheet
President Reagan's Initiatives to Reduce Regulatory Burdens

THE WHITE HOUSE

Office of the Press Secretary

EMBARGOED FOR RELEASE UNTIL
9 P.M. (E.S.T.), Wednesday, February 18, 1981

February 18, 1981

FACT SHEET

President Reagan's Initiatives to Reduce Regulatory Burdens

Summary: President Reagan today announced the details of a far-reaching program to reduce the burden of Federal regulations and paperwork, and to reduce the intrusion of the Federal Government into our daily lives.

BACKGROUND

- During the campaign, President Reagan promised swift action to ease the economic burden of government regulation.
- Previous administrations have instituted programs to manage the regulatory process. But, despite these measures, regulations have continued to proliferate, often based on inadequate analysis of the costs and benefits that would result.
- During the last month of the Carter Administration, regulatory agencies in the Executive Branch issued more than 150 final regulations. Of these so-called "Midnight Regulations," over 100 were scheduled to become effective within the next 60 days. Many of these new regulations impose substantial new burdens on the economy.
- Often, the high cost of regulatory compliance is due to the cumulative effect on an industry of many agencies' rules, rather than to a single major rule. For example, at least five Federal agencies directly regulate the auto industry, and these five agencies are now considering more than 50 significant new auto rules.
- This year, the Federal government is forcing Americans to spend over a billion hours providing information to the government.

ACTIONS TAKEN SINCE JANUARY 20

Since taking office on January 20th, the President has taken a number of actions as a part of a broad effort to free the economy, wherever feasible, of the hidden tax of complying with Federal rules and paperwork requirements which do not contribute to the public welfare. This effort will also seek to assure that regulations essential to the goal of protecting the public health and safety achieve their goal in the most efficient manner.

1. Task Force on Regulatory Relief

   President Reagan announced the creation of a Presidential Task Force on Regulatory Relief on January 22, 1981. It is chaired by the Vice President. The other members are the Secretary of the Treasury, the Attorney General, the Secretary of Commerce, the Secretary of Labor, the Director of the Office of Management and Budget, the Assistant to the President for Policy Development, and the Chairman of the Council of Economic Advisers.

   This Task Force has ongoing responsibilities which will be reinforced by the President's Executive Order on Federal Regulation. The Task Force will:

- Review major regulatory proposals by executive branch agencies, especially those proposals that would appear to have major policy significance or where there is overlapping jurisdiction among agencies.
- Assess executive branch regulations already on the books, especially those that are burdensome to the national economy or to key industrial sectors.
- Oversee the development of legislative proposals in response to Congressional timetables (e.g., the Clean Air Act must be reauthorized this year), and codify the President's views on the appropriate role and objectives of regulatory agencies.
- Seek to increase public awareness of regulations and their impact, including regulatory expenditures that do not show up in the Federal budget.
- Make recommendations to the President on regulatory personnel and how to reform regulation through Executive Orders, agency actions, and legislative changes.

2. Termination of CWPS's Wage-Price Program

On January 29, President Reagan issued Executive Order 12288 terminating the Council on Wage and Price Stability's wage-price standards program.

The Council on Wage and Price Stability (CWPS) was created in 1974 to study and encourage wage and price restraint, monitor inflation in the economy, encourage productivity, and review the inflationary impact of government programs and regulations. In 1978, President Carter directed CWPS to establish a program of "voluntary" wage and price standards. The Office of Federal Procurement Policy was ordered to issue regulations denying Federal contracts to violators of these standards. The CWPS staff grew from approximately 50 to 238 in 1979. As of January 20, 1981, employment was 170.

The CWPS program of wage-price standards proved ineffective in halting the rising rate of inflation. It proved to be an unnecessary burden on labor and industry, and a waste of taxpayers' money.

About $1.5 million will be saved in 1981 by this action, employment in the Executive Office of the President will be reduced by about 135 people, and Federal requirements that businesses submit voluminous reports will be ended. Companies spent some $300 million to comply with the reporting requirements alone of this program (more than 5,000 company reports were submitted to CWPS). CWPS's small regulatory staff will work closely with OMB and the Presidential Task Force on Regulatory Relief to carry out the program of regulatory relief.

3. Postponement of Pending Regulations

On January 29, President Reagan requested the heads of 12 departments and agencies, to the extent permitted by law, to postpone the effective dates of regulations that otherwise would have become effective before March 29 and refrain from issuing any new final regulations during this same 60-day period. This suspension in the effective date of new regulations was to:

- Allow the new Administration time to review the "midnight" regulations issued during the last days of the Carter Administration to assure that they are cost-effective and in concert with this Administration's policies.
- Allow time for this Administration's appointees to come aboard and to become familiar with the details of the various programs for which they will be responsible.
- Allow time for this Administration, through the Presidential Task Force, to develop improved procedures for management and oversight of the regulatory process.

The request was sent to the heads of the Departments of Agriculture, Commerce, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Justice, Labor, Transportation and Treasury, and the Environmental Protection Agency.

With certain exceptions, the effective dates of all rules that would have become legally effective during the 60-day period have been extended. The Office of Management and Budget has received and has granted several requests for waivers of this regulatory suspension. Most such cases involve regulatory actions necessary for economic activity to go forward.

4. Initial Regulatory Actions

The program of regulatory relief is underway. Several cabinet departments and agencies, on their own initiative and in coordination with the President's Task Force, have taken action on several significant issues:

- On February 2, the Secretary of Education withdrew the proposed bilingual education rules. These rules would have required all school systems to offer bilingual instruction to each child whose primary language is other than English. The Department estimated that the proposed rule could have cost up to $1 billion over the first 5 years of the program and an annual maintenance cost of between $72 million and $157 million thereafter.

- On February 9, the Secretary of Transportation proposed a one-year delay in a regulation which would have mandated the installation of passive restraints, beginning with large cars, in September 1981. The implementation of this regulation could have resulted in consumers paying as much as $800 more per vehicle equipped with air bags. Moreover, this requirement would have hit U.S. auto producers hardest. Before the government imposes additional costs on the consumer and puts an additional financial burden on an already troubled industry, it must be sure that such an action is warranted. A one-year delay will provide the opportunity for such an evaluation.

- On February 9, the EPA asked the D.C. Court of Appeals to remand to it a rule setting noise emission standards for garbage trucks. This request set in motion a process in which EPA will review regulatory alternatives suggested by the garbage truck industry. During this review, EPA will not enforce any aspect of the rule. When the rule was issued, EPA estimated that it would cost $25 million annually to comply with the rule, most of which would be borne by municipalities.

- On February 12, the Secretary of Labor announced action on three major rules.

  - An OSHA rule requiring that chemicals in the workplace be labeled was withdrawn for reconsideration. This rule, if issued in final form, would have cost between $643 million and $900 million initially, and between $338 million and $473 million annually according to Labor Department figures. Lower-cost means of assuring worker protection will be sought.

  - New rules under the Fair Labor Standards Act were postponed indefinitely. These would have raised the salary levels used as tests, in part, to determine whether executives must be paid overtime. This would have cost employers over $50 million annually, would have reduced employment opportunities, and would have raised prices, especially in the fast foods industry.

  - The implementation of new rules under the Service Contract Act was postponed. These rules would have extended Davis-Bacon "prevailing wage" principles to those timber sales, automatic data processing, and research and development firms under contract with the Federal government. The Department estimated that these rules would have cost at least $68 million annually.

- On February 14, OMB withdrew the policy memorandum on Federal Support for Hospital Construction issued by the previous Administration. This policy set out an elaborate review process to prevent Federal support for unnecessary hospital construction and renovation projects. In the Administration's judgment, the objectives of the policy could be met more simply and effectively through other means.
- On February 17, the President rescinded the mandatory Federal controls on building temperatures which had been imposed by the previous Administration. This action allows operators of non-residential buildings to choose the methods of conserving energy that best suit their circumstances.
- On February 17, the Secretary of Energy took several actions:
  - Announced that national energy efficiency standards for major household appliances will not be issued until a thorough review is completed. The 1980 proposal would require producers to redesign, by 1986, virtually all existing models of these appliances and to retool their production lines. As a result, many small firms would probably be forced out of business. Consumers would face sharply higher purchase prices —about $500 million annually. Low-income families could be especially hard-hit, since the standards would prohibit continued production of the kinds of lower cost appliances they can afford.
  - Withdrew proposed standby energy conservation measures involving a compressed work week, vehicle use stickers, and the part of the employer-based commuter and travel measures concerning working hours and transit subsidies. In addition, the Secretary has proposed to withdraw several interim final measures, including odd-even day motor fuel purchases, additional employer-based commuter and travel measures, increased enforcement and/or reduction of the 55 m.p.h speed limit and mandatory temperature restrictions. This action will remove measures which, if implemented, would interfere excessively in the daily life and business of Americans.
- On February 17, the Director of OMB revoked the Department of Energy's clearance under the Federal Reports Act for the collection of industrial energy consumption data.. A number of respondents have provided data which demonstrated that the information requested is needlessly detailed and unduly burdensome. This action will terminate the collection of industrial energy data for sites not subject to Federal regulation and preclude the Federal Government from expanding its regulatory programs.
- On February 17, President Reagan revoked Executive Order 12264, which established a cumbersome, duplicative and burdensome regulatory policy regarding the export of some hazardous substances. The rescinded Executive Order would have threatened American workers' jobs and could have disrupted production abroad where affected U.S. exports serve as vital material inputs. Procedures already exist which inform foreign governments of hazards associated with exported American products. Thus, each foreign government can decide for itself whether to import the products and what precautions to take.

NEW ACTIONS ANNOUNCED BY THE PRESIDENT

Building on the steps taken since January 20th, today the President announced the following additional actions taken by his Administration:

1. The Executive Order on Federal Regulation

Yesterday, the President signed a new Executive Order designed to improve coordination and management of the Federal regulatory process. This Order will produce better quality regulation and reduce the excess burden of regulation on the American people. The Order:

- Instructs the agencies on what is expected of them with respect to their regulatory work and provides reassurance to the American people of the government's ability to control its regulatory activities.
- Charges the Office of Management and Budget with administering the new order, subject to the overall direction of the Presidential Task Force on Regulatory Relief.
- Emphasizes that: regulatory decisions should be based on adequate information; actions should not be undertaken unless the potential benefits to society outweigh the potential costs; and regulatory priorities should be set on the basis of net benefits to society.
- Directs agencies to determine the most cost-effective approach for meeting any given regulatory objective, and requires that factors such as the economic condition of industry, the national economy, and prospective regulations be taken into account.
- .Requires each agency to perform certain tasks as part of the development of an important regulation. A Regulatory Impact Analysis is required to evaluate potential benefits and costs in light of the regulatory objectives. A determination must be made that any proposed rule is consistent with applicable legal authority and Presidential policy and that it reflects careful evaluation of the comments of all persons affected by or interested in the regulation. The Task Force is to oversee this process; the Office of Management and Budget is to make substantive comments on regulatory analyses, help determine which new and existing regulations should be so analyzed, and oversee the publication of semiannual regulatory agendas.

2. Integrating the Goals of Regulatory Relief with Paperwork Reduction

The Administration's program to reduce regulatory burdens will be integrated with its program to implement the Paperwork Reduction Act of 1980. During 1981, given present requirements, Americans will spend over 1.2 billion hours filling out government forms. This is equivalent to the annual labor input for the entire steel industry.

The costs of Federal paperwork and regulation discourage Americans from opening small businesses, doctors from accepting Medicare patients, and State and local governments from requesting needed Federal aid. The Office of Management and Budget has exercised some control over the paperwork burdens of the cabinet departments since 1942. Last year, OMB supervised an effort which resulted in a reduction of almost 10 percent in the burden imposed by agencies subject to OMB Federal Reports Act authority. However, agencies not subject to OMB information collection review increased their paperwork load last year by more than 10 million hours.

The Paperwork Reduction Act of 1980 brings the independent regulatory agencies under OMB authority, directs that the paperwork burden be reduced by 15 percent by October 1, 1982, and relates the effort to reduce paperwork burden to the need to minimize regulatory burden.

This Act creates an Office of Information and Regulatory Affairs within OMB and directs the agency to review Federal regulations that contain a recordkeeping or reporting requirement under a variety of different procedures. It provides that no agency may impose civil or criminal penalties on any person who fails to comply with a recordkeeping or reporting requirement that has not received OMB approval.

3. Future Candidates for Regulatory Review

The Administration has completed a comprehensive initial review of the regulations of 14 key regulatory agencies, and has prepared a list of 100 rules which are potential candidates for more intensive review.

- Agencies covered included: Departments of Treasury, Justice, Interior, Agriculture, Commerce, Labor, Health and Human Services, Housing and Urban Development, Transportation, Energy and Education, and the Environmental Protection Agency, the Equal Employment Opportunity Commission and the Office of Management and Budget.
- Of the 100 rules identified for additional review, 50 are now under development in the agencies and 50 are existing rules which need thorough review and possible revision.

A list of these regulations and brief information on them is attached. The regulations now under development can usually be withdrawn, modified, or cancelled by the agency head at his or her direction. In the case of existing rules, the agency head will have to issue a new notice of proposed rulemaking and follow usual procedures before making substantive change. That is, revision or withdrawal of these existing rules would require that the agency propose the revision or withdrawal and obtain public comment before taking final action.

4. Legislative Changes

The Administration will examine all legislation that serves as the foundation for major regulatory programs. This review will be led by the Presidential Task Force on Regulatory Relief and will result in recommendations to reform these statutes.

Not all of our regulatory problems can be solved satisfactorily through more effective regulatory management and decision-making. Statutory constraints often preclude effective regulatory decisions. Also, the Administration's efforts to better control the regulatory process may, in some cases, require further Congressional action. For example:

- Many of the statutes are conflicting, overlapping, or inconsistent. Some force agencies to promulgate regulations while giving them little discretion to take into account changing conditions or new information. Other statutes give agencies extremely broad discretion, which they may sometimes exercise unwisely. Statutes should not force agencies to promulgate inefficient regulations: they should provide agencies with requisite discretion and sufficient direction so that they act wisely.
- Compliance deadlines are often established in various laws. In general, they are imposed to ensure that agencies move forward expeditiously in implementing the law. However, these deadlines are often impossible to meet, especially if the rules developed are to be based on adequate information. Deadlines in statutes also constrain agencies' ability to tailor rules to the economic conditions of the affected parties. Where deadlines are unreasonable, changes will be sought.

Over the past few years numerous procedural reforms have been introduced in Congress that would respond to increasingly burdensome and intrusive regulations being imposed by the Federal Government. They have included requirements for regulatory analyses, an across-the-board legislative veto, and broader judicial review of the substance of regulations. While supportive of the goals of such proposals, the Administration is concerned about legislation that may result in excessive layering of review or an undue broadening of control responsibility. Legislative proposals should be developed in a manner to ensure they do not make the process even more complex, increase the size of the federal bureaucracy, make it more difficult to make needed changes in regulations, create additional delay and uncertainty, or contribute to the waste that results from the current adversarial nature of the rulemaking process.

III. Address by the President to a Joint Session of Congress

ADDRESS BY THE PRESIDENT TO A JOINT SESSION OF CONGRESS ON A PROGRAM FOR ECONOMIC RECOVERY

February 18, 1981

The U.S. Capitol

9:00 P.M. EST

THE PRESIDENT: Thank you very much. Thank you all very much. Mr. Speaker, Mr. President, distinguished Members of Congress, honored guests, and fellow citizens: Only a month ago, I was your guest in this historic building and I pledged to you my cooperation in doing what is right for this nation that we all love so much.

I am here tonight to reaffirm that pledge and to ask that we share in restoring the promise that is offered to every citizen by this, the last, best hope of man on earth.

All of us are aware of the punishing inflation which has for the first time in 60 years held to double digit figures for two years in a row. Interest rates have reached absurd levels of more than 20 percent and over 15 percent for those who would borrow to buy a home. All across this land one can see newly-built homes standing vacant, unsold because of mortgage interest rates.

Almost eight million Americans are out of work. These are people who want to be productive. But as the months go by despair dominates their lives. The threats of layoff and unemployment hang over other millions and all who work are frustrated by their inability to keep up with inflation.

One worker in a Midwest city put it to me this way: He said, "I'm bringing home more dollars than I believed I could possibly earn but I seem to be getting worse off." And he is. Not only have hourly earnings of the American worker, after adjusting for inflation, declined five percent over the past five years, but in these five years federal personal taxes for the average family have increased 67 percent.

We can no longer procrastinate and hope that things will get better. They will not. Unless we act forcefully and now the economy will get worse.

Can we who man the ship of state deny it is somewhat out of control? Our national debt is approaching one trillion dollars. A few weeks ago I called such a figure, a trillion dollars, incomprehensible. And I've been trying ever since to think of a way to illustrate how big a trillion really is. And the best I could come up with is that if you had a stack of thousand-dollar bills in your hand only four inches high, you'd be a millionaire. A trillion dollars would be a stack of thousand-dollar bills 67 miles high.

The interest on the public debt this year we know will be over $90 billion, and unless we change the proposed spending for the fiscal year beginning October 1st, we'll add another almost $80 billion to the debt.

Adding to our troubles is a mass of regulations imposed on the shopkeeper, the farmer, the craftsman, professionals and major industry that is estimated to add $100 billion to the price of things we buy and it reduces our ability to produce.

The rate of increase in American productivity, once one of the highest in the world, is among the lowest of all major industrial nations. Indeed, it has actually declined in the last three years. Now, I've painted a pretty grim picture, but I think I've painted it accurately. It is within our power to change this picture and we can act with hope. There's nothing wrong with our internal strengths. There has been no breakdown of the human, technological, and natural resources upon which the economy is built.

Based on this confidence in a system which has never failed us, but which we have failed through a lack of confidence and sometimes through a belief that we could fine tune the economy and get it tuned to our liking, I am proposing a comprehensive four-point program. Now, let me outline in detail some of the principal parts of this program. You'll each be provided with completely detailed copy of the entire program. This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and unproductive or counter-productive, and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, this program can help America create 13 million new jobs, nearly three million more than we would have without these measures. It will also help us to gain control of inflation. It's important to note that we're only reducing the risk of increase in taxing and spending. We're not attempting to cut either spending or taxing levels below that which we presently have.

This plan will get our economy moving again, (create) productivity growth, and thus create the jobs that our people must have. And I'm asking that you join me in reducing direct Federal spending by 41.4 billion dollars in fiscal year 1982 along with another 7. — (Applause) — and this goes along with another 7.7 billion in user fees and off budget savings for a total of $49.1 billion. And this will still allow an increase of $40.8 billion over 1981 spending.

Now, I know that exaggerated and inaccurate stories about these cuts have disturbed many people, particularly those dependent on grant and benefit programs for their basic needs. Some of you have heard from constituents, I know, afraid that Social Security checks, for example, were going to be taken from them. Well, I regret the fear that these unfounded stories have caused and I welcome this opportunity to set things straight.

We will continue to fulfill the obligations that spring from our national conscience. Those, who through no fault of their own, must depend on the rest of us, the poverty stricken, the disabled, the elderly, all those with true need, can rest assured that the social safety of programs they depend on are exempt from any cuts.

The full retirement benefits of the more than 31 million Social Security recipients will be continued along with an annual cost of living increase. Medicare will not be cut, nor will supplemental income for the blind, the aged and the disabled. And funding will continue for veterans' pensions.

School breakfasts and lunches for the children of low income families will continue as will nutrition and other special services for the aging. There will be no cut in Project Head Start or summer youth jobs.

All in all, nearly $216 billion providing help for tens of millions of Americans — will be fully funded. But government will not continue to subsidize individuals or particular business interests where real need cannot be demonstrated. (Applause.) And while we will reduce some subsidies to regional and local governments, we will at the same time convert a number of categorical grant programs into block grants to reduce wasteful administrative overhead and to give local governments and states more flexibility and control. We call for an end to duplication to federal programs and reform of those which are not cost effective.

Now, already, some have protested that there must be no reduction in aid to schools. Well, let me point out that Federal aid to education amounts to only eight percent of the total educational funding. And for this eight percent, the Federal Government has insisted on tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that eight percent will amount to very little in the total cost of education. They will, however, restore more authority to States and local school districts. (Applause.)

Historically, the American people have supported by voluntary contributions more artistic and cultural activities than all the other countries in the world put together. I wholeheartedly support this approach and believe that Americans will continue their generosity. Therefore, I'm proposing a savings of $85 million in the Federal subsidies now going to the arts and humanities.

There are a number of subsidies to business and industry I believe are unnecessary. Not because the activities being subsidized aren't of value but because the marketplace contains incentives enough to warrant continuing these activites without a government subsidy. One such subsidy is the Department of Energy's synthetic fuels program. We will continue support of research leading to development of new technologies and more independence from foreign oil, but we can save at least $3.2 billion by leaving to private industry the building of plants to make liquid or gas fuels from coal.

We're asking that another major industry, business subsidy I should say, the Export–Import Bank loan authority, be reduced by one-third in 1982. We're doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves — most of them profitable corporations.

This brings me to a number of other lending programs in which government makes low–interest loans, some of them at an interest rate as low as two percent. What has not been very well understood is that the Treasury Department has no money of its own to lend. It has to go into the deep, the private capital market and borrow the money. So, in this time of excessive interest rates the government finds itself borrowing at an interest rate several times as high as the interest it gets back from those it lends the money to. And this difference, of course, is paid by your constituents — the taxpayers. They get it again if they try to borrow because government borrowing contributes to raising all interest rates.

We can save hundreds of millions of dollars in 1982 and billions more over the next few years. There's a lack of consistent and convincing evidence that EDA and its Regional Commissions have been effective in creating new jobs. They have been effective in creating an array of planners, grantsmen and professional middlemen. We believe we can do better just by the expansion of the economy and the job creation which will come from our economic program. (Applause.)

The Food Stamp program will be restored to its original purpose, to assist those without resources to purchase sufficient nutritional food. We will, however, save $1.8 billion in FY 1982 by removing from eligibility those who are not in real need or who are abusing the program. (Applause.) Even with this reduction, the program will be budgeted for more than $10 billion.

We will tighten welfare and give more attention to outside sources of income when determining the amount of welfare that an individual is allowed. This plus strong and effective work requirements will save $520 million in the next year.

I stated a moment ago our intention to keep the school breakfast and lunch programs for those in true need. But by cutting back on meals for children of families who can afford to pay, the savings will be $1.6 billion in FY 1982.

Now, let me just touch on a few other areas which are typical of the kind of reductions we've included in this economic package. The Trade Adjustment Assistance program provides benefits for workers who are unemployed when foreign imports reduce the market for various American products causing shutdown of plants and layoff of workers. The purpose is to help these workers find jobs in growing sectors of our economy. There's nothing wrong with that, but because these benefits are paid out on top of normal unemployment benefits, we wind up paying greater benefits to those who lose their jobs because of foreign competition than we do to their friends and neighbors who are laid off due to domestic competition. Anyone must agree that this is unfair. Putting these two programs on the same footing will save $15 billion in just one year.

Earlier I made mention of changing categorical grants to States and local governments into block grants. Now, we know of course that categorical grant programs burden local and state governments with a mass of Federal regulations and federal paperwork.

Ineffective targeting, wasteful administrative overhead — all can be eliminated by shifting the resources and decision-making authority to local and state government. This will also consolidate programs which are scattered throughout the federal bureaucracy, bringing government closer to the people and saving $23.9 billion over the next five years.

Our program for economic renewal deals with a number of programs which at present are not cost-effective. An example is Medicaid. Right now Washington provides the states with unlimited matching payments for their expenditures. At the same time we here in Washington pretty much dictate how the states are going to manage those programs. We want to put a cap on how much the federal government will contribute, but at the same time allow the states much more flexibility in managing and structuring their programs.

I know from our experience in California that such flexibility could have led to far more cost effective reforms.

Now, this will bring a savings of $1 billion next year.

The space program has been and is important to America and we plan to continue it. We believe, however, that a reordering of priorities to focus on the most important and cost effective NASA programs can result in a savings of a quarter of a million dollars.

Coming down from space to the mailbox, the Postal Service has been consistently unable to live within its operating budget. It is still dependent on large federal subsidies. We propose reducing those subsidies by $632 million in 1982 to press the Postal Service into becoming more effective, and in subsequent years the savings will continue to add up.

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

I'm sure there's one department you've been waiting for me to mention, the Department of Defense. It's the only department in our entire program that will actually be increased over the present budgeted figure. (Applause.) But even here there was no exemption. The Department of Defense came up with a number of cuts which reduced the budget increase needed to restore our military balance. These measures will save $2.9 billion in 1982 outlays and by 1986 a total of $28.2 billion will have been saved. Or perhaps I should say will have been made available for the necessary things that we must do. The aim will be to provide the most effective defense for the lowest possible cost.

I believe that my duty as President requires that I recommend increases in defense spending over the coming years. (Applause.)

I know that you're all aware, but I think it bears saying again: that since 1970 the Soviet Union has invested $300 billion more in its military forces than we have. As a result of its massive military buildup, the Soviets now have made a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery and anti-aircraft defense. To allow this imbalance to continue is a threat to our national security.

Notwithstanding our economic straits, making the financial changes beginning now is far less costly than waiting and having to attempt a crash program several years from now.

We remain committed to the goal of arms limitation through negotiation. I hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. (Applause.) But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

Now, let me say a word here about the general problem of waste and fraud in the federal government. One government estimate indicated that fraud alone may account for anywhere from one to ten percent — as much as $25 billion of federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.

The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud. We're also planning to appoint as Inspectors General highly-trained professionals who will spare no effort to do this job.

No administration can promise to immediately stop a trend that has grown in recent years as quickly as government expenditures themselves. But let me say this: waste and fraud in the federal government is exactly what I have called it before — an unrelenting national scandal — a scandal we're bound and determined to do something about. (Applause)

Marching in lockstep with the whole program of reductions in spending is the equally important program of reduced tax rates. Both are essential if we're to have economic recovery. It's time to create new jobs, to build and rebuild industry, and give the American people room to do what they do best. And that can only be done with a tax program which provides incentive to increase productivity for both workers and industry.

Our proposal is for a 10-percent across-the-board cut every year for three years in the tax rates for all individual income taxpayers making a total cut in tax cut rates of 30 percent. This three-year reduction will also apply to the tax on unearned income leading toward an eventual elimination of the present differential between the tax on earned and unearned income.

Now, I would have hoped that we could be retroactive with this. But as it stands, the effective starting date for these 10 percent personal income tax rate reductions will call for as of July 1st of this year.

Again, let me remind you that while this 30 percent reduction will leave the taxpayers with $500 billion more in their pockets over the next five years, it's actually only a reduction in the tax increase already built into the system.

Unlike some past tax "reforms," this is not merely a shift of wealth between different sets of taxpayers. This proposal for an equal reduction in everyone's tax rates will expand our national prosperity, enlarge national incomes, and increase opportunities for all Americans.

Some will argue, I know, that reducing tax rates now will be inflationary. A solid body of economic experts does not agree. And tax cuts adopted over the past 3/4 of a century indicate these economic experts are right. They will not be inflationary.

I've had advise that in 1985 our real production in goods and services will grow by 20 percent and be $300 billion higher than it is today. The average worker's wage will rise in real purchasing power 8 percent and this is in after-tax dollars. And this, of course, is predicated on a complete tax cuts and spending reductions being implemented. The other part of the tax package is aimed directly at providing business and industry with the capital to modernize and engage in more research and development.

This will involve an increase in depreciation allowances and this part of our tax proposal will be retroactive to January 1st. The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant machinery and vehicles and tools on their original cost, with no recognition of how inflation has increased their replacement cost.

We're proposing a much shorter write-off time than is presently allowed — a five-year write-off for machinery, 3 years for vehicles and trucks, and 10-year write-off for plant. In Fiscal Year 1982 under this plan, business would acquire nearly $10 billion for investment. By 1985 the figure would be nearly $45 billion.

These changes are essential to provide the new investment which is needed to create millions of new jobs in 1985, and to make America competitive once again in the world market. (Applause.) These won't be make-work jobs. They are productive jobs, jobs with a future. I'm well aware that there are many other desirable and needed tax changes, such as indexing the income tax brackets to protect taxpayers against inflation, the unjust discrimination against married couples if both are working and earning, tuition tax credits, the unfairness of the inheritance tax, especially to the family-owned farm and the family-owned business, and a number of others.

But our program for economic recovery is so urgently needed to begin to bring down inflation that I'm asking you to act on this plan first and with great urgency. And then, I pledge that I will join with you in seeking these additional tax changes at an the earliest date possible. (Applause.)

American society experienced a virtual explosion in government regulation during the past decade. Between 1970 and 1979, expenditures for the major regulatory agencies quadrupled. The number of pages published annually in the *Federal Register* nearly tripled, and the number of pages in the *Code of Federal Regulations* increased by nearly two-thirds.

The result has been higher prices, higher unemployment, and lower productivity growth. Overregulation causes small and independent businessmen and women, as well as large businesses, to defer or terminate plans for expansion. And, since they are responsible for most of the new jobs, those new jobs just aren't created.

We have no intention of dismantling the regulatory agencies, especially those necessary to protect the environment and insure the public health and safety. However, we must come to grips with inefficient and burdensome regulations, eliminate those we can and reform the others.

I have asked Vice President Bush to head a Cabinet-level task force on regulatory relief. Second, I asked each member of my Cabinet to postpone the effective dates of the hundreds of new regulations which have not yet been implemented. Third, in coordination with the task force, many of the agency heads have already taken prompt action to review and rescind existing burdensome regulations.

And finally, just yesterday, I signed an Executive Order that for the first time provides for effective and coordinated management of the regulatory process.

Much has been accomplished but it's only a beginning. We will eliminate those regulations that are unproductive and unnecessary by Executive Order where possible and cooperate fully with you on those that require legislation.

The final aspect of our plan requires a national monetary policy which does not allow money growth to increase consistently faster than the growth of goods and services. In order to curb inflation we need to slow the growth in our money supply. Now, we fully recognize the independence of the Federal Reserve System and will do nothing to interfere with or undermine that independence. We will consult regularly with the Federal Reserve Board on all aspects of our economic program and will vigorously pursue budget policies that will make their job easier in reducing monetary growth.

A successful program to achieve stable and moderate growth patterns in the money supply will keep both inflation and interest rates down and restore vigor to our financial institutions and markets. This, then, is our proposal, America's new beginning, a program for economic recovery.

I don't want it to be simply the plan of my administration. I'm here tonight to ask you to join me in making it our plan. Together we can embark on this road. (Applause.)

I should have arranged to quit right there. (Laughter. Applause.) Well, together we can embark on this road not to make things easy but to make things better.

Our social, political and cultural, as well as our economic institutions, can no longer absorb the repeated shocks that have been dealt them over the past decades. Can we do the job? The answer is yes. But we must begin now.

We're in control here. There's nothing wrong with America that together we can't fix. I'm sure there'll be some who will raise the familiar old cry, "Don't touch my program; cut somewhere else." I hope I've made it plain that our approach has been even-handed, that only the programs for the truly deserving needy remain untouched. The question is are we simply going to go down the same path we've gone down before, carving out one special program here, and another special program there. I don't think that's what the American people expect of us. More important, I don't think that's what they want. They are ready to return to the source of our strength.

The substance and prosperity of our nation is built by wages brought home from the factories and the mills, the farms, and the shops. They are the services provided in 10,000 corners of America;

the interest on the thrift of our people and the returns for their risk–taking. The production of America is the possession of those who build, serve, create and produce.

For too long now, we've removed from our people the decisions on how to dispose of what they created. We've strayed from first principles. We must alter our course.

The taxing power of government must be used to provide revenues for legitimate government purposes. It must not be used to regulate the economy or bring about social change. (Applause.) We've tried that and surely we must be able to see it doesn't work.

Spending by government must be limited to those functions which are the proper province of government. We can no longer afford things simply because we think of them.

Next year we can reduce the budget by $41.4 billion, without harm to government's legitimate purposes or to our responsibility to all who need our benevolence. This, plus the reduction in tax rates, will help bring an end to inflation.

In the health and social services area alone the plan we're proposing will substantially reduce the need for 465 pages of law, 1400 pages of regulations 5000 federal employees who presently administer 7,600 separate grants in about 25,000 separate locations. (Applause.) Over seven million men and women hours of work by state and local officials are required to fill out government forms.

I would direct a question to those who have indicated already an unwillingness to accept such a plan: have they an alternative which offers a greater chance of balancing the budget, reducing and eliminating inflation, stimulating the creation of jobs, and reducing the tax burden? And, if they haven't, are they suggesting we can continue on the present course without coming to a day of reckoning? (Applause.)

If we don't do this, inflation and a growing tax burden will put an end to everything we believe in and our dreams for the future. We don't have an option of living with inflation and its attendant tragedy, millions of productive people willing and able to work but unable to find a buyer for their work in the job market.

We have an alternative and that is the program for economic recovery. True, it'll take time for the favorable effects of our proposal to be felt. So we must begin now.

The people are watching and waiting. They don't demand miracles. They do expect us to act. Let us act together.

Thank you and good night.

9:30 E.S.T.

IV. Remarks of the President at Breakfast with Editors

THE WHITE HOUSE

Office of the Press Secretary

REMARKS OF THE PRESIDENT
AT BREAKFAST WITH EDITORS

February 19, 1981

9:02 A.M. EST

THE PRESIDENT: Those of you who haven't finished breakfast, keep on eating and I will talk over you. Welcome here. Delighted to have you all here this morning. Maybe some of you have noticed that the helicopter is on the lawn in case my reception is somewhat different than it has been. We are departing soon to make sure that the West Coast is still attached. Again, as I say, we are pleased to have you here. We think that we can have a dialogue instead of a monologue, and I am going to, without any further remarks, introduce to you one of our Cabinet secretaries who will introduce a couple of teammates and then I will come back and we will begin some questions and answers that will be concluded with the gentleman that you are about to meet. Ladies and gentlemen, the Secretary of the Treasury, Don Regan. (Applause.)

SECRETARY REGAN: Thank you, Mr. President. Good morning ladies and gentlemen. It is a pleasure to be here with you. I hope that you are all as thrilled as I was last night in hearing the President's remarks. This program is really bold. It is innovative. It is new. It breaks with the past. And it is different. I think that it is going to be one of the most stimulating things that has ever happened to our economy. From the point of view of why we are being so abrupt in breaking with the past, it is that we can no longer go on with what we have been doing.

You take a look at what our economy has been doing and consider that for the last two years we have had the greatest rates of inflation since the Civil War, and we apparently were going to continue down that road unless there was a break, so we have decided to make it. We are doing it, as you know, as the President explained it last night, with a four-part program.

The first part of that program is the spending cuts. The second part of the program are the tax cuts. The third part of the program is deregulation -- getting the government off the back of the people. And the fourth part of it consists of having a stable monetary growth.

Now during the morning, Dave Stockman, Murray Weidenbaum, and I will be explaining the details of this package. I will not take any longer except to say that as part of my program, that is, the tax part of it, I am going up on the Hill this morning at 10:00 to start explaining it. I have another session with a different part of the Hill at 2:00. I am back up there again tomorrow at 10:00. We will be explaining this program, I hope not ad nauseum, but at least with a great deal of clarity so that you'll all understand it. And we feel that it's exactly what the American people have wanted. It's been designed that way. We're going to give it to them that way. We're going to fight with them in Congress.

You can use any analogy you want. This is the kick-off in football. This is the first inning of a baseball game. We're right at the start of what promises to be a great victory for the Reagan forces. And that's the program that we're going to be developing over the next few months working with the Congress. Thank you very much.

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Now, I'd like to introduce my colleague and sidekick for these past six weeks, a man that's well-known to most of you, David Stockman, Director of the Office of Management and Budget. Dave. (Applause.)

MR. STOCKMAN: Well, thank you very much, Don, and ladies and gentlemen I would like to welcome you to the President's new White House Breakfast Program this morning, the one new program that we didn't announce last night.

But what we hope that we're offering to you this morning is not only a breakfast but some food for thought. And what I would like to suggest today is the plan that the President announced last night contains more new ideas, more new approaches to the fundamental economic problems of this country than we've seen in the last 15 or 20 years in Washington.

And when you look at the economic mess that we have today, the way that inflation is eroding the ability of our economy to operate, the way in which tax rates continue to creep up and destroy incentives, destroy investments, destroy savings, it's pretty clear to me and I think it's pretty clear to the President that the kind of bold changes on the spending side, on the tax side, on the regulatory side that he proposed last night are precisely what this country needs.

I'm in charge of the budget side in particular. And although the papers this morning, at least some of them, have suggested that this $41 billion cut that we're requesting in the federal budget is too draconian, is too deep, I would just take this opportunity to remind you that even after all those changes are made, and even after the Congress adopts the 83 different proposals that we presented last night, we will still have a budget next year that is $40 billion higher than it is this year.

The basic problem for two or three years now has been simply that the federal budget has been growing at an astronomically unsustainable rate. It's increased at 16 percent a year since fiscal year '79. That's far faster than the growth of our tax base. It's far faster than the growth of our economy as a whole. As a result, we're taking a larger and larger share of the output of our economy at the government level. And that explains basically the economic deterioration that we've had.

So we're proposing to shift direction sharply, to hold the growth rate of federal spending to 6 percent next year and in the years thereafter.

It will be difficult to do. But we have proposed to slay some sacred cows, if you will. We have proposed to reduce or eliminate programs that simply can't be justified under the current fiscal and economic crisis conditions that we face in this country.

But I think that we're going to get a favorable response from the American people and I think we're going to get a favorable response from the Hill. I happened to spend four years on the Hill as a member of Congress. And I know that during those four years, every member of Congress knew in his mind and his heart that things were going too far, that things were out of hand. Now we have a President who's willing to propose a program to turn that around. We have a President who I think can rally the support of this country. And I think you're going to find on Capitol Hill, despite all the cynicism that you hear from some, that we're going to get a great deal of support and that we're going to get this job done. Thank you. (Applause.)

Oh, excuse me. It's my pleasure now to introduce the

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third member of our economic team, Murray Weidenbaum, who's Chairman of the Council of Economic Advisers. He's the guy in charge of integrating and pulling this whole program together and explaining it in a lucid and convincing way, something that he's fully capable of doing. So, I would like to introduce Murray Weidenbaum, Chairman of the CEA. (Applause.)

MR. WEIDENBAUM: Ladies and gentlemen, I would like to emphasize just one key point. The Reagan program is a program for a healthier economy which will provide real solid benefits to every American citizen. I will not concentrate on the medicine, so to speak, the budget cuts, the regulatory restraint. I would like to emphasize the results, the positive results, in terms of bringing the inflation down by more than half, in terms of reducing the tax burden of every taxpayer, the creation of three million new jobs, all this between now and 1986 -- not a quick fix to be sure, but a constructive, balanced program which very frankly deserves the support, I think, of the American people.

And, personally, it's a real pleasure to work for the number one economic communicator of our nation, the President of the United States.

THE PRESIDENT: Well, ladies and gentlemen, you obviously know that you are here because we believe that the main source of strength in this fight is going to be the people themselves. And we believe also that they are ready to support a great change and go along.

And you are in a position to help with this. I've been hearing some of the voices already and, when I was getting dressed, some of the morning shows, from those who would be expected to be against this program in government. And I almost sensed that one of their plans is going to be to not criticize the cuts at all but to see if they can't wipe out the tax part of the program.

This tax part of the program we have tried to stress, and this is one of the reasons why we've gone out of our way to point out to the people that it is not a reducing of the amount of money that government is going to get, it is reducing the increase.

We found in California when I was governor there that -- and we had our great welfare reforms and all and we had inherited a situation similar to that of the federal government today. And during the campaign I was very frustrated when people would ring up and say, "Well, yes, he talks about saving money in California, but look, the budgets went up and then went up to such and such a figure by the time he left office." What they didn't realize was of course the budgets are going to go up. There's growth, there's inflation, there's growth in government to match the increase in population and so forth. What they didn't realize though was that that slant of going up, we reduced by 20 percent. And if you do the same with the taxes and change the steep rise, today there's virtually $100 billion of tax increase built into the present system that will take place in this coming year if we do not reduce that increase.

But for years now the two lines have been diverging. Even steep as the taxes are, they don't keep up with the increase in spending. If we can bring those lines to be more parallel and what we are -- believe me, hoping for, and know we can do, is have the tax line begin to converge with the spending line. And when you reach that point and then if you keep going the tax line will be bringing in revenues greater than the increase in government. That is when you go forward with further tax cuts of the kind to correct the inequities that I mentioned in my remarks last night.

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And I believe the people are ready. But I believe that there's going to be a lot of misinformation released in the fights that might go on. And yet, we're optimistic. We think that across the aisle, in Congress today, there is a different feeling and there are more people than anyone realizes who are of the opinion that this has to go forward.

Now, rather than go on with any kind of a monologue, and since my time is limited here, and possibly yours also, maybe we can open this up to discussion or questions from you. And if you throw me one that I can't answer you can see I've got three specialists here that I'll call on.

Q Mr. President, in your list of inflationary forces last night, why did you not mention the increase of gasoline prices and home heating fuels?

THE PRESIDENT: Why in the list of inflationary forces did I not mention gasoline prices and home heating fuel prices. Well, I have to believe that to a certain extent, I know that that's an unusual situation, prices are not so much the cause of inflation -- price rises, they're the result. And when I say there is something different in that one, yes.

When the OPEC nations with the near monopoly power now take advantage of that position and just simply raise the price to suit themselves. That is a price over and above the normal response to inflation.

Although, I've -- as one economist pointed out a couple of years ago, he didn't state this as a theory, but he just said it's something to look at, when we started buying the oil over there and the OPEC nations, 10 barrels of oil were sold for the price of an ounce of gold. And the price was pegged to the American dollar. And we were about the only country left that still were on a gold standard. And then a few years went by and we left the gold standard. And as this man suggested, if you look at the recurrent price rises, were the OPEC nations raising the price of oil or were they simply following the same pattern of an ounce of gold? That as gold in this inflationary age kept going up, they weren't going to follow our paper money downhill. They stayed with the gold price.

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Of course, now, if we followed that, why they should be coming down because the price of oil is coming down. But I think that that's like the inflation contributing factor which will happen sometimes simply because of a poor crop. That is not based on the economy, that's simply supply and demand and there's a crop failure and you've got a bigger demand than you have supply -- the price goes up.

But I believe that even those things can be dealt with with the other factors that we're going to follow,and that is trying to increase the energy supply in our own country. I think we can talk conservation all we want, but there's a limit,what you get below,what you cannot get maintaining your level of comfort and your level of industry. And I think the best answer while conservation, is willing itself is to try to make us independent of outside sources to the greatest extent possible for our energy and I believe that we have the possibilities of that. We're not energy poor. There's energy yet to be found and developed in this country including the biggest coal pile any country in the world sits on.

So, if I didn't mention that, it was because I didn't mention a number of other things. I wanted to get through in 30 minutes before my audience walked out on me. (Laughter)

Q (Inaudible.)

THE PRESIDENT: Well, in social services -- maybe part of my confidence in that and what we can do is based on what we did in California. We finally realized that all the savings we were making, all the economies, were all being eaten by welfare. And in good times and bad it bore no relation to the economy. We saw that welfare in California was reaching a point of an increase as much as 40,000 cases a month being added to the welfare roles. We finally turned the task force loose to come back with a plan for reforming welfare. And we had a long fight. We could do the part administratively or two fights. We had a fight with our legislature to get some of it, because I had a hostile legislature at the time, and we had a fight with Washington-- with the bureaucracy of HEW who had rules and regulations. For example, and this is still true today, that under those rules and regulations no one in the United States knows how many people are on welfare. They only know how many checks they're sending out and then we turn up a woman in Chicago that's getting checks under 127 different names. And just recently in Pasadena, California,living in a lovely big home there, a woman was brought in and charged with collecting $300,000 in a welfare scheme.

Well, we set out to correct this. We finally got some waivers from HEW. We finally got the legislation and again, we got it -- one of the biggest single things that happened to turn the public on our side in that fight came from your profession -- from the press. When a paper from San Francisco sent a reporter out to see if he could get on welfare -- to see if our stories of the horrors of welfare were true. He got on welfare four times under four different names in the same office on the same day. And when he wrote that story, we had an ally. When we finished our reforms, though -- we hadn't been able to give a cost of living increase to the welfare recipients in California because we were spread so thin , this is 1958 -- we saved over a three year period, because the welfare reform went in only in my last three years -- we saved $2 billion for the California taxpayers in the program. The roles were reduced by more than 350,000 people without us actually throwing anyone off. They just disappeared, and over and above that we had enough to increase the welfare grants for the deserving needy who remained by an average of 43 percent.

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And when I say we didn't throw anyone off, we got permission that in 35 of our 58 counties, we could require able-bodied welfare recipients to work -- to come and report for useful community projects -- all of which we've screened -- from school board, from counties, from cities and towns to make sure there were no boondoggles. And they had to report -- they only had to work 20, not 40 hours a week. The other half was to be spent either in job training or looking for work and then we assigned what we called "job agents" from our Labor Department to each group of these people. And told these job agents their job was to look at these peole doing these jobs and see how quickly they could get them out in the private enterprise. And in the midst of the '73 and '74 recession, when unemployment was increasing in the nation. They funneled 76,000 welfare recipients through this program into private enterprise jobs --and free of welfare from then on out. And we believe that this is what's going to happen because we're very much determined to turn as much of welfare management as we can back to the states -- give them the federal revenue share,but more in the nature of a block grant. And give them the right to require able-bodied recipients to work and give them the right to administer this program without this layer of bureaucracy in Washington on top of it.

And so, we think we're going to benefit rather than hurt the people that are getting these grants.

Q Mr. President, is there any way you can get the Congress to vote this entire program up or down or are you going to have to go program-by-program-by program until you get the vote of each one?

THE PRESIDENT: We're introducing five pieces of legislation. One will be the tax bill, the other one will be a reconciliation act -- that will be one of the toughest ones. That is to try and get them to simply submit the program to the major committees and not break it all up into fragments and fragment it out with all the Then there will be the rescissions for 1981. We didn't mention that last night, but our cuts have begun with the remainder of 1981, which has been going on since October 1st -- this budget. We're going to make several billions of savings before the year is out in that program. That will take rescissions that have to be passed by Congress and then, of course, the cuts in the 1982 budget which has been submitted by the previous administration. And that's the one that we're hoping to reduce $41.4 billion with our cuts.

So, that's as much as we could package it. We've emphasized and I've been meeting with legislative leaders from both sides of the aisle. We're going to continue to do that urging them both to expedite first, but also to hold it together.

One of the reasons that we didn't add in any of the tax features that I mentioned later -- as coming later on -- is because we thought if we opened that door, then everyone with an idea would begin to pick at the program with amendments and so forth and we hope that they'll just simply get the basic program passed.

I believe, as I said earlier, that one of the things we must be most of aware of will be the attempt -- no one will want to stand up and oppose the cuts in today's climate, but they will then say, "Well, the tax part of it won't work."

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Q (Inaudible.)

THE PRESIDENT: No.

Q (Inaudible.)

THE PRESIDENT: Yes.

Q What exactly did you mean by that? (Inaudible.)

THE PRESIDENT: Well now, that's a problem I'm going to have to face and I had a rule I'll fall back on in California as Governor. I never talk about whether I'll sign or veto until whatever is there is before me on my desk. But the two must go together if we are to have the stimulate to the economy, because the main purpose of this is really to get the economy moving again. And to do that, we've seen the percentage of gross national product that the Federal Government is taking in taxes going up consistently. And if you go back to where it was hovering below 20 and down around anywhere from seventeen and a half to nineteen over the years, we didn't have inflation. We didn't have the problems we're having today,but we're on our way up to almost a fourth of the gross national product taken by government in taxes and this is what we feel has to come down if the economy is to go forward, and of course, to do that, we've got to make -- if we're going to cure inflation,which I believe stems in the main from government spending more than it takes in, we're going to have to bring government down to match the revenues.

Q Mr. President, many people in Congress believe in the tax cuts, I mean budget cuts, but are very concerned about the tax cuts. They fear it will be inflationary. How do you plan to combat that fear among Congress?

THE PRESIDENT: Well, I mentioned that last night, this fear that the tax cuts would be inflationary. First of all, a number of fine economists like Murray Weidenbaum and many of his associates don't think that that's so, but also we've got history on our side. Every major tax cut that has been made in this century in our country has resulted in even the government getting more revenue than it did before because the base of the economy is so broadened by doing it.

We only have to look at the last few experiences with cuts in the capital gains tax and you find that the very next year after the rate was lowered, the government got more revenue from capital gains tax than it's been getting at the higher rate. What happens? People up there who are now worried about and busying themselves with tax shelters, if it becomes profitable to move out into risk-taking adventure and investments, they then are encouraged to move out and into that.

Back when Calvin Coolidge cut the taxes across the board, and more than once, the government's revenues increased. When Jack Kennedy did it in the two-year program and his economic advisers, they were all telling him, I can remember the figures, they told him that the government would lose $83 billion in revenue and the government gained $54 billion in revenue, I think is the figure, that it actually went up. So they had made quite a sizeable financial error in their estimates. Jack Kennedy's line about it was, "a rising tide lifts all boats." And this is what we believe that the tax proposals that we've made, what they're aimed at.

Business and industry in America today is investing the lowest percentage of any of the industrial nations in improvement in plant and equipment. We have the highest percentage of outmoded industrial plant and equipment of all the industrial nations. One of the reasons is the lack of capital. The government is competing in the private capital market to fund the government's deficits. The American people are saving at a lower percentage than the workers are in Japan, West Germany and the other industrial nations,and that money that once went into savings acounts or insurance, and as we all know it then became a part of the capital pool that was reinvested by banks and insurance companies out in the free enterprise sector. And you could cite all sorts of figures of the increase in investment in tax free municipal bonds and the reduction in industrial stocks that have taken place in America, so all of this is aimed at,not at being inflationary, but the other way. And we're just convinced that what has happened before every time is going to happen again.

Q Mr. President, the AFL-CIO feeling in Miami is (inaudible) proposing the program. I wonder if you would consider this thing a curious impediment and if so, how you would (inaudible)?

THE PRESIDENT: Well, I can't say that I didn't expect it. I thought it was interesting that they kind of took a stand against it before they heard what it was. Now whether they'll be converted or convinced by the things that they will now be able to understand or know about the program, I wish they would treat it with more of an open mind. I happen to believe that sometimes they're out of step with their own rank and file. They certainly were in the last election. But I was the president of my own union once, an AFL-CIO union, and I think I know something about them. And it is true that they philosophically have tended for a number of years now to support the idea of government spending being good for the economy. I remember once that as a union president representing not only my own but 32 other unions in the motion picture industry·and management, I came to Washington to appear before the House Ways and Means Committee in support of a tax reform program that had been introduced. I was met by two of the lobbyists for the AFL-CIO and shown a rather sizeable book labeled "The Tax Policy for the AFL-CIO" for that year, and it was completely the opposite of what I was here to say in behalf of those local unions that were all part of that organization.

They frankly stated that the tax policy they favored would get the government $12 billion in additional revenue and they wanted it to get that revenue because they had $12 billion worth of welfare programs that they wanted the government to adopt. Listen, I've been leaning to the right all the time -- there must be people over here (laughter) --

Q Mr. President, in cutting back government support of synthetic fuel (inaudible) private enterprise will pick up and do the job, failure to do so in the past (inaudible), what makes you think they'll do it again?

THE PRESIDENT: Well, because if it's going to be done they'll have to do it. Maybe they haven't done it in the past because there was so much promise of government standing there ready to do it, and you know, not that the giant companies are poor but I keep remembering what Milton Friedman once said, "If you start paying people to be poor, there is going to be a lot of poor people." And maybe the same thing was true of business, that human nature is the same in the board room as it is down there in the street. But I think that with the price of fuel where it is, let me be practical about them and fair to them also. There was no incentive before because what we were talking about, synthetic fuels were going to be more costly than the natural fuels that we were using. Now with the price up where it is, there is an incentive for them to look at these because they may be cost effective. They may even be cost advantageous over fossil fuels. So I believe that there is.

I have always preferred that if there is some stimulate in addition that is needed, I believe the tax incentives are a better route than outright subsidy.

Q Mr. President, I believe last night you said that spending **cuts** are the largest ever been quoted. Are these the largest tax cuts ever been quoted?

THE PRESIDENT: You know something? That's a question -- I just looked over here and I got a cue. Yes. Don Regan tells me they are and that's fitting because the tax increase that was adopted in the last year and that is built into the present system is the largest single tax increase in our nation's history. So we might as well match it with the largest single tax cut in our history. I know that I've come to the end of my time and hear that helicopter take off pretty quickly, but don't think your questions won't be answered here.

I am now going to get my trio back up here and they will take your questions and I think they will be able to give you more indepth on anything that you might want to know about the program that we've been putting together.

So, Don Regan and Murray, Dave Stockman, it's your turn to come back up here and take the questions from these ladies and gentlemen, and if you'll forgive me, I am a few minutes late and I'm going to have to run now. Now you can get down to the really deep questions with all of them. Come on Dave, Murray and Don. (Applause.)

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