

Ronald Wilson Reagan (1911-2004)

Address to the Nation on the Fiscal Year 1983 Federal Budget

given on April 29, 1982

Good evening:

My fellow Americans, you know the most important goal that all of us share tonight is economic recovery—to see our factories reopening their gates, to see the unemployed return to their jobs, and every American enjoy the fruits of prosperity. To get our economy moving again, it's imperative that we enact a Federal budget that will bring down
5 deficits and bring down interest rates.

I had hoped that when I addressed you tonight, it would be to give you the details of a bipartisan agreement on a budget and revenue plan for 1983. As you know, yesterday marked the end of a long series of discussions to help reach such an agreement. They ended, despite our best efforts to achieve a fair compromise. But before I discuss these talks and our plans for the future, let me give the background that led up to them.

10 In our budget proposal, we had continued the process we started last year of trying to get control of runaway government spending. Deficits over the last few decades have been literally built into the Federal structure. The rate of increase in spending was 17 percent when we took office. There's no way that government can pay for increases at that rate without gigantic tax increases each year or borrowing and adding to the national debt.

Now, this latter course has been followed for so many years that we now have a trillion-dollar debt. To give you some
15 idea of how much a trillion is, if we started paying off the debt at a billion dollars a year, it would take a thousand years to wipe it out.

Now, if I may, let me take you back a little. In 1977, when the previous administration took office, inflation was 4.8 percent. It rose steadily, and in 1979 and '80 we had 2 years of back-to-back double-digit inflation. Unemployment started to increase, and by 1980 we were in a recession with nearly 8 million unemployed, inflation at 12.4 percent,
20 and interest rates at 21 1/2 percent. As those interest rates continued, home construction and automobiles were hard hit, because few could afford to take out a mortgage or buy a car on time. Unemployment continued to increase.

The 1981 budget was already in place when our administration began, and while we managed to effect several billions of dollars savings during the balance of the fiscal year, there was nothing we could do but set our sights on the 1982 budget, which would be our first. We had to reduce the built-in rate of increase. At the same time, we had to reduce
25 the share of the people's earnings the government was taking in taxes.

Now, this may sound strange in view of the increased spending, and it was contrary to the philosophy of the Democratic leadership. But high taxes, destroying incentive, had contributed to reduced productivity and a reduction in savings, which left us without the capital we needed for industrial expansion. And because government always finds a need for whatever money it gets, the cost of government continued to go up.

30 Between 1976 and 1981, Federal tax revenues increased by \$300 billion. Deficits ran \$318 billion. There was no way we could get the rate of spending down to where it should be in one year. But our economic recovery program did manage to reduce the rate of increase in spending to nearly half of what it had been. We also proposed a 3-year program of tax rate reduction for individuals and for business. You helped us get both the reductions in spending and the tax reductions by letting your elected representatives know you wanted them.

35 During the debate on our economic program, we stated many times that there would have to be a second installment of budget reductions in 1983. That built-in, automatic spending increase I spoke of would otherwise give us a budget of \$827 billion in '83, \$918 billion in 1984, and more than a trillion in 1985.

What is our situation now, and how well have we done with our economic recovery program? Well, we're still in a recession, and unemployment has continued to go up, particularly in those areas affected by the troubles of the
40 automobile and construction industries. Farmers, too, are hurt by the high interest rates. They borrow to plant and pay back at harvest, but that doesn't work when interest rates remain at too high a level. It is true, however, 'that those rates are down about a fifth from that high of 21 1/2 percent. But they must come down some more, and they have every reason to, because that 12.4-percent inflation rate we inherited has been running at only 3.2 percent for the last 6 months. And last month, for the first time in 17 years, it dropped below zero. Prices actually went down.

45 Now, with all of this in mind, we introduced a budget for 1983 of \$758 billion, lower than the built-in spending by a considerable amount. Still, it represented an increase over the '82 budget of 332—pardon me, \$32 billion. Nevertheless, there were outraged screams of protest, and you were led to believe that we were actually proposing less spending than the present level. There's been an insistent drumbeat, aided by special-interest groups charging that our budget would deprive the needy, the handicapped, and the elderly of the necessities of life. I'm sure many of these
50 people were sincere, well intentioned, but also misinformed.

Our original budget proposal would have funded 95 million meals a day for the needy, provided medical care for 47 million Americans, subsidized housing for about 10 million people. In addition, there would be 7 million loans and grants for college students, of which there are 11 million full-time. Social security, which was \$122 billion in 1980, will be \$188 billion in 1983.

55 But the drumbeat was too loud. Many in Congress criticized that budget and demanded that we send up a new one. Well, we worked many months with the Cabinet on the one we submitted and believed it could fulfill government's responsibility to those who, through no fault of their own, had to depend on their fellow citizens for help. Besides, I felt that some workable alternative to ours should have been suggested by our critics so we could begin arriving at a consensus.

60 As the talk grew of stalemate, I asked my Chief of Staff, Jim Baker, to contact the congressional leadership of both Houses and see if some means couldn't be agreed upon in which the matter could be discussed, with the idea of finding an area of agreement. A bipartisan arrangement was made whereby the Senate had five representatives, the House of Representatives had seven, and the administration had five.

This group, which began to be called the "Gang of 17," held its first meeting on April 1st, and its 13th and last the day
65 before yesterday, April 27th. The rule they followed was that nothing was binding on Speaker O'Neill, Senate Majority Leader Howard Baker, or myself. They would simply see if they could find enough agreement that actual negotiations seemed possible and practical. I, in turn, had told our representatives the areas I felt were nonnegotiable. They were that any changes in defense spending must not interfere with or delay our rebuilding of national security, and that spending must be significantly reduced, and that our tax reductions, adopted last year, must be preserved.

70 I received regular progress reports and was greatly encouraged. The Gang of 17 worked long, hard hours and deliberated in good faith. What they were doing couldn't really be called negotiation. That would come later. Speaker O'Neill referred to it once as "dialoguery."

Well, the projected deficits for the next 3 years continued to increase as the lower inflation rate reduced estimated revenues. Continued unemployment, which costs government about \$25 billion for every added one percentage point,
75 took its toll. And the persistent high interest rates added to the cost of government borrowing.

While I don't believe in the accuracy of long-range projections, we're required to acknowledge them in our budgeting. They stand at \$182 billion for 1983, \$216 billion in '84, and \$233 billion in 1985 if we do nothing about reducing spending. Not only must those deficits be reduced, they must show a decline over the next 3 years, not an increase. Our goal must be a balanced budget. And our budget would have set us on that road. But, apparently, there was no
80 meeting of the minds.

There's no question but that a difference in philosophy exists. While the Democratic leadership lamented about the deficit facing us, committees in the House of Representatives, controlled by them, were recommending increases above and beyond our proposed budget of more than \$50 billion in higher spending. Apparently the philosophical difference between us is that they want more and more spending and more and more taxes. I believe we should have
85 less spending, less taxes, and more prosperity.

There hasn't been too much opportunity in the last 40 years to see what our philosophy can do. But we know what theirs can do: the longest sustained inflation in history, the highest interest rates in a hundred years, eight recessions since World War II, and a trillion-dollar debt.

The day before yesterday, Jim Baker told me the group had decided they could come no closer to agreement than they
90 were, and there would be no more meetings. So I called Speaker O'Neill and suggested we meet to take up where the Gang of 17 had left off. That meeting took place for more than 3 hours yesterday.

The worksheets of the committee showed that on our side our nondefense spending cuts had been reduced to about 60 percent of what we had originally proposed. There were some areas such as estimated savings from improved

management practices which had been accepted. On the Democratic side they'd expressed a willingness to accept
95 some cuts which they thought were a concession on their part inasmuch as they hadn't wanted any budget reductions except in defense.

On revenues we had originally proposed about \$13 billion for next year, most of which could be obtained through changes in tax regulations. Some regulations have been regulated or interpreted in such a way as to provide tax advantages which were never intended. The group was discussing a figure of \$25 billion, which meant actually
100 increasing some taxes or passing new ones. Now, that figure would not have required eliminating or reducing the tax cuts in our economic recovery program. Still the \$25 billion figure was almost double our original proposal.

In yesterday afternoon's meeting on Capitol Hill, Speaker O'Neill, Senator Howard Baker, myself, and five of the Gang of 17 participated. As I say, the figures on which the group had found some agreement were far from those we'd proposed in February. But I decided against trying to start the negotiations on the basis of that original budget. The
105 most essential thing is to send a message to the money market that we, Democrats and Republicans alike, can agree on reducing the deficit and continuing to hold down inflation. Actually the Gang of 17 had come very close in their deliberations, and I was encouraged to believe that we could arrive at a settlement.

Our original cuts totaled \$101 billion. They—[referring to a chart]—I can't make a big enough mark to show you—but they were rejected, believe me. Our own representatives from the Congress proposed compromising at \$60 billion.
110 Their counterparts from the Democratic side of the aisle proposed 35. In our meeting yesterday, which went on for more than 3 hours, our compromise of \$60 billion was rejected—now my pen is working. And then I swallowed hard and volunteered to split the difference between our 60 and their 35 and settle for 48, and that was rejected. The meeting was over.

Now on this chart the red line is where we go in the next 3 years with regard to deficits if there is no compromise. It'll
115 reach a deficit of \$233 billion in 1985 alone, and as you can see, the line is still going up. And so will interest rates. The blue line is where we go if we settle on a reasonable compromise—steadily down to a deficit by 1985 of only \$44 billion. And you can see that a balanced budget is not far distant. And this blue line will, I'm convinced, start interest rates down from the moment there is agreement on the compromise.

It is essential that we have a prompt resolution of this budget debate. It is, of course, up to the Congress to act now.
120 But I'll do everything I can to help in getting a prompt settlement. If American workers can show the statesmanship they've shown in redrawing their contracts to restrain their own wages to help in this time of recession, surely we in Washington can show some statesmanship, too.

I'm convinced we're in the trough, as it's called, of this recession and that we'll begin to see recovery in the second half of the year. There will be political pressure from some to turn on the printing presses and flood us with paper money.
125 Well, that's been done before, and the answer is always the same—a flush feeling for about 5 minutes, then more inflation leading toward a plunge into an even worse recession.

There is another road that leads to permanent recovery. It begins with a responsible budget now. In the coming days, I will do everything I can to help the Congress achieve this vital goal. And you can help, too, by letting your representatives know that you think this is no time for "politics as usual;" that you, too, want an end to runaway taxes,
130 spending, government debt, and high interest rates.

Tomorrow I will meet with Republican members of the Gang of 17 to forge the beginnings of an acceptable budget initiative. On Monday I will meet with the full Republican leadership and with members of the Senate and House Budget Committees. I will also consult with responsible members of the Democratic Party in the Congress to make this a truly bipartisan effort in the national interest.

135 But our efforts must not stop there. Once we've achieved a balanced budget—and we will—I want to ensure that we keep it for many long years after I've left office. And there's only one way to do that. So, tonight I am asking the Congress to pass as soon as possible a constitutional amendment to require balanced Federal budgets.

This amendment will, of course, have to be ratified by three-fourths of the States. But I'm confident that the grass roots support for a balanced budget amendment is out there and will carry the day against the special interests. Most
140 Americans understand the need for a balanced budget, and most Americans have seen how difficult it is for the Congress to withstand the pressures for more spending. This amendment will force government to stay within the limit of its revenues. Government will have to do what each of us does with our own family budgets—spend no more than we can afford.

Only a constitutional amendment will do the job. We've tried the carrot, and it failed. With the stick of a balanced
145 budget amendment, we can stop government squandering, overtaxing ways, and save our economy.

Time and again the American people—you—have worked wonders that have astounded the world. We've done it in war and peace, in good times and bad, because we're a people who care and who know how to pull together—family by family, community by community, coast to coast—to change things for the better. The success story of America is neighbor helping neighbor. So, tonight I ask for your help, your voice, at this turning point.

150 So often in history great causes have been won or lost at the last moment, because one side or the other lacked that last reserve of character and stamina, of faith and fortitude, to see the way through to success. Make your voice heard. Let your representatives know that you support the kind of fair, effective approach I have outlined for you tonight. Let them know you stand behind our recovery program. You did it once, you can do it again.

Thank you, and God bless you.

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