**Collection: Deaver, Michael**
**Folder Title: Staff Aims State of the Union [1982 and] 1983 (1)**
**Box: 57**

THE WHITE HOUSE

WASHINGTON

December 10, 1981

MEMORANDUM FOR: MICHAEL K. DEAVER

FROM: RICHARD G. DARMAN
CRAIG L. FULLER

SUBJECT: State of the Union

Attached are materials that could be construed as relevant background reading for participants in your Friday luncheon meeting.

-- Tab A: A summary (by Craig Fuller) of suggestions received from various sources -- arranged in five categories: (1) format; (2) themes; (3) 1981 highlights; (4) 1982 goals; (5) 1982 actions.

-- Tab B: A memo from Don Regan (prepared for a different purpose), which the President has said provides many points that ought to be in the State of the Union.

-- Tab C: themes memo by Rich Williamson

-- Tab D: themes memo by Elizabeth Dole

-- Tab E: themes memo by Harper/Kudlow

-- Tab F: SoU memos by NSC/DOD/State

-- Tab G: SoU memo by OPD

-- Tab H: SoU memo by Beal ("Strategic Planning Memo No. 4") -- along with his "subject content analysis of modern State of the Union Messages."

NOTE: Departmental submissions are not here -- but are included in summary at Tab A.

# SUMMARY

# OF

# SUBMISSIONS

A



I. FORMAT

1. The "telephone book" -- long detailed message. ______________________

2. The big speech -- long detailed text. ______________________

3. Big speech followed by detailed message. ______________________

4. Big speech followed by a series of detailed messages. ______________________

## II. THEMES

1. Stress need for peace and security.

2. Explain how economic plight is based on policies of the past (presumably prior to 1/20/81).

3. Revitalize private enterprise, free individual initiative and responsibility.

4. Domestic revitalization: reduce inflation, create jobs.

5. International revitalization: lead the world's economy towards discipline, free trade reliance on individual initiative.

6. Stress need for private initiative.

7. Perseverance, consistency regarding economic policy.

8. Stress need to clearly assess national priorities.

9. Draw analogy between personal fitness and the operation of government.

10. Offer direct comparisons of what we inherited and where we are now -- show how the state of the union has improved.

11. Show how the average worker has improved real earning power (according to HHS).

12. Even a long journey is taken one step at a time -- must not lose our resolve.

13. Innovation, compassion and commitment...

14. Return to human scale -- power to the people. Large institutions have accumulated power once vested in individuals, neighborhoods and communities. Return institutions to a human scale by focusing on: voluntary action; people-to-people programs, neighborhood power, small farms, alternative energy technology, remove barriers to self-help.

    Related themes: cooperation, privatization, expanded ownership, innovation.

15. Recognize the strength and significance of American science and technology.

16. We are making progress on inflation and on the recession.

17. The 1980's -- a decade of unprecedented danger for the U.S., the West and freedom-loving people everywhere.

18. "We are committed to restoring the traditional primacy of the U.S. in science and technology -- refocusing our national pride and aspirations on the conquest of new frontiers, particularly the frontier of space where we intend to pursue vigorous development of the space shuttle which had its first eminently successful flight in 1981." (NSC)

19. The Reagan Presidency is (or should be) devoted to changing the way America is governed -- cut the size of government...get the economic house in order...rebalance power with new federalism... build a new conservative majority....

20. Build a new American Partnership; focus on economic recovery, reduce size of government, new federalism, private sector initiative, jobs, urban program, help the truly needy.

21. Educate the public about the economy, the budget, the thrust of foreign policy, and the need to be persistent through adversary.

22. Stress attributes of Presidential leadership: candor, persistence, future-oriented, educator unfailing and eager to resolve and manage the nation's problems.

23. A solid foundation has been set for a new era of U.S. economic growth, military strength and international leadership for the 1980's.

24. Propose an adventure...freedom. Freedom is an adventure...people in our states, counties, and towns should be set free to begin building and caring for themselves.

## III. 1981 HIGHLIGHTS

1. Economic Recovery Program
2. Decreased regulatory burden
3. Reduction of auto imports.
4. Rebuilding military strengths.
5. INF negotiations initiated.
6. Reduced inflation.
7. Reduced taxes.
8. Welfare reform.
9. Block grants.
10. Creation of the President's Housing Commission.
11. Air traffic controllers -- taking a strike, show of compassion.
12. Decontrol of oil prices -- production up, conservation up, imports down.
13. Black College support.
14. Support for minority business enterprises.
15. Misery index comparision (only if better than 12/80)

## IV. 1982 GOALS

1. Greater industry investment
2. Improved productivity
3. Improved climate for competition
4. Enhance individual vigor and creativity.
5. Move closer to free trade.
6. Choice, diversity, creativity
7. Reduce programs encouraging dependency.
8. Seek meaningful dialogue with the Soviets to lessen tensions and reduce the risk of miscalculation.
9. Maintain a healthy all-volunteer military force.
10. Work towards progress on arms reduction.
11. Increase the efficiency of government operations.
12. Continued deregulation
13. Advance Federalism initiative.
14. Restore U.S. ability to meet domestic energy/mineral needs with domestic resources.
15. Restore, improve, and preserve our national park and wildlife refuge systems.
16. Avert a water crisis.
17. Improve employment and job training programs.
18. Improve relations with organized labor.
19. Improve U. S. productivity.
20. Entitlement (automatic spending program) reform
21. Bipartisan social security reform
22. Reduce the cost of health care (or at least rate of increase).
23. Increase state and local role in transportation.
24. Increase reliance on private enterprise to meet transportation needs.

IV. 1982 GOALS (cont.)

25. Make greater use of user charges for transportation related services provided by government.

26. Apply cost-effectiveness evaluations with regard to environmental regulations and requirement.

27. Consider our interstate highway system a first priority for continued development and maintenance.

28. Match 1981 deregulation results: avoided $5 billion in recovery and $15 billion in capital costs.

29. Revitalize U.S. intelligence capabilities.

V. 1982 ACTIONS

1. Visit Europe in the Spring.

2. Continue to face challenges to peace (indicate regional trouble spots).

3. Develop an Industrial Democracies Economic Action Program for introduction at the Paris Economic Summit.

4. Develop a new element for the Caribbean Basin Initiative.

5. Build on Cancun -- Agricultural Task Forces.

6. Announce the Raoul Wallenberg Award for Human Freedom.

7. Accelerate oil and gas leasing on federal outer continental shelf.

8. Accelerate on-shore coal, oil, and gas leasing.

9. Implement national minerals strategy.

10. Improve management of existing water supplies and increase the supply of quality water.

11. Promote the development of the economic and social resources of Indian tribes and trust territories.

12. Support (propose) a farm bill that would return to the farmer an opportunity to make his own production and marketing decisions.

13. Expand export markets through an aggressive sales program -- reduce international trade barriers.

14. Refocus support for agricultural production -- oriented research aimed at productivity, conservation, and expanded market opportunities.

15. Restore full agricultural trade with the Soviet Union.

16. Improve management of national forests (increased harvesting).

17. Develop legislation to replace the CETA program.

18. Revise the black lung compensation program.

19. Improve the financial strength of employer pension plans (ERISA).

20. Introduce enterprise zones to create jobs and stimulate economic development in distressed cities.

1982 ACTIONS (cont.)

21. Introduce housing vouchers, making housing available to truly needy households.

22. Introduce an approach to affordable housing involving new financial instruments and other innovative techniques.

23. Encourage private initiatives to strengthen and support neighborhoods.

24. Deregulate natural gas.

25. Fill the strategic petroleum reserve.

26. Dismantle DOE: save $____ million with ______ fewer employees.

27. Dismantle Education -- creating a foundation saving $____ million, with ______ fewer government employees.

28. Tax measures to stimulate private sector investment in research and development

29. Establish long-range prospect for space shuttle as a space transportation system -- identify profitable activities for future national space program.

30. Seek ways to remove impediments to growth of nuclear power development.

31. Expand statutory inspectors general to all major agencies, including Defense.

32. Improve debt collection.

33. Eliminate waste and mismanagement in federal procurement.

34. Reform the budget process -- provide President with line item veto.

35. Improve effectiveness of law enforcement agencies.

36. Federal Reserve Board appointment

December 11, 1981

MEMORANDUM FOR MIKE DEAVER

FROM: CRAIG FULLER CF

SUBJECT: STATE OF THE UNION

I have just finished reading a draft of the SOU prepared by Charles Fried. He become inspired following our discussions and his brief meeting with you.

I am very impressed with the document as a start. He took no material with him. He simply produced the attached document for us to review.

I would like your reactions. I think there is a good deal of RR in this draft. If you agree, I would like to provide him with some of the material we have received from various sources within the administration and with some additional direction and then see what he can produce.

C. FRIED

Draft #2

December 6, 1981

# STATE OF THE UNION

My fellow Americans, the Constitution says that each year The President should report to the Congress on the state of the union. This is a humbling occasion for me: there is so much to be done, so very much more than I thought even a year ago, when we began. The old habits are stronger than I thought. It has been harder than I thought to convince legislators, bureaucrats, mayors and governors to take the risk that the people working and looking after themselves can do wonders. But we have made a beginning.

## I

Abraham Lincoln would begin each of his annual messages to the Congress with thanks to Almighty God for abundant harvests and the blessings of health in the previous year. I hope that none of us will take for granted that we have been blessed again this year by abundant harvests. In other countries with soil as rich as ours, harvests falter and food supplies fail because the spirit of the people is not free -- because the heavy hand of government holds back the farmer and the merchant and the shopkeeper.

I am personally grateful too for the blessings of good health, especially after the sad events of last March.

And we must be grateful that this year we are reaping from beneath our land and coastal waters increased supplies of oil and gas -- a bounty which the prophets of gloom had said was no longer there.

Mr. Lincoln in his addresses also reported -- to the penny -- on the receipts and expenses of the national treasury. And he was able -- even during wartime -- to report a surplus. I cannot report a surplus. On the contrary I must report an expected deficit of ____________ , and a national debt which for a brief time actually exceeded one trillion dollars. This deficit is the greatest disappointment of my first year in office and it should be the cause of greatest concern for the Congress and people of the United States.

II

Concern, yes: but determination and hope. For the first time in a generation we can hope to stop the forces which have placed this burden of deficit on our people; we can hope to regain control of our budget and of our future. Maybe we do have a choice about spending more and more. Maybe we can replace failed programs, policies and bureaucracies. Maybe the future is ours after all.

Turning away from the bad old ways has been painful; and it will be painful. But it was a historic occasion when the Congress joined with me in restoring to this Government the capacity to act, to choose, to cut through the alliances and the dead weight of failed programs. Together we have restored to the people the freedom to act, the freedom to take new directions.

I say to those who support us in the directions we are taking, and even to those who do not, that this new freedom is for everybody. So there is reason to hope. And that hope gives me the strength to continue.

III

The two greatest achievements of this year have been keeping down the increase in the federal budget and our commitment to reduce taxes dramatically in the next three years.

The successful struggle to slow the growth of the budget has returned a measure of choice, of political liberty to the government. The across-the-board reduction in taxes strengthens the liberty of every citizen.

This tax cut will begin to return to the control of the people the resources which the people have created. And as we increase the people's control over their own resources, we diminish the control of government over all of us. These tax cuts are across-the-board not because we want to favor one group over another but because we believe that the people's money doesn't belong to the government to take and move around as this or that politician pleases. Money belongs first of all to those who earn it.

In this year we have made a start in restoring freedom to the people. There is no freedom without risk. A few people have the idea that the federal government owes them a living. Now I honestly believe that we have done nothing to deprive those who are really helpless of the help and support they need. But we have cut and we will cut again and again, more and more, until we eliminate programs which encourage dependency on government by people who should rely on themselves and on each other.

What we have cut -- in the school lunch program, or student loans, or mass transit -- have not been benefits to the helpless, but programs that take money out of ordinary working people's pockets and then buy them what they could buy for themselves -- except the money has a way of shrinking, as the government takes money away from us in taxes and then gives it back to us in things government says we want.

We should never forget it's our own money that's coming back to us from the government -- only this big, generous government has a way of taking out a big bite on the way.

IV

After one year I am more convinced than ever that the bureaucracy, which lives by rules and creates nothing, is the enemy. The bureaucracy is the enemy of the welfare mother who needs work as much as it is the enemy of the businessman with a new product. And the dead weight of bureaucracy is what you're sure to get if you concentrate in the federal government control over 210 million Americans.

We have made a start: by turning back resources to the people, by turning back resources to the states and communities. There are those who say this is hard-hearted, stingy, as if the federal government has some secret source of money, as if there were any other money than the people's money.

Of course we can't be sure that local communities will spend the money just the way Washington would want them to. In the past Congress has put strings on the money returned to the states. Those who are afraid to let the people take responsibility have created regulations and bureaucracies to make sure that local communities do what Washington would have done with the money.

Well, the only way to stop is to stop. I have pressed and I will continue to press to make the grants to the states more and more general, with fewer and fewer strings, giving the federal bureaucracies less and less to do.

I am not afraid that a city in Texas will choose to shape the education of its children or care for its poor or provide housing in a different way from a county in California or a village in Maine. To give communities control is to expect and welcome diversity. I welcome it because it is more humane, because people know who to look to for help and who to blame when things go wrong.

And as different communities do things differently we will have new ideas -- we will see successes and failures. We will be able to compare. Then we can copy the successes and avoid the failures. The way things were going before, you would have one big federal program for school lunches, or special education, or housing for the elderly -- and no way out, no alternatives, no comparison to show these programs up for the wasteful failures they so often are. No wonder the bureaucrats want to close off all the exits and make everybody dance to their one tune.

I propose an adventure -- there are risks. Not every state, not every community will do the job right. But freedom is an adventure. I want to set our people, our states, counties and towns free to set out on the adventure of building and caring for themselves and for each other.

V

I am more convinced than ever that bureaucracy and excessive regulation are the enemy even where the federal government must play a role: the environment, guaranteeing fair opportunity, air travel, broadcasting, banking, trucking. Wherever possible and as far as possible we will continue the drive to deregulation. The market should everywhere be the regulator of choice: free men and women deciding for themselves how to dispose of their goods and labor.

Where we must regulate, as in the environment, the regulations should leave as much to choice as possible. The laws and regulations on our books do just the opposite. They dictate to workers and managers and businessmen down to the smallest detail.

Do not misunderstand me. I support the strong desire of the American people to preserve and improve the environment. In the last ten years the little progress that has been made is probably attributable to factors -- such as decreased use of coal by utilities -- in which government has had no role. But at the same time we have seen a bureaucratic explosion which has imposed literally thousands of detailed and complex regulations. The result has been not cleaner air but increased costs to the public, unpredictable restraints on building new plants and discovering new processes, and unfair, irrational impediments to free competition.

Ways must be found to free from the burden of regulation those who want to build, mine, farm and manufacture; to free those who want to create new things and new jobs; to free creative people from the burden of bureaucracy and regulation which nags and picks and delays without building anything.

This year we have shortened the rations of many of these bureaucracies. In the year to come we shall offer new ways and where necessary new legislation to protect the environment and promote safety better, more cheaply, less intrusively.

VI

In one area in particular, that of civil rights and fair opportunity, I have found that government has gone far beyond what constitutional principles or fairness demand. The Congress clearly rejected fixed quotas as a measure or goal of equal opportunity. Yet zealous bureaucrats and willful judges have turned legislation directed at intentional discrimination into a mandate to impose quotas after all. I support without reservation the goal of fair opportunity in voting, housing, education and employment. I reject the idea that it is the right of government to impose some predetermined racial or sociological pattern on our communities, schools, or work places.

VII

When I took office a year ago I found weakness in our defenses -- dangerous, tempting weakness. I am determined to strengthen these defenses, and you in the Congress have shown that you share that determination. Together we have begun a program to undo the effects of years of neglect: we shall build ships. We shall begin work to replace our basic long-range bomber. Today's basic bomber, the B-52, goes back to a design of the late fifties.

But I found something even more dangerous -- a confusion about our purposes, doubts about whether we had a right to be strong and to resist our adversaries. This confusion and doubt I think have been even more tempting to our adversaries than any imbalance between our forces and theirs. This confusion and doubt have tempted our adversaries to probe and nibble away at our security and the security of our friends and neighbors. What we have tried to do above all has been to show any adversary that the American people are confident about the value of freedom, for themselves and for others, and that we are prepared to protect it.

This is a complicated and a dangerous world, but it is not so complicated that we cannot see when we are threatened and that we cannot act to meet such threats. In many parts of the world, in Central America, in Southern Africa for instance, there are governments which do things to their people, which let things happen to their people, things we do not approve of. But we have a determined adversary and we must face that adversary with the allies we actually have, not just those we would like to have. There are tens of thousands of Cuban troops in Africa today. The Soviet Union and its Cuban proxies are arming and training rebels and terrorists in Central America not in pursuit of some humanistic goal but for the same reason that there are hundreds of thousands of Soviet troops in Afghanistan: to impose a totalitarian regime, directed by and loyal to Moscow.

We are right to resist this expansion wherever it occurs. There is no doubt or confusion about this in our minds, and this determination is our single greatest contribution to the hope for peace. We are ready to talk about peace and to come to agreements; but always with the conviction that we shall defend our interests and that we are right to do so. In this dangerous world only such clarity, determination, and strength can persuade our adversaries that it is better to live in peace with us. Because the Kremlin now knows that we and our allies are ready to build and deploy the weapons we need to repel attack, because the Kremlin knows we are determined, they are ready now to sit down and talk to us about reducing arms.

VIII

This Administration shares another conviction with the American people: that our prosperity is the result of our own hard work, our ingenuity, our skill, our sacrifices. When I met last August in Mexico with the leaders of the developed and less developed nations I felt it my duty to make clear that, while we have been and will be generous in our dealings with less fortunate peoples, we do not believe we owe the rest of the world a living. It is a truth in the world community as it is in our own domestic community that in the long run if you do not help yourself, no one can help you.

A great Hebrew wise man once asked: "If I am not for myself, who is for me? If I am for myself alone, who am I?" No nation in history has given more than the American people in this century to defend the lives and freedom of others. We have committed hundreds of billions of dollars in the coming year to foreign aid and to the defense of our allies -- we do not stand alone, because we know we cannot. But we must not be ashamed of our strength, our wealth, our determination to defend ourselves and our prosperity.

It is in this spirit that I have acted to free the Central Intelligence Agency from constraints born out of the foolish sense that we have more to fear from our own government than from our adversaries. I have also asked the Congress to remove restrictions on our freedom of action in other parts of the world -- restrictions which again suggest a greater suspicion of our own government than of our adversaries. If we are not for ourselves, who will be for us?

## IX

In the peaceful competition of international trade too, we must be for ourselves, but not for ourselves alone.

When I took office I found a number of our basic industries --particularly the auto industry -- in a desperate condition; partly as a result of years of underinvestment, low productivity, strangulation by complex, conflicting and burdensome regulations, and partly as a result of unfair foreign competition. We have taken those steps which it is appropriate for government to take. The Economic Recovery Program will free up unprecedented sums for investment in new plants and equipment. We have dramatically decreased the regulatory burden on industry. We have negotiated a temporary voluntary reduction in Japanese automobile imports to give our industry the breathing space to retool and refinance. But now it is the task of industry and labor to make the investments, to do the work, to increase productivity dramatically so that we can compete in domestic and world markets.

Industry and labor should not expect protection from fair competition. What they can expect and what my administration will turn its attention to is assuring that American industrial and agricultural products have a fair chance to compete in world markets. That opportunity will spur the vigor and creativity of the people, while offsetting what we import from other countries.

The world I want to move towards is one of free trade generally -- but we cannot be asked to open our shelves to foreign goods while those same countries which seek to stock those shelves use all kinds of tricks to keep our goods out of their markets. It is vitally important that the current economic slowdown not be used as the pretext for erecting barriers to free trade.

In the end, free trade is an expression of each people's openness of spirit, its willingness to learn, to risk, to create. We shall work hard to bring about such a climate of openness and creativity in our own and in the world market place.

X

Are we better off today than we were a year ago? I am sure the answer is yes.

I do not forget for a moment that there are more Americans unemployed now than last year. This is a tragedy and a waste. But we have laid the foundation for a sounder, stronger, freer, more self-reliant America. In that America we can hope for jobs and prosperity, for a future as large as our hopes and dreams.

Two measures of the mess, the feverish sickness of our economy have improved greatly in the last months: inflation is now running at ____% and interest rates are way down too. Inflation and interest rates will come down further, as businessmen, workers and consumers stop betting against the future and regain hope in a sound, stable, free economy. Lower interest rates will mean more housing, new cars, more investment, and this in turn will mean jobs.

But I believe we are better off mainly because everywhere Americans believe in themselves again -- believe that they can stand on their own feet, free of the burdens and the crutches which the politics of generations have forced on them. That is the message you sent the Congress last November and last summer -- take the government off our backs and out of our pockets.

There is a new confidence and determination.

We won't be told that there is nothing we can do about government getting bigger and greedier.

We don't believe that muggings and break-ins are somehow the fault of the decent people who are the victims, and that there is no point in reacting firmly, with determination.

We won't be told that we have to get poorer, because energy, or air, or water, or ingenuity are running out, and that other countries are smarter or harder working or better governed than we are.

We won't be told that we can't defend ourselves and our friends against communist expansion. We won't believe that the future is theirs, not ours.

This is the determination I feel in the American people. This is the determination on which we will build. This is why I believe the state of the union is sound.

B

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

COMING ECONOMIC POLICY ISSUES

## I. Analysis of Past Recessions

There have been seven previous recessions in the post-World War II era. All of the recessions have been characterized by increased umemployment. The 1973-75 downturn was the most severe with respect to unemployment, producing an annual rate in 1975 of 8.5 percent. Also, the three most recent recessions have occurred in an inflationary environment. The average duration of post-war recessions has been about 10 months in length.

Federal policy measures designed to deal with these recessions have been of the traditional Keynesian demand stimulation type. Usually the prescription for recovery has involved a combination of increased government deficit spending and expansionary monetary policy. This type of remedy has aided in short-run recovery; however, over the long term it has put monetary policy on a roller coaster that required ever larger gyrations in the money supply. Most often, anti-recession policies have been ill-timed because no recovery mechanism was put in effect until well into the decline; some policy measures were actually pro-cyclical due to the fact that they were not enacted until the beginning of the recovery period. In spite of the poor timing of previous policies, recoveries from recession have been robust. The average growth rate in real GNP for the first four quarters of recovery from these recessions was 6.9 percent.

## II. Explanation for the Recession

The current recession is largely the legacy of ill-advised economic policies of the past decade or more -- excessive growth of money and disincentives for saving, which produced historically high rates of interest. This situation may have been exacerbated by the Administration's economic program being pushed out of coordination by charges that the President's program would be inflationary.

In the spring when the Administration was trying to enact its tax reduction program, opponents charged it would cause high inflation. The Administration emphasized gradually declining money growth as the long-term answer to inflation. Not only are the Fed's targets decelerating, but money growth is well below target.

The current level of the money stock (M1-B) represents a 4.4 percent annual rate of growth from Q-IV 1980. This is a significant slowing from the 8 percent rate of increase over the four years of the prior administration. More importantly, however, there has been no growth, on average, in M1-B over the past 6 months.

Many monetarists feared that the Fed would either not get money under control or would bring it down too rapidly. In recent months the Fed did bring money down rapidly. However, over the last several weeks there is some evidence that the Fed is trying to reestablish moderate growth. The task of the Fed is now to generate a steady, moderate rate of monetary expansion, in line with the tentative target of 2 1/2 - 5 1/2% growth during 1982. If the Fed can remain within its target range, we will have the makings for a strong recovery.

Concern with the budget deficit contributed to postponing and backloading the tax cuts, such that restraint on the monetary side has occured in advance of the tax stimulus. Had the transition to slower money growth come down less rapidly, been more even and less abrupt, or had the tax cuts not been delayed, the two policies would have been coordinated better.

High interest rates left over from the inflationary expectations caused by previous Administrations crippled the thrift industry as demand for home mortgages and auto loans dried up. The result was a sharp decline in the construction and auto industries. The repercussions on suppliers and related industries have been severe. Expectations have been slow to change because of past experience with government policy.

Dearth of saving may also have contributed to the interest rate problem. Bracket creep, inflation, and uncertainty caused personal saving rates to fall after 1975, depriving capital markets of $150 billion in savings flows since 1975. On the business side, inflation and outdated tax law resulted in business being taxed since 1975 on an extra $200 to $300 billion which would have been deducted under a more realistic tax system. This reduction in saving flows will remain until the tax cuts come into full play and help to restore them.

## III. Policy Recommendations

For the first time in the history of post-war recessions, we are heading into a down-turn with a non-inflationary anti-recession program already in place. In 1981, a large part of the business side tax reductions became effective. On the individual side the maximum marginal income tax bracket will be reduced from 70 to 50 percent, and the marriage penalty will be reduced on January 1. On July 1, personal income tax rates will be lowered by 10 percent bringing the cumulative personal reduction to 15 percent. The immediate additional incentives provided by these reductions along with the investment incentives for business should make for a very strong recovery in the second half of 1982.

Our policy of slow and steady money growth has been in effect since last spring and its impact on inflationary expectations and interest rates has become obvious. Long-term bond yields are starting to drop and short rates have been coming down dramatically. Interest rates should continue to fall and real after tax rates of return continue to rise. If the Fed establishes steady moderate growth, following the severe restraint of the past 6 months, nominal income should begin to expand more rapidly by next Spring. In addition adherence to this policy of moderate money growth will encourage further downward adjustment in expectations of inflation. As this occurs, any negative effect of slower money on economic activity will wear off. In this environment, the stimulative effects of our supply-side program will become dominant. Looking back at the traditional recession recovery rates when economic policies were poorly coordinated, and considering the well-placed program of this Administration, there is every reason to expect a sharp non-inflationary recovery from the current recession.

We have the correct policy prescriptions already in place.

## IV. Political Overview

In the preparation of the Fiscal 1983 budget message, the State of the Union Address, and the Economic Report of the President, we must anticipate what pressures we will be facing in January and immediately thereafter. We must agree on where we want to be mid-year, and decide now what we should do, or not do, to get us there.

Just as in September, when Congress returns in late January, 1982 there will be intense pressure to change the Administration's economic program but for different reasons.

By January, the fourth quarter negative GNP numbers will be out, unemployment will be increasing, and key industries will be showing serious weaknesses.

The Democrats and the media will proclaim the economic program to have failed, and they will begin their preparation for an alternative economic program.

However, for a number of reasons, we are confident the economic recovery is on track: decreasing inflation and expectations, slow growth in money, and a tax cut already in place.

The Administration will be subjected to conflicting pressures from the Hill, to both to reduce the budget deficit and to enact programs to stimulate the economy out of the recession.

The Democrats' strategy is clear. They will charge the recession was caused by high interest rates brought about by the combination of tight money and large deficits resulting from the tax cuts.

As a result, the Democrats will attempt to reduce the deficit by raising taxes, pressuring the Federal Reserve Board and restoring social welfare spending. Already Labor has sounded this theme.

As soon as the Fiscal 1983 budget is released, the focus will shift away from the Fiscal 1982 deficit to the deficit numbers for '83, '84, and '85.

The Democrats in the House, are already focusing on proposals to raise revenue by closing tax loopholes, repealing the leasing and indexing provisions, delaying the 2nd and or 3rd stages of the tax cut, and imposing a surcharge on high-income taxpayers.

In fact, Jim Jones has stated publicly that repealing the 3rd stage of the tax cut is under active consideration.

Dan Rostenkowski said in a recent speech that "the President must face the fact that the tax bill went too far. The revenue hemorrhage is too great." And it is rumored that Representative Pete Stark may make a motion to repeal the leasing provision when the Ways and Means Committee meets next week (December 9).

In the Senate, Republicans continue to push for substantial tax increases. Senator Baker has suggested that the President's budget may include proposals to modify the leasing provision and impose a new tax on decontrolled natural gas.

Senator Kassebaum has introduced legislation to impose a cap on tax expenditures. Senator Domenici has endorsed the thrust of her bill and plans to continue to push for at least $48 billion in new taxes. Both he and Kassebaum have suggested the leasing provision should be repealed.

Industry/Special Interests

The pressure for special interest relief from the recession will be intense.

Labor will seek an increase in social welfare funding and extension of unemployment benefits.

The housing, auto, other manufacturing industries, and state and local governments can be expected to seek subsidies, loan guarantees, and targeted relief programs.

International Considerations

We can continue to anticipate pressure from foreign sources to amend the program. As the recession progresses and our nonpetroleum imports stagnate at some $200 billion (annualized), we will hear complaints that our performance prevents the Europeans from being able to resume economic growth and make it more difficult for the less developed countries to export and and thus service their external debt. At the same time, since the dollar will remain attractive as a result of our success in conquering inflation, capital will continue to flow into the United States. This may generate charges that we are preempting worldwide savings to finance domestic investment. Finally, to the extent that the dollar retains its strength, familiar complaints will be heard that high domestic prices of dollar-priced raw materials and fuels strengthen inflationary pressures around the world. In short, those countries which are likely to continue experiencing rapid inflation and slow growth will be tempted to blame their ills on the United States.

## V. Administration Response

The most crucial task facing the Administration is to keep its economic program intact to assure that the economy can begin to respond within the next six months.

In order to do this, the Administration must convince the markets and the American people of the correctness of the policy changes enacted this year and persuade them that we intend to stick with our policies.

This Administration has proposed the most fundamental change in economic policy in fifty years, and the American people must be assured that the recession is not a result of our policy changes but due to the momentum of past policies and a short-run transition between the two policy paths.

The State of the Union Address and budget message will control the mood and set the direction for next year. Congress returns in late January and recesses again in mid-February for a week. The serious work will not begin until after Congress returns in late February.

You, Mr. President, must convince the American people that the policies put into place will lead to a revitalization of our economy and that positive changes are already occurring.

Therefore, we must continue to stick with this program with respect to fiscal, monetary and tax policy.

Fiscal

The Administration should continue its efforts to reduce the growth rate of Government spending. Rather than focusing on balancing the budget, we must focus on cutting the budget as a percent of GNP. So far we have not been successful in keeping to a course that leads us to lowering the Federal Government's share of GNP. In addition, the Administration must resist any attempts to increase spending in response to the recession.

Monetary

The Administration should continue to support a Federal Reserve policy of steady moderate growth of the money supply.

Variation in the rate of money growth induces fluctuations in economic activity:

- An acceleration of money growth will cause a spurt of employment and output in the short run, but will generate inflation in the long run.

- With inflation, interest rates will rise, choking off the growth of employment and output.

- A deceleration of money growth has a restrictive effect on employment and output in the short run, but over the long run reduced inflation and inflationary expectations provide for lower interest rates and thereby promote real, noninflationary economic growth.

Ideally, monetary policy provides enough money growth to facilitate real economic growth, but not so much growth that it causes inflation:

- We therefore want to avoid inflationary bursts of rapid money growth; we also want to avoid the need for the restrictive effects of decelarating money growth, following a period of inflationary growth.

It is vital to the health of the economy and the success of recovery program that we:

- maintain money growth at a noninflationary pace over the long run;

- smooth out the rate of money growth to prevent the disruptive effects on the economy of rapid reversals in money growth rates.

It is therefore extremely important that the person appointed to the Federal Reserve Board be knowledgeable and experienced in monetary economics and monetary control procedures.

- Such a person could understand the intricacies and the importance of monetary control issues, and would be capable of arguing the case effectively with current Board members, many of whom are not particularly knowledgeable or experienced in the field.

Taxes

The Administration should continue to resist proposals that would change our tax policy drastically. In any event, no new tax increases for FY '82 should be considered.

While massive tax increases may help reduce the projected budget deficits in FY '83 and '84, it is extremely unlikely Congress will enact the type of tax increases we consider best to raise $45 billion over that two year period, such as loop hole closings, excise tax increases, import fees and the like. It is much more likely that Congress will attempt to raise that amount and a lot more by modifying the tax cuts and repealing the leasing, indexing, and oil provisions.

We must therefore fight hard for our type of tax increases for the fiscal years '83 and '84, but make sure they do not undo our incentive tax cuts already in place.

December 4, 1981

(P) econ illiteracy is wide-spread
somehow we must
correct this

(c)

cc: RD
CF

THE WHITE HOUSE

WASHINGTON

December 4, 1981

MEMORANDUM TO MICHAEL K. DEAVER

FROM: RICHARD S. WILLIAMSON

SUBJECT: THEMES FOR 83: DISCUSSION PAPER

---

I. Why Ronald Reagan was elected President.

There are three main components as a result of which Ronald Reagan was elected President. The fact that he is a "nice man" was appreciated by the American people. Further, he presented leadership and firmness. Finally, he presented a clarity of vision for the country. These attributes were combined with an unparalleled ability to communicate that vision to the American people and thereby project the firmness of his leadership. I fear that in the past 11 months, we have moved away from Ronald Reagan's strength.

II. What is the Administration's Goal?

I would suggest that the Administration's goal is to change the way that America is governed. The President has stated that it was the trauma of the Great Depression that began the Federal government's encroachment into all aspects of our lives. He has consistently condemned this encroachment, this growth of government, this crowding out of both the free market and private initiative. But, he's also repeatedly stated that the basic American instinct is still there for self-help, for private initiative. It seems to me that what he's been saying is that his Presidency is about changing the way America is governed. This means cutting the size of the Federal government. Getting the economic house in order. Rebalancing power between the units of government (new federalism.) The consequences of this, if performed successfully, will be the creation of a new conservative majority coalition. This would mean that the Reagan Presidency will not be a unique phenomenon but rather the beginning of a new direction for our Nation in its third century.

III. The Administration's Current Status.

A. No Theme. At present, there is no consistent theme for our Administration. On most matters we are reactive as opposed to being pro-active. The umbrella of the economic recovery plan is losing some credibility. The tax cuts have been accomplished and are behind us and, therefore, will receive little further media attention. The regulatory relief program, while a great success has not, and apparently will not, receive the type of media attention and focus it might. Consequently, the remaining leg of the economic program, substantial budget cuts, receives all the attention. And budget cuts, by themselves, are seen as negative actions.

B. Budget Cuts. It is unhealthy for the policy process to be driven by the budget alone, or even primarily. We are projecting a scortch-the-earth, Sherman march-to-the-sea approach. Without constantly showing how these budget cuts are part of a larger process, a greater vision for America, we lose both the moral and political force of the President's initiatives.

C. Standards. Our standards are unreachable. To the extent we focus solely on the budget, the goal is a balanced budget. This is not something which we will achieve, nor even a goal towards which we will make substantial progress by the 1982 mid-term elections. Furthermore, given our current economic situation, it is unlikely that establishing standards to be judged solely on the economy will result in us entering the mid-term elections in a strong position. We should emphasize that our economic goals are only a component part of larger objectives.

D. Increasingly Reactive. We are moving in an increasingly reactive mode to issues on an ad hoc basis. They must be shown to be within a larger context which is meaningful and important to the way Americans will live their lives.

E. Politically Off Direction. As noted above, we have gotten off the major thrust of why Ronald Reagan was elected

President. We are not presenting the nice side of Ronald Reagan, but rather the harsh side of the budget cutter who takes food away from children and will take away pension benefits from the elderly. We are presenting firm leadership. However, the increasingly confrontational posture toward Congress is looking more like rigidness as opposed to consistency. Finally, the President is not presenting a clarity of vision for the country. He is not presenting any vision at all, but rather presenting a series of ad hoc decisions to cut the budget, seemingly as an end in itself.

IV. Proposal.

A. Ronald Reagan Should Return to "City on the Hill." The President should return to presenting America with a new dream, a dream of returning to basic values and a dream of a rejuvenated, growing country. He should not be caught in the minutia of the budget process but should be presenting positive proposals and thrusts to push the Nation toward a revitalized America, a new American partnership.

B. Policy Process. The policy process should move off being driven by the budget to being driven by politics. 1982 is a political year. The political momentum and leverage the President had in early 1981 is not the same today. He is not a new President who has just swept 44 states against an incumbent President. Even with all that momentum, he just barely squeaked through with the gimmick of Gramm-Latta II in getting a large part of his initial budget cuts through. We must accept the new realities. Further, we must accept the need to temper decisions by political realities with the goal of strengthening the President's hand through the 1982 election. By this I do not mean short-term politics but recognizing the need for the President to be a strong political leader.

V. Themes.

As noted above, I think the President must offer a positive dream. I would suggest that he forcefully present his dream to change the way America is governed: to provide a new American partnership. Under that general framework, I think we can have the following component parts.

A. The economic recovery program -- rejuvenate the private economy.

B. Cut the size of Federal government -- government has grown fat and must be cut and tough decisions made.

C. New federalism -- a rebalance of the power structure among the units of government to provide greater efficiency, greater accountability, and greater safeguards for liberty.

D. Private Initiatives -- the President seeks to utilize his "bully pulpit" to stimulate private initiatives.

E. Jobs -- the economic program was to create jobs in the private sector and expand opportunities.

F. Urban program -- we must provide some positive message to the millions of Americans that live in urban centers. We need specific pilot programs to address this need.

G. The needy -- we must come up with programs that can demonstrate a "compassionate desire" to help the truly needy.

In sum, these various component parts can be fit under the general theme to change the way America is governed, to provide a new American partnership between the key institutions in our society -- between units of government, between the government and the private citizen, between institutions within the private sector.