The Reagan Plan

A short time after he took office as president of the United States, Ronald Reagan told the American people, "I regret to say that we are in the worst economic mess since the Great Depression."[1] (See **Exhibits 1** through **11**.)

Several days later, Budget Director David Stockman revealed the administration's remedy: a program of cuts in federal spending accompanied by an across-the-board reduction in income taxes. A vigorous national debate then ensued over what the effects of the administration's policies would be, and whether or not other actions were required to meet the nation's needs.

Peter G. Peterson, chairman of Lehman Brothers Kuhn Loeb and former adviser to President Nixon, spoke of "a new and remarkable Reagan Consensus—a true historic first, the most sweeping reversal in the direction of national economic policy since the New Deal." But he warned: "As broad and deep as this consensus is, and as relieved and enthusiastic as the country is about a more honest sense of its past and a more hopeful sense of its future, one can nonetheless sense an unexpected mix of conflicting emotions. Amidst all the excitement, there are growing signs of disquiet, however respectful and discreet, and growing doubts that somehow the Reagan program really fits the Reagan consensus."[2]

Avoiding an Economic Dunkirk

In November 1980 Ronald Reagan, a one-time movie actor and former Republican governor of California, defeated Jimmy Carter and was elected president of the United States with 51% of the popular vote. Along with Reagan, riding the crest of what was perceived as a national wave of "conservatism," came a number of Republican senators and members of Congress. Indeed, for the first time in 26 years the Republican party controlled the U.S. Senate, and the Democratic majority in the House was cut from 117 to 52. Shortly after the election, two Republican congressmen, David Stockman of Michigan and Jack Kemp of New York, wrote a memorandum giving their advice to the new president. In December president-elect Reagan selected Stockman to head the Office of Management and Budget (OMB). Kemp was elected chairman of the House Republican Conference,

[1] *New York Times*, February 6, 1981, p. A12.

[2] Address to the Women's Economic Roundtable, March 18, 1981.

Professor George C. Lodge prepared this case from published sources as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

which made him one of his party's leaders in the House. Excerpts follow from the Stockman-Kemp paper, entitled "Avoiding a GOP Economic Dunkirk."[3]

> President Reagan will inherit thoroughly disordered credit and capital markets, punishingly high interest rates, and a hair-trigger market psychology poised to respond strongly to early economic policy signals in either favorable or unfavorable ways.
>
> The preeminent danger is that an initial economic policy package that includes the tax cuts but does not contain decisive, credible elements on matters of outlay control, future budget authority reduction, and a believable plan for curtailing the Federal Government's massive direct and indirect credit absorption will generate pervasive expectations of a continuing "Reagan inflation." Such a development would almost ensure that high interest rates would hang over the economy well into the first year, deadening housing and durables markets and thwarting the industrial capital spending boom required to propel sustained economic growth. Thus, "Thatcherization"[4] can only be avoided if the initial economic policy package simultaneously spurs the output side of the economy and also elicits a swift downward revision of inflationary expectations in the financial markets.
>
> A double-dip recession in early 1981 is now at least a 50% possibility given emerging conditions in the financial markets and gathering evidence from the output side of the economy. Stagnant or declining real GNP growth in the first two quarters would generate staggering political and policy challenges. These include a further worsening of an already dismal budget posture and a profusion of "quick fix" remedies for various wounded sectors of the economy. The latter would include intense pressure for formal or informal auto import restraints, activation of . . . costly housing bailouts, maintenance of current excessive CETA employment levels, accelerated draw-down of various lending and grant aids under SBA, EDA, and FmHA, a further 13-week extension of federal unemployment benefits, etc.[5]
>
> There is further danger; the federal budget has now become an automatic "coast-to-coast soup line" that dispenses remedial aid with almost reckless abandon, converting the traditional notion of automatic stabilizers into multitudinous outlay spasms throughout the budget. For instance, the estimates for FY 1981 trade adjustment assistance have exploded from $400 million in the spring to $2.5 billion as of November, and the summer drought will cause SBA emergency farm loan aid to surge by $1.1 billion above planned levels.
>
> For these reasons, the first hard look at the unvarnished FY 1981 and 1982 budget posture by our own OMB people is likely to elicit coronary contractions among some, and produce an intense polarization between supply-side tax cutters

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[3] *Wall Street Journal*, December 12, 1980. Dunkirk is the French coastal town from which the last remnants of the British army escaped the German onslaught in the opening period of World War II.

[4] "Thatcherization" refers to the policies of Margaret Thatcher, prime minister of Great Britain, whose attempts to reduce inflation through monetary restraint had increased unemployment and seriously reduced private investment and national growth.

[5] CETA refers to the Comprehensive Employment and Training Act which provides funds for training unemployed workers and for placing them in jobs in either government or private industry. SBA refers to the Small Business Administration. EDA refers to the Economic Development Administration, which was created in 1965 as part of a Great Society regional development program. Besides providing grants for public works construction, loans for commercial business development, and federal technical assistance to encourage economic growth in rural and urban areas, it supplies financial support for a number of multistate regional commissions. FmHA refers to the Farmer's Home Administration, which administers rural housing rehabilitation loans and disaster loans as voted by Congress.

and the more fiscally orthodox. An internecine struggle over deferral or temporary abandonment of the tax program could ensue. The result would be severe demoralization and fractionalization of GOP ranks and an erosion of our capacity to govern successfully and revive the economy before November 1982.

President Reagan should declare a national economic emergency soon after inauguration. He should tell the Congress and the nation that the economic, financial, budget, energy, and regulatory conditions he inherited are far worse than anyone had imagined. He should request that Congress organize quickly and clear the decks for exclusive action during the next 100 days on an Emergency Economic Stabilization and Recovery Program he would soon announce.

Five major principles should govern the formulation of the package:

1. A static “waste-cutting” approach to the FY 81 outlay component of the fiscal hemorrhage will hardly make a dent in the true fiscal problem. Persisting high “misery index” conditions in the economy will drive the soup line mechanisms of the budget faster than short-run, line-item cuts can be made on Capitol Hill. Fiscal stabilization (i.e., elimination of deficits and excessive rates of spending growth) can only be achieved by sharp improvement in the economic indicators over the next 24 months. This means that the policy initiatives designed to spur output growth and to lower inflation expectations and interest rates must carry a large share of the fiscal stabilization burden. Improvement in the “outside” economic forces driving the budget is just as important as success in the “inside” efforts to effect legislative and administrative accounting reductions.

2. For this reason, dilution of the tax-cut program in order to limit short-run static revenue losses during the remainder of FY 1981 and FY 1982 would be counterproductive. Weak real GNP and employment growth over calendar 1981 and 1982 will generate soup line expenditures equal to or greater than any static revenue gains from trimming the tax program.

3. The needed rebound of real GNP growth and especially vigorous expansion in the capital spending sector of the economy cannot be accomplished by tax cuts alone. A dramatic, substantial recision of the regulatory burden is needed both for the short-term cash flow relief it will provide to business firms and the long-term signal it will provide to corporate investment planners. A major “regulatory ventilation” will do as much to boost business confidence as tax and fiscal measures.

4. High, permanent inflation expectations have killed the long-term bond and equity markets that are required to fuel a capital spending boom and the regeneration of robust economic growth. Moreover, this has caused a compression of the financial liability structure of business into the short-term market for bank loans and commercial paper, and has caused a flight of savings into tangible assets like precious metals, land, etc. The result of this credit market dislocation and inversion is that super-heated markets for short-term credits keep interest rates high and volatile and make monetary policy almost impossible to conduct.

The Reagan financial stabilization plan must seek to restore credit and capital market order and equilibrium by supporting monetary policy reform and removing the primary cause of long-term inflation pessimism: the explosive growth of out-year federal liabilities, spending authority, and credit absorption.

This points to the real leverage and locus for budget control: severe recision of entitlement and new obligational authority in the federal spending pipeline, which creates outlay streams and borrowing requirements in FY 1982, FY 1983, and beyond.

Again, the primary aim of the fiscal control component must be to shift long-term inflation expectations downward and restore bond and equity markets. Severe reductions in government spending and federal credit absorption can accomplish this. In turn, robust long-term capital markets would lessen the traffic jam in short-term credit markets by permitting corporate portfolio restructuring and by drawing savings out of unproductive tangible assets. The conditions for reestablishing monetary policy credibility would be achieved and short-term interest rates, demand for money and inflation expectations would adjust accordingly.

5. Certain preemptive steps must be taken early on to keep control of the agenda and to maintain Capitol Hill focus on the Stabilization and Recovery Program. Foremost, all remaining petroleum product controls and allocations should be cancelled on day one.

Reagan's State of the Union Message

On February 19, 1981, President Reagan presented his "program for economic recovery" to a joint session of Congress and to a national television audience. Herewith are excerpts from his address:[6]

> 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 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 some 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 thought I could ever earn, but I seem to be getting worse off." Well, he is. Hourly earnings of the American worker, after adjusting for inflation, have declined 5 percent over the past five years. And furthermore, in the last five years, Federal personal taxes for the average family increased 67 percent.
>
> We can no longer procrastinate and hope things will get better. They will not. If we do not act forcefully, and now, the economy will get worse.

[6] *New York Times*, February 19, 1981.

Can we who man the ship of state deny it is out of control? Our national debt is approaching $1 trillion. A few weeks ago I called such a figure—a trillion dollars—incomprehensible. I've been trying to think of a way to illustrate how big it really is. The best I could come up with is to say that a stack of $1,000 bills in your hand only four inches high would make you a millionaire. A trillion dollars would be a stack of $1,000 bills 67 miles high.

Interest on Public Debt

The interest on the public debt this year will be over $90 billion. And unless we change the proposed spending for the fiscal year beginning October 1, 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 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 the last three years.

I have painted a grim picture, but I believe I have painted it accurately. It is within our power to change this picture and we can act in hope. There is nothing wrong with our internal strengths. There has been no breakdown in 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 a tune more to our liking—I am proposing a comprehensive four-part program. I will now outline and give in some detail the principal parts of this program, but you will each be provided with a completely detailed copy of the program in its entirety.

This plan is aimed at reducing the growth in government spending and taxing, reforming and eliminating regulations which are unnecessary and counterproductive and encouraging a consistent monetary policy aimed at maintaining the value of the currency.

If enacted in full, our program can help America create 13 million new jobs, nearly three million more than we would without these measures. It will also help us gain control of inflation.

It is important to note that we are only reducing the rate of increase in taxing and spending. We are not attempting to cut either spending or taxing to a level below that which we presently have. This plan will get our economy moving again, increase productivity growth and thus create the jobs our people must have.

Plans to Reduce Spending

I am asking that you join me in reducing direct Federal spending by $41.4 billion in FY 1982, along with $7.7 billion in user fees and off-budget savings for total savings of $49.1 billion. This will still allow an increase of $40.8 billion over 1981 spending.

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 afraid that Social Security checks, for example, might be taken from them. I regret the fear these unfounded stories have caused and 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 net 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, aged and disabled. 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. 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 government entities and states more flexibility and control. We call for an end to duplication in Federal programs and reform of those which are not cost effective.

Already, some have protested there must be no reduction of aid to schools. Let me point out that Federal aid to education amounts to only 8 percent of total educational funding. For this the Federal Government has insisted on a tremendously disproportionate share of control over our schools. Whatever reductions we've proposed in that 8 percent will amount to very little of the total cost of education. It will, however, restore more authority to states and local school districts.

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 Americans will continue their generosity. Therefore, I am 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 activities 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.

Export-Import Bank Loans

We are asking that another major business subsidy, the Export-Import Bank loan authority, be reduced by one-third in 1982. We are doing this because the primary beneficiaries of taxpayer funds in this case are the exporting companies themselves—most of them profitable corporations.

And this brings me to a number of other lending programs in which government makes low-interest loans, some of them for an interest rate as low as 2 percent. What has not been very well understood is that the Treasury Department has no money of its own. It has to go into the private capital market and borrow the money to provide those loans. In this time of excessive interest rates the government finds itself paying interest several times as high as it receives from the borrowing agency. The taxpayers—your constituents—of course, are paying that high interest rate and it just makes all other interest rates higher.

By terminating the Economic Development Administration [EDA], we can save hundreds of millions of dollars in 1982 and billions more over the next few years. There is 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.

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. Despite 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 an individual is allowed. This plus strong and effective work requirement will save $520 million 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.

Let me just touch on a few other areas which are typical of the kind of reductions we have 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. And yet, 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 $1.15 billion in just one year.

Categorical Grant Programs

Earlier I made mention of changing categorical grants to states and local governments into block grants. We know of course that categorical grant programs burden local and state governments with a mass of Federal regulations and Federal paper work.

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. It will bring government closer to the people and will save $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 will manage the program. 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. 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 billion 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. 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.

Now I'm sure there is one department you've been waiting for me to mention. That is the Department of Defense. It is the only department in our entire program that will actually be increased over the present budgeted figure. 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. The aim will be to provide the most effective defense for the lowest possible cost.

I believe my duty as president requires that I recommend increases in defense spending over the coming years.[7] 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 a significant numerical advantage in strategic nuclear delivery systems, tactical aircraft, submarines, artillery, and antiaircraft 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 attempting a crash program several years from now.

Commitment on Arms Curbs

We remain committed to the goal of arms limitation through negotiation and hope we can persuade our adversaries to come to realistic balanced and verifiable agreements. But, as we negotiate, our security must be fully protected by a balanced and realistic defense program.

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 1 to 10 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 are 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 budget is exactly what I have called it before—an unrelenting national scandal—a scandal we are bound and determined to do something about.

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 are to have economic recovery. It is time to create new jobs, 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 tax cut 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.

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[7] The president's budget proposed spending approximately $7 billion more on defense in fiscal year 1982 (beginning October 1, 1981) than had been recommended by President Carter. There would be an increase of $18.5 billion for defense in 1983, rising to an increase of $60 billion in 1986.

The effective starting date for these 10 percent personal income tax rate reductions will be July 1st of this year.

Again, let me remind you this 30 percent reduction in marginal rates, while it will leave the taxpayers with $500 billion more in their pockets over the next five years, is 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 certainly tax cuts adopted over the past three-fourths of a century indicate these economic experts are right. The advice I have had is that by 1985 our real production of goods and services will grow by 20 percent and will be $300 billion higher than it is today.[8] The average worker's wage will rise (in real purchasing power) by 8 percent and those are after-tax dollars. This, of course, is predicated on our complete program of tax cuts and spending reductions being implemented. (See **Exhibit 12** for official and other forecasts.)

The third part of the tax package is aimed directly at providing business and industry with the capital needed 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 as of January 1.

Depreciation System

The present depreciation system is obsolete, needlessly complex, and economically counterproductive. Very simply, it bases the depreciation of plant, machinery, vehicles and tools on their original cost with no recognition of how inflation has increased their replacement cost. We are proposing a much shorter write-off time than is presently allowed. We propose a 5-year write-off for machinery; three years for vehicles and trucks; and a 10-year write-off for plants.

In fiscal year 1982, under this plan business would acquire nearly $10 billion for investment and 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 between now and 1986 and to make America competitive once again in world markets. These are not make-work jobs, they are productive jobs with a future.

I'm well aware that there are many other desirable tax changes such as indexing the income tax brackets to protect taxpayers against inflation. There is 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 would ask you to act on this plan first and with great urgency. Then I pledge to you I will join with you in seeking these additional tax changes at an early date.

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[8] The preliminary GNP in 1980 was $2,627 billion, expressed in 1980 dollars. President Reagan was using a real 1980 GNP of $1,481 billion, expressed in 1972 dollars.

American society experienced a virtual explosion in government regulation during the past decades. 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. Over-regulation 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 our new jobs, those new jobs aren't created.

We have no intention of dismantling the regulatory agencies—especially those necessary to protect the environment and to assure the public health and safety. However, we must come to grips with inefficient and burdensome regulations—eliminate those we can and reform those we must keep.

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 regulations which have not yet been implemented. Third, in coordination with the Task Force, many of the agency heads have taken prompt action to review and rescind existing burdensome regulations. Finally, just yesterday, I signed an Executive Order that for the first time provides for effective and coordinated management of the regulatory process.

Although much has been accomplished, this is 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.[9]

We fully recognize the independence of the Federal Reserve System and will do nothing to 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 do not want it to be simply the plan of my_Administration—I am here tonight to ask you to join me in making it our plan. Together, we can embark on this road not to make things easy, but to make things better.

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[9] The White House press release accompanying this speech noted that the president's "economic scenario assumes that the growth of money and credit are steadily reduced from 1980 levels to one-half those levels by 1986."

Can we do the job? The answer is yes. But we must begin now. 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.

We are in control here. There is nothing wrong with America that we can't fix. So I'm full of hope and optimism that we will see this difficult new challenge to its end—that we will find those reservoirs of national will to once again do the right thing. . . .

The people are watching and waiting. They don't demand miracles, but they do expect us to act. Let us act together.

Thank you and good night.

Exhibit 1 Projections from the White House report, "America's New Beginning: A Program for Economic Recovery," February 18, 1981

A. Federal Revenues and Outlays ($ billions)

Fiscal Year	*Revenues*	*Outlays*	*Deficit (–) or Surplus (+)*
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

B. 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 (percents)			
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

C. 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

Source: A White House report, "America's New Beginning: A Program for Economic Recovery," February 18, 1981.

Exhibit 2 Present Law Depreciation and Accelerated Cost-Recovery System

Item	Present Law Depreciation	Accelerated Cost-Recovery System
Recovery Periods		
Tangible personal property	Guidelines allow $2\frac{1}{2}$ to 50 years, depending on asset type or activity, with optional 20% 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%, or sum-of-years digits.	Accelerated write-off built into tables.
Real estate	Same for new residential; up to 150% declining balance for new, nonresidential; up to 125% declining balance for used residential; straight line for used nonresidential.	Same for 10-year property; straight line for other.
Investment tax credit	$3\frac{1}{3}$% for machinery and equipment written off or held for 3 to 5 years; $6\frac{2}{3}$ for 5 to 7 years; 10% if longer.	6% for 3-year class and 10% for 5-year and 10-year eligible property.
Carryovers	Choice of 20% 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.

Source: A White House report, "America's New Beginning: A Program for Economic Recovery," February 18, 1981.

Exhibit 3 Projections from the White House report, "America's New Beginning: A Program for Economic Recovery," February 18, 1981

A. Direct Revenue Effects of Proposed Tax Reductions ($ billions)

	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

B. Economic Scenarios

	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,[a] 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

Source: A White House report, "America's New Beginning: A Program for Economic Recovery," February 18, 1981.

[a]CPI for urban wage earners and clerical workers (CPI-W).

Exhibit 4 Growth in Major Components of Real National Product, 1976–1980

Component	**1976**	**1977**	**1978**	**1979**	**1980[1]**
Percent change:					
Real gross national product	4.4	5.8	5.3	1.7	–0.3
Personal consumption expenditures	5.7	5.0	4.8	2.0	–.3
Business fixed investment	7.8	13.5	9.0	2.9	–6.0
Residential fixed investment	19.8	12.5	–.0	–6.1	–17.6
Government purchases of goods and services	–1.3	3.6	1.6	1.9	1.5
Federal	–.8	5.0	–1.3	2.1	4.7
State and local	–1.7	2.7	3.3	1.7	–.3
Real domestic final sales[2]	4.9	5.9	4.4	1.7	–1.3
Change as a percent of GNP:					
Inventory accumulation	.4	.4	.2	–.8	.0
Net exports of goods and services	–.7	–.4	.9	.8	.9

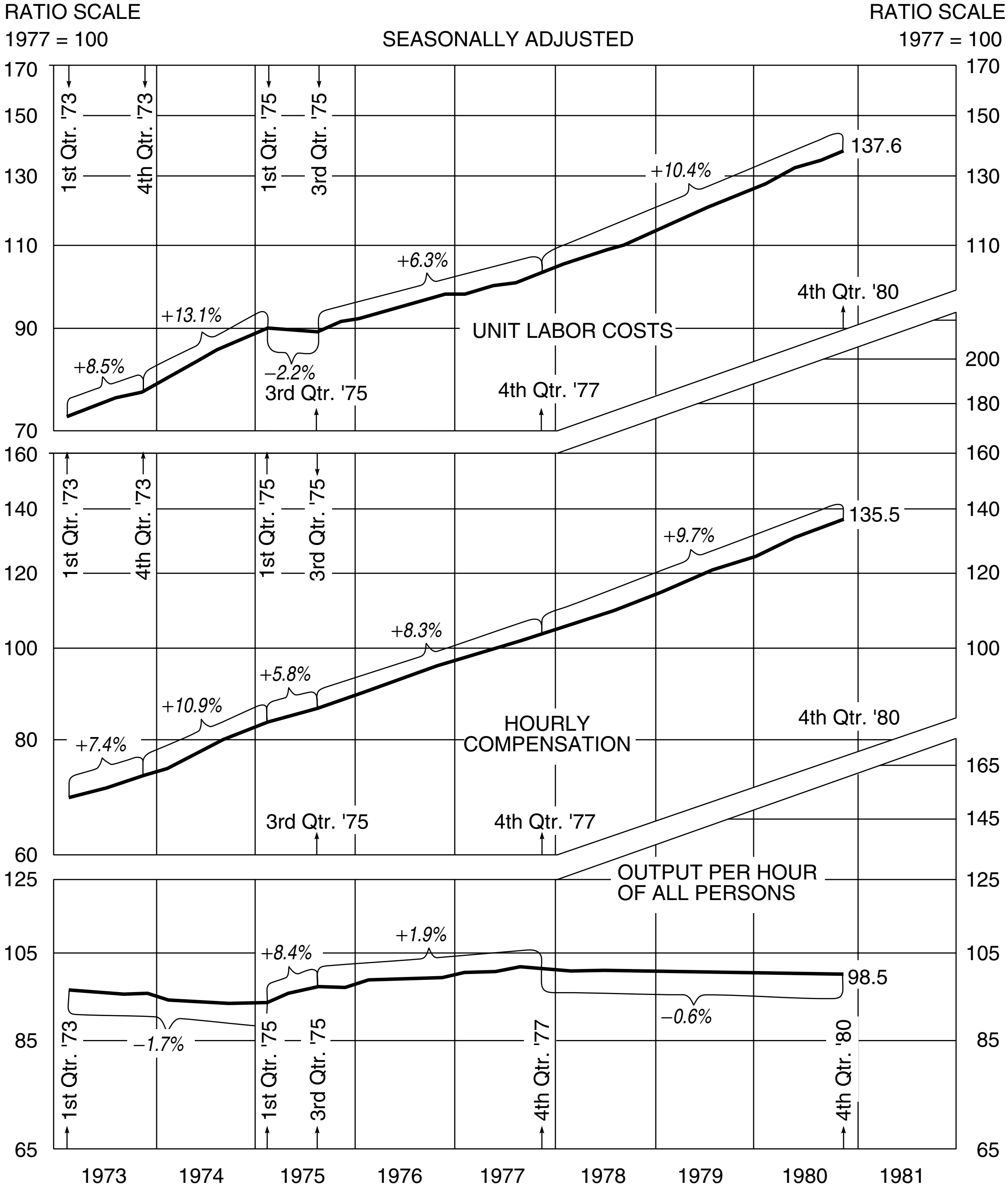
Source: Economic Report of the President, 1981, p. 138.

Note: Change from fourth quarter to fourth quarter.

[1] Preliminary.

[2] GNP excluding change in business inventories and net exports of goods and services.

Exhibit 5 Productivity, Compensation, and Labor Costs



Source: U.S. Department of Labor

Percentages are annual rates of change for periods indicated.
Latest data plotted: 4th quarter

Prepared by Federal Reserve Bank of St. Louis

Exhibit 6 U.S. Price Developments
Measures of Price Change, 1976–1980

Item	1976	1977	1978	1979	1980[1]
Implicit price deflators[2]					
Gross national product	4.7	6.1	8.5	8.1	10.0
Personal consumption expenditures	5.0	5.9	7.8	9.5	10.4
Private nonfarm business output	4.9	5.7	8.3	8.3	10.3
Consumer prices. total	5.0	6.6	9.0	12.7	[3]12.6
Farm value of food	–12.9	6.4	17.5	7.4	[3]14.5
Energy[4]	6.2	8.2	7.5	36.5	[3]18.9
Home purchase and finance[5]	3.8	8.9	13.4	19.8	[3]17.7
All other	6.3	6.1	7.3	7.9	[3]9.8
Producer prices of finished goods, total	2.7	6.9	8.7	12.6	12.0
Food	–4.4	7.4	11.6	7.8	7.4
Energy	5.0	9.2	6.4	62.0	28.4
All other	5.6	6.4	7.9	9.3	11.1

[1] Preliminary.
[2] Seasonally adjusted data.
[3] November 1979 to November 1980.
[4] Includes only prices for direct consumer purchases of energy for the home and for motor vehicles.
[5] In both the table and the text, "home purchase and finance" consists of home purchase and financing, taxes, and insurance on owner-occupied homes.

Note: Percent change from fourth quarter to fourth quarter.

Exhibit 7 Change in U.S. Employment, Unemployment, and Participation Rates

Component	1976 IV	1977 IV	1978 IV	1979IV	1980IV
	Percent change from year earlier[1]				
Increase in civilian employment, total	3.4	4.4	3.6	2.1	–0.3
Males 20 years and over	2.6	3.3	2.5	1.3	–.7
Females 20 years and over	4.6	5.2	5.4	3.9	1.5
Both sexes 16–19 years	3.0	8.0	2.6	–.9	–6.7
White	3.3	4.3	3.2	2.0	–.2
Black and other	4.2.	4.7	7.0	2.91	–.9
	Percent[2]				
Unemployment rate, total[3]	7.8	6.6	5.9	5.9	7.5
Males 20 years and over	6.0	4.8	4.1	4.4	6.3
Females 20 years and over	7.4	6.7	5.7	5.7	6.7
Both sexes 16–19 years	19.1	16.6	16.3	16.2	18.3
White	7.0	5.7	5.1	5.2	6.6
Black and other	13.3	13.3	11.5	11.3	14.1
Participation rate, total[4]	61.8	62.6	63.5	63.8	63.7
Males 20 years and over	79.9	79.9	79.8	79.6	79.2
Females 20 years and over	47.4	48.6	50.1	51.0	51.4
Both sexes 16–19 years	54.4	56.8	58.4	58.1	56.4
White	62.1	62.9	63.7	64.1	64.1
Black and other	59.6	60.6	61.8	61.7	61.2

[1] Changes for 1978 IV adjusted for the increase of about 250,000 in employment and labor force in January 1978 resulting from changes in the sample and estimation procedures introduced into the household survey.
[2] Seasonally adjusted.
[3] Unemployment as percent of civilian labor force.
[4] Civilian labor force as percent of civilian noninstitutional population.

Source: *Economic Report of the President*, 1981, pp. 147, 149.

Exhibit 8

A. Money Stock Measures and Liquid Assets

[Averages of daily figures; billions of dollars, seasonally adjusted]

	M1	M2	M3	L	Percent change from year or 6 months earlier[3]		
Year and Month	Sum of currency, demand deposits, travelers checks, and other checkable deposits[1] (OCD)	M1-8 plus overnight RPs and Eurodollars, MMMF shares, and savings and small time deposits[2]	M2 plus large time deposits and term RPs	M3 plus other liquid assets	M1	M2	M3
December							
1959	141.2	297.1	298.3	388.0	....	....	....
1960	142.2	311.7	313.7	402.9	0.7	4.9	5.2
1961	146.7	334.4	338.3	429.5	3.2	7.3	7.8
1962	149.4	361.7	368.7	465.0	1.8	8.2	9.0
1963	154.9	392.0	402.9	502.4	3.7	8.4	9.3
1964	162.0	423.4	438.7	538.9	4.6	8.0	8.9
1965	169.6	457.9	479.1	583.0	4.7	8.1	9.2
1966	173.8	479.2	502.9	614.6	2.5	4.7	5.0
1967	185.2	524.4	556.5	668.0	6.6	9.4	10.7
1968	199.5	567.1	606.2	731.7	7.7	8.1	8.9
1969	205.9	588.6	611.4	762.6	3.2	3.8	.9
1970	216.8	626.4	672.9	814.2	5.3	6.4	10.1
1971	231.0	711.1	771.1	900.7	6.5	13.5	14.6
1972	252.4	803.2	879.5	1,020.3	9.3	13.0	14.1
1973	266.4	859.8	977.9	1,140.3	5.5	7.0	11.2
1974	278.0	908.0	1,060.4	1,246.0	4.4	5.6	8.4
1975	291.8	1,024.4	1,163.0	1,373.5	5.0	12.8	9.7
1976	311.1	1,169.4	1,302.3	1,528.9	6.6	14.2	12.0
1977	336.4	1,296.4	1,462.5	1,722.7	8.1	10.9	12.3
1978	364.2	1,404.2	1,625.9	1,936.8	8.3	8.3	11.2
1979	390.5	1,525.2	1,775.6	2,151.7	7.2	8.6	9.2
1980	415.6	1,669.4	1,965.1	2,378.4	6.4	9.5	10.7
1981	441.9	1,841.2	2,187.2	....	6.3	10.3	11.3
1980							
Jan.	392.7	1,538.7	1,792.0	2,175.3	5.6	7.7	9.2
Feb	396.9	1,553.4	1,811.5	2,199.5	6.6	7.9	9.4
Mar	396.7	1,559.6	1,819.1	2,210.9	5.4	7.1	7.9
Apr	391.0	1,553.6	1,811.5	2,218.8	2.0	5.7	6.6
May	391.3	1,568.2	1,833.5	2,232.1	1.3	6.8	7.8
June	394.9	1,589.3	1,852.6	2,246.6	2.3	8.6	8.9
July	399 3	1,614.0	1,873.6	2,264.4	3.4	10.0	9.3
Aug	406.9	1,633.4	1,897.4	2,291.3	5.1	10.6	9.7
Sept	411.1	1,644.9	1,912.8	2,309.0	7.8	11.2	10.6
Oct	416.3	1,654.0	1,928.3	2,326.0	13.4	13.3	12.6
Nov	419.1	1,668.5	1,951.0	2,355.6	14.7	13.2	13.2
Dec	415.6	1,669.4	1,965.1	2,378.4	10.8	10.3	12.5
1981							
Jan.	419.2	1,680.8	1,989.3	2,408.7	10.7	8.4	12.7

[1]Net of demand deposits due to foreign commercial banks and official institutions M1 differs from the sum of components presented in Table B-62 by the amount of demand deposit, held by thrift institutions at commercial banks that are estimated to be used in servicing thrift OCD liabilities.

[2]M2 differs from the sum of components presented in Table B 62 by the amount of demand deposits held by thrift institutions at commercial banks.

[3]Monthly percent changes are from 6 months earlier at a compound annual rate.

Note: See table B 62 for components.

Source: Board of Governors of the Federal Reserve System.

Exhibit 8 (continued)

B. Selected Interest Rates

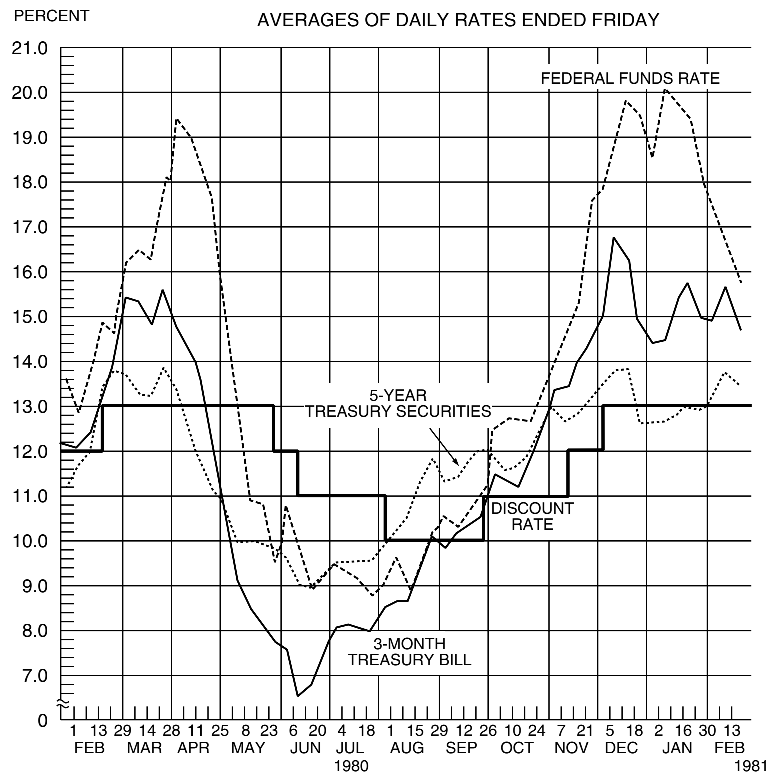


Exhibit 9 Federal Budget Receipts, Outlays, and Debt, Fiscal Years 1977–1982 ($ millions)

Description	Actual				Estimate	
	1977	1978	1979	1980	1981	1982
Budget Receipts and Outlays:						
Total receipts	357,762	401,997	465,940	520,050	607,525	711,780
Federal funds	241,312	270,484	316,351	350,849	415,239	484,105
Trust funds	152,763	168,012	189,641	213,875	242,545	286,113
Interfund transactions	–36,313	–36,498	–40,052	–44,674	–50,259	–58,437
Total outlays	402,710	450,804	493,635	579,613	662,740	739,296
Federal funds	295,756	331,985	362,381	419,214	474,932	530,817
Trust funds	143,267	155,318	171,305	205,074	238,068	266,916
Interfund transactions	–36,313	–36,498	–40,052	–44,674	–50,259	–58,437
Total surplus or deficit (–)	–44,948	–48,807	–27,694	–59,563	–55,215	–27,516
Federal funds	–54,444	–61,804	–46,030	–68,364	–59,693	–46,712
Trust funds	9,496	12,694	18,335	8,801	4,477	19,196
Outstanding Debt, End of Period:						
Gross Federal debt	709,138	780,425	833,751	914,317	992,398	1,057,664
Held by Government agencies	157,295	169,477	189,162	199,212	205,293	225,559
Held by the public	551,843	610,948	644,589	715,105	787,105	832,105
Federal Reserve System	105,004	115,480	115,594	120,846		
Other	446,839	495,468	528,996	594,259		
Budget Receipts	357,762	401,997	465,940	520,050	607,525	711,780
Individual income taxes	157,626	180,988	217,841	244,069	284,013	331,677
Corporation income taxes	54,892	59,952	65,677	64,600	66,009	64,648
Social insurance taxes and contributions	108,688	123,410	141,591	160,747	184,824	214,664
Excise taxes	17,548	18,376	18,745	24,329	44,393	69,633
Estate and gift taxes	7,327	5,285	5,411	6,389	6,909	7,668
Customs duties	5,150	6,573	7,439	7,174	7,439	7,800
Miscellaneous receipts:						
Deposits of earnings by Federal Reserve System	5,908	6,641	8,327	11,767	13,069	14,710
All other	622	772	910	975	899	980
Budget Outlays	402,710	450,804	493,635	579,613	662,740	739,296
National defense	97,501	105,186	117,691	135,856	161,098	184,399
International affairs	4,813	5,922	6,091	10,733	11,314	12,152
General science, space, and technology	4,677	4,742	5,041	5,722	6,258	7,590
Energy	4,172	5,861	6,856	6,313	8,739	11,973
Natural resources and environment	10,000	10,925	12,091	13,812	14,110	14,039
Agriculture	5,532	7,731	6,238	4,762	1,112	4,803
Commerce and housing credit	98	3,324	2,565	7,782	3,456	8,058
Transportation	14,636	15,445	17,459	21,120	24,054	21,551
Community and regional development	6,348	11,070	9,542	10,068	11,144	9,084
Education training, employment, and social services	20,985	26,463	29,685	30,767	31,773	34,511
Health	38,785	43,676	49,614	58,165	66,032	74,636
Income security	137,900	146,181	160,159	193,100	231,650	255,006
Veterans benefits and services	18,038	18,974	19,928	21,183	22,591	24,462
Administration of justice	3,600	3,802	4,153	4,570	4,786	4,882
General government	3,169	3,706	4,093	4,505	5,170	5,246
General purpose fiscal assistance	9,499	9,601	8,372	8,584	6,854	6,902
Interest	38,009	43,966	52,556	64,504	80,405	89,946
Allowances						1,920
Undistributed offsetting receipts	–15,053	–15,772	–18,488	–21,933	–27,796	–31,863
Composition of undistributed offsetting receipts:						
Employer share, employee retirement	–4,548	–4,983	–5,271	–5,787	–6,561	–6,798
Interest received by trust funds	–8,131	–8,530	–9,950	–12,045	–13,435	–15,165
Rents and royalties on the Outer Continental Staff	–2,374	–2,259	–3,267	–4,101	–7,800	–9,900

Note.—Under provisions of the Congressional Budget Act of 1974, the fiscal year for the Federal Government shifted beginning with fiscal year 1977. Through fiscal year 1976, the fiscal year was on a July l–June 30 basis. Beginning October 1976 (fiscal year 1977), the fiscal year is on an October 1–September 30 basis. The period July 1, 1976 through September 30, 1976 is a separate fiscal period known as the transition quarter.

Refunds of receipts are excluded from receipts and outlays.

See "Budget of the United States Government, Fiscal Year 1982" for additional information.

Source: *Economic Report of the President*, 1981, p. 315.

Exhibit 10 Governmental Surplus or Deficit and Gross National Product, 1958–1980 ($ billions)

Year	Fiscal years—unified budget: Federal surplus or deficit (–)[1]		Calendar years—government sector, national income and product accounts: Federal surplus or deficit (–)		Federal and State and local surplus or deficit (–)	
	Amount	As percent of GNP	Amount	As percent of GNP	Amount	As percent of GNP
1958	–2.9	–0.7	–10.3	–2.3	–12.6	–2.8
1959	–12.9	–2.7	–1.1	–.2	–1.6	–.3
1960	.3	.1	3.0	.6	3.1	.6
1961	–3.4	–.7	–3.9	–.7	–4.3	–.8
1962	–7.1	–1.3	–4.2	–.7	–3.8	–.7
1963	–4.8	–.8	.3	.1	.7	.1
1964	–5.9	–1.0	–3.3	–.5	–2.3	–.4
1965	–1.6	–.2	.5	.1	.5	.1
1966	–3.8	–.5	–1.8	–.2	–1.3	–.2
1967	–8.7	–1.1	–13.2	–1.7	–14.2	–1.8
1968[2]	–25.2	–3.0	–6.0	–.7	–6.0	–.7
1969[2]	3.2	.4	8.4	.9	9.9	1.0
1970	–2.8	–.3	–12.4	–1.2	–10.6	–1.1
1971	–23.0	–2.2	–22.0	–2.0	–19.4	–1.8
1972	–23.4	–2.1	–16.8	–1.4	–3.3	–.3
1973	–14.9	–1.2	–5.6	–.4	7.8	.6
1974	–6.1	–.4	–11.5	–.8	–4.7	–.3
1975	–53.2	–3.6	–69.3	–4.5	–63.8	–4.1
1976	–73.7	–4.5	–53.1	–3.1	–36.5	–2.1
1977	–53.6	–2.9	–46.4	–2.4	–18.3	–1.0
1978	–59.2	–2.8	–29.2	–1.4	–.2	.0
1979	–40.2	–1.7	–14.8	–.6	–11.9	.5
1980[3]	–73.8	–2.9	–62.3	–2.4	–34.8	–1.3

Source: *Economic Report of the President*, 1981, p. 41.

[1] Includes off-budget outlays.

[2] A 10-percent income tax surcharge was introduced in July 1968—thus entering calendar year 1968 but fiscal year 1969.

[3] Preliminary.

Exhibit 11 Crowding-Out Average Federal and Federally Assisted Borrowing

	Volume ($ billions)	Absorption Rate[a] (%)	GNP Deflator (%)	3 Month T-bills (%)
1955–1969	9.8	16.6	2.6	3.5
1970–1979	58.1	24.9	6.6	6.3
1980	124.4	35.5	9.0	11.4
1981	154.5[b]	43.0[b]	9.1[b]	na

Source: White House fact sheet, November 5, 1981.

[a] Proportion of all capital raised in nonfinancial sector of the U.S. credit markets.

[b] Estimates

Exhibit 12 U.S. Balance of Payments, International Transactions, 1965–1980

Year or quarter	Merchandise[1,2] Exports	Merchandise[1,2] Imports	Merchandise[1,2] Net balance	Investment income[3] Receipts	Investment income[3] Payments	Investment income[3] Net	Net military transactions	Net travel and transportation receipts	Other services, net[3]	Balance on goods and services[1,4]	Remittances, pensions, and other unilateral transfers[1]	Balance on current account[1,4]
1965	26,461	–21,510	4,951	7,436	–2,088	5,348	–2,122	–1,280	1,387	8,284	–2,854	5,431
1966	29,310	–25,493	3,817	7,526	–2,481	5,045	–2,935	–1,331	1,365	5,961	–2,932	3,029
1967	30,666	–26,866	3,800	8,021	–2,747	5,274	–3,226	–1,750	1,612	5,709	–3,125	2,584
1968	33,626	–32,991	635	9,368	–3,378	5,990	–3,143	–1,548	1,630	3,563	–2,952	611
1969	36,414	–35,807	607	10,912	–4,869	6,043	–3,328	–1,763	1,833	3,393	–2,994	399
1970	42,469	–39,866	2,603	11,746	–5,516	6,230	–3,354	–2,038	2,180	5,624	–3,294	2,330
1971	43,319	–45,579	–2,260	12,706	–5,436	7,270	–2,893	–2,345	2,495	2,268	–3,701	1,434
1972	49,381	–55,797	–6,416	14,764	–6,572	8,192	–3,420	–3,063	2,766	–1,941	–3,854	–5,795
1973	71,410	–70,499	911	21,808	–9,655	12,153	–2,070	–3,158	3,184	11,021	–3,881	7,140
1974	98,306	–103,649	–5,343	27,587	–12,084	15,503	–1,653	–3,184	3,986	9,309	[5]–7,186	2,124
1975	107,088	–98,041	9,047	25,351	–12,564	12,787	–746	–2,792	4,598	22,893	–4,613	18,280
1976	114,745	–124,051	–9,306	29,286	–13,311	15,975	559	–2,558	4,711	9,382	–4,998	4,384
1977	120,816	–151,689	–30,873	32,587	–14,598	17,989	1,628	–3,293	5,086	–9,464	–4,605	–14,068
1978	142,054	–175,813	–33,759	42,972	–22,073	20,899	886	–3,188	5,959	–9,204	–5,055	–14,259
1979	182,055	–211,524	–29,469	65,970	–33,460	32,510	–1,275	–2,695	5,806	4,878	–5,666	–788
1978:												
I	30,922	–42,063	–11,141	9,607	–4,539	5,068	441	–752	1,415	4,969	–1,204	–6,173
II	35,404	–43,699	–8,295	9,957	–5,474	4,483	303	–752	1,466	–2,795	–1,307	4,102
III	36,828	–44,336	–7,508	10,557	–5,717	4,840	139	–910	1,506	–1,933	–1,233	–3,166
IV	38,900	–45,715	–6,815	12,851	–6,343	6,508	3	–774	1,571	493	1,313	–820
1979:												
I	41,805	–46,919	–5,114	14,263	–7,225	7,038	–29	–611	1,448	2,732	–1,324	1,408
II	42,815	–50,885	–8,070	15,250	–7,980	7,270	–102	–637	1,428	–110	–1,383	–1,493
III	47,198	–54,258	–7,060	18,050	–8,731	9,319	–443	–834	1,524	2,506	–1,407	1,099
IV	50,237	–59,462	–9,225	18,407	–9,524	8,883	–700	–613	1,405	–250	–1,552	–1,802
1980:												
I	54,708	–65,558	–10,850	20,846	–10,752	10,094	–922	–690	1,570	–798	–1,812	–2,610
II	54,710	–62,215	–7,505	16,641	–10,508	6,133	–994	–296	1,557	–1,105	–1,326	–2,431
III	56,288	–59,116	–2,828	19,113	–10,646	8,467	–632	–248	1,618	6,377	–1,477	4,900

[1]Excludes military grants.

[2]Adjusted from Census data for differences in valuation, coverage, and timing.

[3]Fees and royalties from U.S. direct investments abroad or from foreign direct investments in the United States are excluded from investment income and included in other services, net.

[4]In concept, balance on goods and services is equal to net exports and imports in the national income and product accounts (and the sum of balance on current account and allocations of special drawing rights is equal to net foreign investment in the accounts), although the series differ because of different handling of certain items (gold, extraordinary military shipments, etc.), revisions, etc.

(See next page for continuation of table.)

Exhibit 12 (continued)

Year or quarter	U.S. assets abroad, net [increase/capital outflow (–)]				Foreign assets in the U.S. net [increase/capital inflow (+)]			Allocations of special drawing rights (SDRs)	Statistical discrepancy	
	Total	U.S. official reserve assets[6]	Other U.S. Government assets	U.S. private assets	Total	Foreign official assets, total	Other foreign assets		Total (sum of the items with sign reversed)	Of which: Seasonal adjustment discrepancy
1965	–5,715	1,225	–1,605	–5,335	742	134	607	...	–458	...
1966	–7,319	570	–1,543	–6,345	3,661	–672	4,333	...	629	...
1967	–9,758	53	–2,423	–7,387	7,379	3,451	3,928	...	–205	...
1968	–10,977	870	–2,274	–7,833	9,928	–774	10,703	...	438	...
1969	–11,585	–1,179	–2,200	–8,206	12,702	–1,301	14,002	...	–1,516	...
1970	–9,336	2,481	–1,589	–10,228	6,359	6,908	–550	867	–219	...
1971	–12,474	2,349	–1,884	–12,939	22,970	26,879	–3,909	717	–9,779	...
1972	–14,497	–4	–1,568	–12,925	21,461	10,475	10,986	710	–1,879	...
1973	–22,874	158	–2,644	–20,388	18,388	6,026	12,362	...	–2,654	
1974	–34,745	–1,467	[5]366	–33,643	34,241	10,546	23,696	...	–1,620	
1975	–39,703	–849	–3,474	–35,380	15,670	7,027	8,643	...	5,753	
1976	–51,269	–2,558	–4,214	–44,498	36,518	17,693	18,826	...	10,367	
1977	–35,793	2,375	–3,693	–31,725	50,741	36,575	14,167	...	–880	
1978	–61,191	732	–4,644	–57,279	64,096	33,293	30,804	...	11,354	...
1979	–61,774	–1,133	–3,783	–56,858	37,575	–14,271	51,845	1,139	23,848	...
1978										
I	–15,048	187	–1,009	–14,226	18,204	15,422	2,783	...	3,015	121
II	–5,749	248	–1,257	–4,740	775	–5,273	6,049	...	9,076	732
III	–9,977	115	–1,386	–8,706	17,069	4,777	12,292	...	–3,926	–2,850
IV	–30,418	182	–991	–29,609	28,048	18,368	9,680	...	3,190	1,998
1979										
I	–7,768	–3,585	–1,102	–3,081	2,201	–8,744	10,945	1,139	3,020	74
II	–15,300	322	–991	–14,631	6,407	–10,095	16,502	...	10,385	1,167
III	–25,215	2,779	–766	–27,228	24,941	5,789	19,152	...	–825	–3,641
IV	–13,492	–649	–925	–11,918	4,025	–1,221	5,246	...	11,269	2,400
1980										
I	–12,711	–3,268	–1,467	–7,976	7,194	–7,215	14,409	1,152	6,975	–99
II	–25,712	502	–1,191	–25,023	7,949	7,775	174	...	20,194	1,460
III	–20,196	–1,109	–1,320	–17,767	11,003	8,025	2,978	...	4,293	–4,022

[5]Includes extraordinary U S Government transactions with India.

[6]Consists of gold, special drawing rights, convertible currencies, and the U.S. reserve position in the International Monetary Fund (IMF).

Note—Quarterly data for U.S. official reserve assets and foreign assets in the United States are not seasonally adjusted.

Source: *Economic Report of the President*, 1981, p. 344.

Exhibit 13 Selected International Comparisons, U.S.A. and Main Industrial Countries

A. Real GNP Growth in Major Industrial Countries, 1976–1982 (percent change from previous period; seasonally adjusted annual rates)

Country	1976 to 1979 annual average	1980		1981		1982 first half
		Year	Second half	First half	Second half	
United States	3.9	–3/4	–1 3/4	1	2 1/2	3 1/2
Japan	5.9	5	– 3/4	4	4 1/4	4 3/4
Germany	3.8	1 3/4	–3	1/2	1 1/2	2
France[3]	3.3	1 3/4	1/2	1	2	2 1/4
United Kingdom[3]	1.5	–2 1/2	–5 3/4	1/2	–2 1/2	0
Italy[3]	3.2	3 3/4	–3 1/2	–1 1/4	2 1/4	2 1/2
Canada	2.9	–1/2	– 1/2	1 3/4	2	3 1/4
Total of above countries	3.9	1	–1 1/4	1 1/4	2 1/4	3

B. Changes in Industrial Production in Major Industrial Countries, 1970–1980 (percent change)

Country	To 1980 first quarter from	
	1970	1976
Germany	29	15
France	36	10
United Kingdom	15	9
Japan	56	29
United States	41	16

C. Inflation in Major Industrial Countries, 1976-1982 (percent change in prices)

Country	1976 to 1978 annual average	1979	1980	1981	1982 first half
United States	6.2	8.9	10 1/2	10	9 1/2
Japan	5.5	3.1	6 1/4	5 1/4	5
Germany	3.2	3.9	5 1/4	4	3
France	9.4	10.9	13 3/4	11 3/4	9 1/2
United Kingdom	11.7	12.2	15 1/2	12	9
Italy	12.0	14.8	20 3/4	15 3/4	13 1/2
Canada	9.8	9.1	9 3/4	10	9 3/4
Total of above countries	6.8	8.1	10 1/2	9 1/4	8 1/4

D. Productivity

	Real gross domestic product per employed person (average annual percent change)			
	1950–79	1950–65	1965–73	1973–79
United States	1.8	2.4	1.7	0.5
Canada	2.1	2.7	2.4	.4
France	4.3	4.8	4.5	2.9
Germany	4.8	5.6	4.3	3.1
Japan	6.9	7.2	9.1	3.4
United Kingdom	2.3	2.2	3.4	1.1

Source: *Economic Report of the President*, 1981, pp. 30, 183, 189; U.S. Dept. of Labor, Bureau of Labor Statistics, *Bulletin 2084*, October 1981, p. 20.