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SAVING TO C.G.'S ATLANTA CHICAGO HOUSTON BOSTON CLEVELAND LOS ANGELES  
SAN FRANCISCO

*head in file.*

*ms*

THE SECOND HALF

1. THE REAGAN ADMINISTRATION HAS GOT OFF TO A POOR START TO THE SECOND HALF OF THE PRESIDENT'S FIRST TERM. IT HAS BECOME ACCIDENT PRONE ON A NUMBER OF FRONTS SIMULTANEOUSLY.
2. TO BEGIN WITH, THE PRESIDENT IS LOSING RATHER A LOT OF HIS SENIOR APPOINTMENTS. ONE OF THE MOST ABLE OF HIS CABINET MEMBERS, THE SECRETARY OF TRANSPORTATION, DREW LEWIS, LEFT AT THE END OF 1982. NOW THE SECRETARY OF HEALTH AND HUMAN SERVICES, SCHWEIKER, HAS ALSO LEFT FOR PRIVATE INDUSTRY. EARLIER, THE VERY ABLE DEPUTY SECRETARY OF DEFENSE, CARLUCCI, ALSO LEFT. WHILE CHANGES IN THE CABINET ARE NOT UNUSUAL AT MID-TERM, THESE HAVE ALL THE APPEARANCES OF BEING HAPHAZARD AND HAVE ADDED TO THE APPEARANCE OF AN ADMINISTRATION NOT AT EASE WITH ITSELF. ONE RECALL'S LADY BRACKNELL'S OBSERVATION THAT TO LOSE ONE PARENT MAY BE COUNTED A MISFORTUNE TO LOSE TWO LOOKS LIKE CARELESSNESS. THERE IS A GOOD DEAL OF CARELESSNESS ABOUT THE WHITE HOUSE JUST NOW.
3. THIS IMPRESSION HAS BEEN COMPOUNDED BY THE DISARRAY IN THE ARMS CONTROL ESTABLISHMENT. HERE DISARRAY IS NOT TOO STRONG A WORD. FIRST THE SENATE HARDLINERS, LED BY HELMS, REFUSED TO CONFIRM A CAREER FOREIGN SERVICE OFFICER, GREY, AS ROSTOW'S DEPUTY. NOW ROSTOW'S RESIGNATION HAS BEEN REQUESTED AND GIVEN AND THERE SEEMS TO HAVE BEEN A GENERAL INFUX INTO THE AGENCY OF PEOPLE WHOSE SOUND HAWKISH CREDENTIALS ARE ONLY EXCEEDED BY THE TOTAL IGNORANCE OF A HIGHLY COMPLEX AND IMPORTANT SUBJECT. AS THE FRIENDLY SUPERPOWER'S REACTION TO THE HOSTILE SUPERPOWER'S CURRENT ACTIVITY ON THE ARMS CONTROL FRONT, THIS IS HARDLY REASSURING. THE WHITE HOUSE STATEMENT THAT THE ADMINISTRATION'S ALL-PURPOSE CALMER OF TROUBLED WATERS, GEORGE SHULTZ, IS TO HAVE OVERALL COORDINATION OF THE NEGOTIATIONS, IS SOME COMPENSATION. BUT EVEN SHULTZ CANNOT BE EVERYWHERE AT ONCE. GIVEN THE EXISTENCE OF THOSE AT THE PENTAGON WHO ARE OPPOSED TO ARMS CONTROL AT ALMOST ANY LIKELY PRICE, HE WILL NEED TO BE.
4. AT THE HEART OF THE PROBLEM IS, OF COURSE, THE DOMESTIC ECONOMY AND THE PROSPECTIVE BUDGET DEFICIT FOR FISCAL 1984. THE ADMINISTRATION IS TRYING TO GET ITS PROPOSAL TOGETHER, WHICH IT HAS TO SUBMIT TO THE CONGRESS BY THE END OF THE MONTH. ITS DIFFICULTIES IN SQUARING THE NECESSARY CIRCLES HAVE BEEN ILLUSTRATED BY A SERIES OF LEAKS WHICH HAVE INCURRED THE PRESIDENT'S DISPLEASURE.
5. ALL THIS HAS CAUSED SUCH NEWSPAPERS AS THE NEW YORK TIMES TO EXPRESS THE OPINION THAT "THE STENCH OF FAILURE HANGS OVER PRESIDENT REAGAN'S WHITE HOUSE". AND, ON THE OTHER SIDE OF THE

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POLITICAL SPECTRUM, THE WALL STREET JOURNAL THUNDERS THAT THE PRESIDENT MUST RETURN TO THE TRUE CONSERVATIVE PRINCIPLES ON WHICH HE WAS ELECTED (AND ADHERENCE TO WHICH HAVE CAUSED THE PRESENT PROBLEMS).

6. IT IS TOO EARLY TO DRAW ANY HARD AND FAST CONCLUSIONS FROM WHAT MAY TURN OUT TO BE ONLY LITTLE LOCAL DIFFICULTIES. THEY ARE, HOWEVER, ILLUSTRATIVE OF THE SEA CHANGE WHICH HAS COME OVER THE LOCAL POLITICAL SCENE TO WHICH I DREW ATTENTION IN MY ANNUAL REPORT. IT LOOKS AS IF IT IS HARD POUNDING AHEAD FOR THE ADMINISTRATION AND IT WILL BE INTERESTING TO OBSERVE HOW THE PRESIDENT STANDS UP TO WHAT FOR HIM WILL BE A NOVEL EXPERIENCE AND A REAL TEST OF HIS COMPETENCE TO GOVERN.

WRIGHT

STANDARD  
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CABINET OFFICE

COPIES SENT TO  
No. 10 DOWNING STREET

THIS TELEGRAM  
WAS NOT  
ADVANCED

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# OFFICIAL TEXT

Wednesday, January 26th, 1983

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UNITED STATES INFORMATION SERVICE, U.S. EMBASSY, 55/56 UPPER BROOK STREET, LONDON W1A 2LH

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P R E S I D E N T R E A G A N ' S

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FOLLOWING IS THE TEXT, AS PREPARED FOR DELIVERY, OF  
PRESIDENT REAGAN'S 1983 STATE OF THE UNION ADDRESS, DELIVERED  
TO THE U.S. CONGRESS JANUARY 25:

BEGIN TEXT

THIS SOLEMN OCCASION MARKS THE 196TH TIME THAT A PRESIDENT OF THE UNITED STATES HAS REPORTED ON THE STATE OF THE UNION SINCE GEORGE WASHINGTON FIRST DID SO IN 1790. THAT IS A LOT OF REPORTS, BUT THERE IS NO SHORTAGE OF NEW THINGS TO SAY ABOUT THE STATE OF THE UNION. THE VERY KEY TO OUR SUCCESS HAS BEEN OUR ABILITY, FOREMOST AMONG NATIONS, TO PRESERVE OUR LASTING VALUES BY MAKING CHANGE WORK FOR US RATHER THAN AGAINST US.

I WOULD LIKE TO TALK WITH YOU THIS EVENING ABOUT WHAT WE CAN DO TOGETHER -- NOT AS REPUBLICANS AND DEMOCRATS, BUT AS AMERICANS -- TO MAKE TOMORROW'S AMERICA HAPPY AND PROSPEROUS AT HOME, STRONG AND RESPECTED ABROAD, AND AT PEACE IN THE WORLD.

AS WE GATHER HERE TONIGHT, THE STATE OF OUR UNION IS STRONG, BUT OUR ECONOMY IS TROUBLED. FOR TOO MANY OF OUR FELLOW CITIZENS -- FARMERS, STEEL AND AUTO WORKERS, LUMBERMEN, BLACK TEENAGERS, AND WORKING MOTHERS -- THIS IS A PAINFUL PERIOD. WE MUST ALL DO EVERYTHING IN OUR POWER TO BRING THEIR ORDEAL TO AN END. IT HAS FALLEN TO US, IN OUR TIME, TO UNDO DAMAGE THAT WAS A LONG TIME IN THE MAKING, AND TO BEGIN THE HARD BUT NECESSARY TASK OF BUILDING A BETTER FUTURE FOR OURSELVES AND OUR CHILDREN.

WE HAVE A LONG WAY TO GO, BUT THANKS TO THE COURAGE, PATIENCE AND STRENGTH OF OUR PEOPLE, AMERICA IS ON THE MEND.

LET ME GIVE YOU JUST ONE IMPORTANT REASON WHY I BELIEVE THIS -- IT INVOLVES MANY MEMBERS OF THIS BODY.

SAVING SOCIAL SECURITY

JUST TEN DAYS AGO, AFTER MONTHS OF DEBATE AND DEADLOCK, THE BIPARTISAN COMMISSION ON SOCIAL SECURITY ACCOMPLISHED THE SEEMINGLY IMPOSSIBLE.

SOCIAL SECURITY, AS SOME OF US HAD WARNED FOR SO LONG, FACED DISASTER. I, MYSELF, HAVE BEEN SPEAKING ABOUT THIS PROBLEM FOR ALMOST 30 YEARS. AS 1983 BEGAN, THE SYSTEM STOOD ON THE BRINK OF BANKRUPTCY, A DOUBLE VICTIM OF OUR ECONOMIC ILLS. FIRST, A DECADE OF RAMPANT INFLATION DRAINED ITS RESERVES AS WE TRIED TO PROTECT BENEFICIARIES FROM THE SPIRALING COST OF LIVING. THEN THE RECESSION AND THE SUDDEN END OF INFLATION WITHERED THE EXPANDING WAGE BASE AND INCREASING REVENUES THE SYSTEM NEEDS TO SUPPORT THE 36 MILLION AMERICANS WHO DEPEND ON IT.

WHEN THE SPEAKER OF THE HOUSE, THE SENATE MAJORITY LEADER AND I FORMED THE BIPARTISAN COMMISSION ON SOCIAL SECURITY, PUNDITS AND EXPERTS PREDICTED THAT PARTY DIVISIONS AND CONFLICTING INTERESTS WOULD PREVENT THE COMMISSION FROM AGREEING ON A PLAN TO SAVE SOCIAL SECURITY.

WELL, SOMETIMES, EVEN HERE IN WASHINGTON, THE CYNICS ARE WRONG. THROUGH COMPROMISE AND COOPERATION, THE MEMBERS OF THE COMMISSION OVERCAME THEIR DIFFERENCES AND ACHIEVED A FAIR, WORKABLE PLAN. THEY PROVED THAT, WHEN IT COMES TO THE NATIONAL WELFARE, AMERICANS CAN STILL PULL TOGETHER FOR THE COMMON GOOD.

TONIGHT, I AM ESPECIALLY PLEASED TO JOIN WITH THE SPEAKER AND THE SENATE MAJORITY LEADER IN URGING THE CONGRESS TO ENACT THIS PLAN WITHIN THE NEXT HUNDRED DAYS.

THERE ARE ELEMENTS IN IT, OF COURSE, THAT NONE OF US PREFERS, BUT, TAKEN TOGETHER, IT FORMS A PACKAGE ALL OF US CAN SUPPORT. IT ASKS FOR SOME SACRIFICE BY ALL -- THE SELF-EMPLOYED, BENEFICIARIES, WORKERS, NEW GOVERNMENT EMPLOYEES, AND THE BETTER-OFF AMONG THE RETIRED -- BUT IT IMPOSES AN UNDUE ON NONE. AND, IN SUPPORTING IT, WE KEEP AN IMPORTANT PLEDGE TO THE AMERICAN PEOPLE: THE INTEGRITY OF THE SOCIAL SECURITY SYSTEM WILL BE PRESERVED -- AND NO ONE'S PAYMENTS WILL BE REDUCED.

THE COMMISSION'S PLAN WILL DO THE JOB. INDEED, IT MUST DO THE JOB. WE OWE IT TO TODAY'S OLDER AMERICANS -- AND TODAY'S YOUNGER WORKERS.

SO, BEFORE WE GO ANY FURTHER, I ASK YOU TO JOIN WITH ME IN SALUTING THE MEMBERS OF THE COMMISSION WHO ARE HERE TONIGHT, AND SENATE MAJORITY LEADER HOWARD BAKER AND SPEAKER TIP O'NEILL, FOR A JOB WELL DONE.

I HOPE AND PRAY THE BIPARTISAN SPIRIT THAT GUIDED YOU IN THIS ENDEAVOR WILL INSPIRE ALL OF US AS WE FACE THE CHALLENGES OF THE YEAR AHEAD.

#### A TIME OF TRANSITION AND RENEWAL

NEARLY HALF A CENTURY AGO, IN THIS CHAMBER, ANOTHER AMERICAN PRESIDENT, FRANKLIN DELANO ROOSEVELT, IN HIS SECOND STATE OF THE UNION MESSAGE, URGED AMERICA TO LOOK TO THE FUTURE -- TO MEET THE CHALLENGE OF CHANGE AND THE NEED FOR LEADERSHIP THAT LOOKS FORWARD, NOT BACKWARD.

"THROUGHOUT THE WORLD," HE SAID, CHANGE IS THE ORDER OF THE DAY. IN EVERY NATION ECONOMIC PROBLEMS LONG IN THE MAKING HAVE BROUGHT CRISES OF MANY KINDS FOR WHICH THE MASTERS OF OLD PRACTICE AND THEORY WERE UNPREPARED."

HE ALSO REMINDED US THAT, "THE FUTURE LIES WITH THOSE WISE POLITICAL LEADERS WHO REALIZE THAT THE GREAT PUBLIC IS INTERESTED MORE IN GOVERNMENT THAN IN POLITICS."

SO, LET US, IN THESE NEXT TWO YEARS -- MEN AND WOMEN OF BOTH PARTIES AND EVERY POLITICAL SHADE -- CONCENTRATE ON THE LONG-RANGE, BIPARTISAN RESPONSIBILITIES OF GOVERNMENT, NOT THE SHORT-TERM TEMPTATIONS OF PARTISAN POLITICS.

THE PROBLEMS WE INHERITED WERE FAR WORSE THAN MOST INSIDE AND OUT OF GOVERNMENT HAD EXPECTED; THE RECESSION WAS DEEPER THAN MOST INSIDE AND OUT OF GOVERNMENT HAD PREDICTED. CURING THOSE PROBLEMS HAS TAKEN MORE TIME, AND A HIGHER TOLL, THAN ANY OF US WANTED. UNEMPLOYMENT IS FAR TOO HIGH. PROJECTED FEDERAL SPENDING -- IF GOVERNMENT REFUSES TO TIGHTEN ITS OWN BELT -- WILL ALSO BE FAR TOO HIGH AND COULD WEAKEN AND SHORTEN THE ECONOMIC RECOVERY NOW UNDERWAY.

THIS RECOVERY WILL BRING WITH IT A REVIVAL OF ECONOMIC CONFIDENCE AND SPENDING FOR CONSUMER ITEMS AND CAPITAL GOODS -- THE STIMULUS WE NEED TO RESTART OUR STALLED ECONOMIC ENGINES. THE AMERICAN PEOPLE HAVE ALREADY STEPPED UP THEIR RATE OF SAVING, ASSURING THAT THE FUNDS NEEDED TO MODERNIZE OUR FACTORIES AND IMPROVE OUR TECHNOLOGY WILL ONCE AGAIN FLOW TO BUSINESS AND INDUSTRY.

THE INFLATIONARY EXPECTATIONS THAT LED TO A 21 AND-A-HALF PERCENT PRIME RATE AND SOARING MORTGAGE RATES TWO YEARS AGO ARE NOW REDUCED BY ALMOST HALF. LENDERS HAVE STARTED TO REALIZE THAT DOUBLE-DIGIT INFLATION IS NO LONGER A WAY OF LIFE. SO, INTEREST RATES HAVE TUMBLED, PAVING THE WAY FOR RECOVERY IN VITAL INDUSTRIES LIKE HOUSING AND AUTOS.

THE EARLY EVIDENCE OF THAT RECOVERY HAS STARTED COMING IN. HOUSING STARTS FOR THE FOURTH QUARTER OF 1982 WERE UP 45 PERCENT FROM A YEAR AGO. AND HOUSING PERMITS -- A SURE INDICATOR OF FUTURE GROWTH -- WERE UP A WHOPPING 60 PERCENT.

WE ARE WITNESSING AN UPSURGE OF PRODUCTIVITY AND IMPRESSIVE EVIDENCE THAT AMERICAN INDUSTRY WILL ONCE AGAIN BECOME COMPETITIVE IN MARKETS AT HOME AND ABROAD -- ENSURING MORE JOBS AND BETTER INCOMES FOR THE NATION'S WORKFORCE.

BUT OUR CONFIDENCE MUST ALSO BE TEMPERED BY REALISM AND PATIENCE. QUICK FIXES AND ARTIFICIAL STIMULANTS, REPEATEDLY APPLIED OVER DECADES, ARE WHAT BROUGHT ON THE INFLATIONARY DISORDERS THAT WE HAVE NOW PAID SUCH A HEAVY PRICE TO CURE.

THE PERMANENT RECOVERY IN EMPLOYMENT, PRODUCTION AND INVESTMENT WE SEEK WILL NOT COME IN A SHARP, SHORT SPURT. IT WILL BUILD CAREFULLY AND STEADILY IN THE MONTHS AND YEARS AHEAD.

IN THE MEANTIME, THE CHALLENGE OF GOVERNMENT IS TO IDENTIFY THE THINGS WE CAN DO NOW TO EASE THIS MASSIVE ECONOMIC TRANSITION FOR THE AMERICAN PEOPLE.

#### THE FOUR-PART BUDGET PLAN FOR ECONOMIC GROWTH

THE FEDERAL BUDGET IS BOTH A SYMPTOM AND A CAUSE OF OUR ECONOMIC PROBLEMS. UNLESS WE REDUCE THE DANGEROUS GROWTH RATE IN GOVERNMENT SPENDING, WE COULD FACE THE PROSPECT OF SLUGGISH ECONOMIC GROWTH INTO THE INDEFINITE FUTURE. FAILURE TO COPE WITH THIS PROBLEM NOW COULD MEAN AS MUCH AS A TRILLION DOLLARS MORE IN NATIONAL DEBT IN THE NEXT FOUR YEARS ALONE. THAT WOULD AVERAGE 4,300 DOLLARS IN ADDITIONAL DEBT FOR EVERY MAN, WOMAN, AND CHILD IN OUR NATION.

TO ASSURE A SUSTAINED RECOVERY, WE MUST CONTINUE GETTING RUNAWAY SPENDING UNDER CONTROL TO BRING THOSE DEFICITS DOWN. IF WE DO NOT, THE RECOVERY WILL BE TOO SHORT, UNEMPLOYMENT WILL REMAIN TOO HIGH, AND WE WILL LEAVE AN UNCONSCIONABLE BURDEN OF NATIONAL DEBT FOR OUR CHILDREN. THAT WE MUST NOT DO.

LET US BE CLEAR ABOUT WHERE THE DEFICIT PROBLEM COMES FROM. CONTRARY TO THE DRUMBEAT WE HAVE BEEN HEARING FOR THE LAST FEW MONTHS, THE DEFICITS WE FACE ARE NOT ROOTED IN DEFENSE SPENDING. TAKEN AS A PERCENTAGE OF THE GROSS NATIONAL PRODUCT, OUR DEFENSE SPENDING HAPPENS TO BE ONLY ABOUT FOUR-FIFTHS OF WHAT IT WAS IN 1970. NOR IS THE DEFICIT, AS SOME WOULD HAVE IT, ROOTED IN TAX CUTS. EVEN WITH OUR TAX CUTS, TAXES AS A FRACTION OF GROSS NATIONAL PRODUCT REMAIN ABOUT THE SAME AS THEY WERE IN 1970.

THE FACT IS, OUR DEFICITS COME FROM THE UNCONTROLLED GROWTH OF THE BUDGET FOR DOMESTIC SPENDING. DURING THE 1970'S, THE SHARE OF OUR NATIONAL INCOME DEVOTED TO THIS DOMESTIC SPENDING INCREASED BY MORE THAN 60 PERCENT -- FROM TEN CENTS OUT OF EVERY DOLLAR PRODUCED BY THE AMERICAN PEOPLE TO 16 CENTS. IN SPITE OF ALL OUR ECONOMIES AND EFFICIENCIES, AND WITHOUT ADDING ANY NEW PROGRAMS, BASIC, NECESSARY DOMESTIC SPENDING PROVIDED FOR IN THIS YEAR'S BUDGET WILL GROW TO ALMOST ONE TRILLION DOLLARS OVER THE NEXT FIVE YEARS.

THE DEFICIT PROBLEM IS A CLEAR AND PRESENT DANGER TO THE BASIC HEALTH OF OUR REPUBLIC. WE NEED A PLAN TO OVERCOME THIS DANGER -- A PLAN BASED ON THESE PRINCIPLES:

IT MUST BE BIPARTISAN. CONQUERING THE DEFICITS AND PUTTING THE GOVERNMENT'S HOUSE IN ORDER WILL REQUIRE THE BEST EFFORTS OF ALL OF US.

IT MUST BE FAIR. JUST AS ALL WILL SHARE IN THE BENEFITS THAT WILL COME FROM RECOVERY, ALL SHOULD SHARE FAIRLY IN THE BURDEN OF TRANSITION.

IT MUST BE PRUDENT. THE STRENGTH OF OUR NATIONAL DEFENSE MUST BE RESTORED SO THAT WE CAN PURSUE PROSPERITY IN PEACE AND FREEDOM WHILE MAINTAINING OUR COMMITMENT TO THE TRULY NEEDY.

FINALLY, IT MUST BE REALISTIC. WE CANNOT RELY ON HOPE ALONE.

WITH THESE GUIDING PRINCIPLES IN MIND, LET ME OUTLINE A FOUR-PART PLAN TO INCREASE ECONOMIC GROWTH AND REDUCE DEFICITS.

FIRST, IN MY BUDGET MESSAGE, I WILL RECOMMEND A FEDERAL SPENDING FREEZE. I KNOW THIS IS STRONG MEDICINE, BUT SO FAR WE HAVE ONLY CUT THE RATE OF INCREASE IN FEDERAL SPENDING. THE GOVERNMENT HAS CONTINUED TO SPEND MORE MONEY EACH YEAR, THOUGH NOT AS MUCH MORE AS IT DID IN THE PAST. TAKEN AS A WHOLE, THE BUDGET I AM PROPOSING FOR THE NEXT FISCAL YEAR WILL INCREASE NO MORE THAN THE RATE OF INFLATION -- IN OTHER WORDS, THE FEDERAL GOVERNMENT WILL HOLD THE LINE ON REAL SPENDING. THAT IS FAR LESS THAN MANY AMERICAN FAMILIES HAVE HAD TO DO IN THESE DIFFICULT TIMES.

I WILL REQUEST THAT THE PROPOSED SIX-MONTH FREEZE IN COST-OF-LIVING ADJUSTMENTS RECOMMENDED BY THE BIPARTISAN SOCIAL SECURITY COMMISSION BE APPLIED TO OTHER GOVERNMENT-RELATED RETIREMENT PROGRAMS. I WILL ALSO PROPOSE A ONE-YEAR FREEZE ON A BROAD RANGE OF DOMESTIC SPENDING PROGRAMS, AND FOR FEDERAL CIVILIAN AND MILITARY PAY AND PENSION PROGRAMS.

NOW LET ME SAY RIGHT HERE, I'M SORRY WITH REGARD TO THE MILITARY IN ASKING THAT OF THEM BECAUSE FOR SO MANY YEARS THEY HAVE BEEN SO FAR BEHIND AND SO LOW IN REWARD FOR WHAT THE MEN AND WOMEN IN UNIFORM ARE DOING BUT I'M SURE THEY WILL UNDERSTAND THAT THIS MUST BE ACROSS THE BOARD AND FAIR.

SECOND, I WILL ASK THE CONGRESS TO ADOPT SPECIFIC MEASURES TO CONTROL THE GROWTH OF THE SO-CALLED "UNCONTROLLABLE" SPENDING PROGRAMS. THESE ARE THE AUTOMATIC SPENDING PROGRAMS, SUCH AS FOOD STAMPS, THAT CANNOT BE SIMPLY FROZEN -- AND THAT HAVE GROWN BY OVER 400 PERCENT SINCE 1970. THEY ARE THE LARGEST, SINGLE CAUSE OF THE BUILT-IN OR "STRUCTURAL" DEFICIT PROBLEM. OUR STANDARD HERE WILL BE FAIRNESS -- INSURING THAT THE TAXPAYERS' HARD-EARNED DOLLARS GO ONLY TO THE TRULY NEEDY; THAT NONE OF THEM ARE TURNED AWAY; BUT THAT FRAUD AND WASTE ARE STAMPED OUT. AND, I AM SORRY TO SAY, THERE IS A LOT OF IT OUT THERE. IN THE FOOD STAMP PROGRAM ALONE, LAST YEAR WE IDENTIFIED ALMOST 1,100 MILLION DOLLARS IN OVERPAYMENTS. THE TAXPAYERS ARE NOT THE ONLY VICTIMS OF THIS KIND OF ABUSE; THE TRULY NEEDY SUFFER AS FUNDS INTENDED FOR THEM ARE TAKEN BY THE GREEDY. FOR EVERYONE'S SAKE, WE MUST PUT AN END TO SUCH WASTE AND CORRUPTION.

THIRD, I WILL ADJUST OUR PROGRAM TO RESTORE AMERICA'S DEFENSES BY PROPOSING 55,000 MILLION DOLLARS IN DEFENSE

SAVINGS OVER THE NEXT FIVE YEARS. THESE ARE SAVINGS RECOMMENDED TO ME BY THE SECRETARY OF DEFENSE, WHO HAS ASSURED ME THEY CAN BE SAFELY ACHIEVED AND WILL NOT DIMINISH OUR ABILITY TO NEGOTIATE ARMS REDUCTIONS OR ENDANGER AMERICA'S SECURITY. WE WILL NOT GAMBLE WITH OUR NATIONAL SURVIVAL.

FOURTH, BECAUSE WE MUST INSURE REDUCTION AND EVENTUAL ELIMINATION OF DEFICITS OVER THE NEXT SEVERAL YEARS, I WILL PROPOSE A STAND-BY TAX LIMITED TO NO MORE THAN ONE PERCENT OF THE GROSS NATIONAL PRODUCT TO START IN FISCAL 1986. IT WOULD LAST NO MORE THAN THREE YEARS AND WOULD START ONLY IF THE CONGRESS HAS FIRST APPROVED OUR SPENDING FREEZE AND BUDGET CONTROL PROGRAM.

AND THERE ARE SEVERAL OTHER CONDITIONS ALSO THAT MUST BE MET, ALL OF THEM, IN ORDER FOR THIS PROGRAM TO BE TRIGGERED.

YOU COULD SAY THAT THIS IS AN INSURANCE POLICY FOR THE FUTURE -- A REMEDY THAT WILL BE AT HAND IF NEEDED, BUT ONLY RESORTED TO IF ABSOLUTELY NECESSARY.

IN THE MEANTIME, WE WILL CONTINUE TO STUDY WAYS TO SIMPLIFY THE TAX CODE AND MAKE IT MORE FAIR FOR ALL AMERICANS. THIS IS A GOAL THAT EVERY AMERICAN WHO HAS EVER STRUGGLED WITH A TAX FORM CAN UNDERSTAND.

AT THE SAME TIME, HOWEVER, I WILL OPPOSE ANY EFFORTS TO UNDO THE BASIC TAX REFORMS WE HAVE ALREADY ENACTED -- INCLUDING THE 10 PERCENT TAX BREAK COMING TO TAXPAYERS THIS JULY AND THE TAX INDEXING WHICH WILL PROTECT ALL AMERICANS FROM INFLATIONARY BRACKET CREEP IN THE YEARS AHEAD.

I REALIZE THAT THIS FOUR-PART PLAN IS EASIER TO DESCRIBE THAN IT WILL BE TO ENACT. BUT THE LOOMING DEFICITS THAT HANG OVER US -- AND OVER AMERICA'S FUTURE -- MUST BE REDUCED. THE PATH I HAVE OUTLINED IS FAIR, BALANCED, AND REALISTIC. IF ENACTED, IT WILL INSURE A STEADY DECLINE IN DEFICITS, AIMING TOWARD A BALANCED BUDGET BY THE END OF THE DECADE. IT IS THE ONLY PATH THAT WILL LEAD TO A STRONG, SUSTAINED RECOVERY.

LET US FOLLOW THAT PATH TOGETHER.

#### EXPANDING EMPLOYMENT OPPORTUNITIES

NO DOMESTIC CHALLENGE IS MORE CRUCIAL THAN PROVIDING STABLE, PERMANENT JOBS FOR ALL AMERICANS WHO WANT TO WORK. THE RECOVERY WILL PROVIDE JOBS FOR MOST, BUT OTHERS WILL NEED SPECIAL HELP AND TRAINING FOR NEW SKILLS. SHORTLY, I WILL SUBMIT TO THE CONGRESS THE EMPLOYMENT ACT OF 1983 DESIGNED TO GET AT THE SPECIAL PROBLEMS OF THE LONG-TERM UNEMPLOYED AS WELL AS YOUNG PEOPLE TRYING TO ENTER THE JOB MARKET. I WILL PROPOSE EXTENDING UNEMPLOYMENT BENEFITS, INCLUDING SPECIAL INCENTIVES TO EMPLOYERS WHO HIRE THE LONG-TERM UNEMPLOYED, PROVIDING PROGRAMS FOR DISPLACED WORKERS, AND HELPING FEDERALLY-FUNDED AND STATE-ADMINISTERED UNEMPLOYMENT INSURANCE PROGRAMS PROVIDE WORKERS WITH TRAINING AND RELOCATION ASSISTANCE. FINALLY, OUR PROPOSAL WILL INCLUDE NEW INCENTIVES FOR SUMMER YOUTH EMPLOYMENT TO HELP YOUNG PEOPLE GET A START IN THE JOB MARKET.

WE MUST OFFER BOTH SHORT-TERM HELP AND LONG-TERM HOPE FOR OUR UNEMPLOYED. I HOPE WE CAN WORK TOGETHER ON THIS, AS WE DID LAST YEAR IN ENACTING THE LANDMARK JOB TRAINING PARTNERSHIP ACT. REGULATORY REFORM LEGISLATION, A



RESPONSIBLE CLEAN AIR ACT, AND PASSAGE OF ENTERPRISE ZONE LEGISLATION WILL ALSO CREATE NEW INCENTIVES FOR JOBS AND OPPORTUNITY.

#### A NEW PRIORITY FOR TRADE

ONE OUT OF EVERY FIVE JOBS IN OUR COUNTRY DEPENDS ON TRADE. SO, I WILL PROPOSE A BROADER STRATEGY IN THE FIELD OF INTERNATIONAL TRADE -- ONE THAT INCREASES THE OPENNESS OF OUR TRADING SYSTEM AND IS FAIRER TO AMERICA'S FARMERS AND WORKERS IN THE WORLD MARKETPLACE. WE MUST HAVE ADEQUATE EXPORT FINANCING TO SELL AMERICAN PRODUCTS OVERSEAS. I WILL ASK FOR NEW NEGOTIATING AUTHORITY TO REMOVE BARRIERS AND GET MORE OF OUR PRODUCTS INTO FOREIGN MARKETS. WE MUST STRENGTHEN THE ORGANIZATION OF OUR TRADE AGENCIES AND MAKE CHANGES IN OUR DOMESTIC LAWS AND INTERNATIONAL TRADE POLICY TO PROMOTE FREE TRADE AND THE INCREASED FLOW OF AMERICAN GOODS, SERVICES AND INVESTMENTS.

OUR TRADE POSITION CAN ALSO BE IMPROVED BY MAKING OUR PORT SYSTEM MORE EFFICIENT. BETTER, MORE ACTIVE HARBORS TRANSLATE INTO STABLE JOBS IN OUR COAL FIELDS, RAILROADS, TRUCKING INDUSTRY AND PORTS. AFTER TWO YEARS OF DEBATE, IT IS TIME FOR US TO GET TOGETHER AND ENACT A PORT MODERNIZATION BILL.

EDUCATION, TRAINING, AND RETRAINING ARE FUNDAMENTAL TO OUR SUCCESS AS ARE RESEARCH, DEVELOPMENT, AND PRODUCTIVITY. LABOR, MANAGEMENT, AND GOVERNMENT AT ALL LEVELS CAN AND MUST PARTICIPATE IN IMPROVING THESE TOOLS OF GROWTH. TAX POLICY, REGULATORY PRACTICES, AND GOVERNMENT PROGRAMS ALL NEED CONSTANT RE-EVALUATION IN TERMS OF OUR COMPETITIVENESS. EVERY AMERICAN HAS A ROLE, AND A STAKE, IN INTERNATIONAL TRADE.

#### WIDENING EDUCATION HORIZONS

WE AMERICANS ARE STILL THE WORLD'S TECHNOLOGICAL LEADER IN MOST FIELDS. WE MUST KEEP THAT EDGE, AND TO DO SO WE NEED TO BEGIN RENEWING THE BASICS -- STARTING WITH OUR EDUCATIONAL SYSTEM. WHILE WE GROW COMPLACENT, OTHERS HAVE ACTED. JAPAN, WITH A POPULATION ONLY ABOUT HALF THE SIZE OF OURS, GRADUATES FROM ITS UNIVERSITIES MORE ENGINEERS THAN WE DO. IF A CHILD DOES NOT RECEIVE ADEQUATE MATH AND SCIENCE TEACHING BY THE AGE OF 16, HE OR SHE HAS LOST THE CHANCE TO BE A SCIENTIST OR ENGINEER.

WE MUST JOIN TOGETHER -- PARENTS, TEACHERS, GRASSROOTS GROUPS, ORGANIZED LABOR, AND THE BUSINESS COMMUNITY -- TO REVITALIZE AMERICAN EDUCATION BY SETTING A STANDARD OF EXCELLENCE.

IN 1983, WE SEEK FOUR MAJOR EDUCATION GOALS:

-- A QUALITY EDUCATION INITIATIVE TO ENCOURAGE A SUBSTANTIAL UPGRADING OF MATH AND SCIENCE INSTRUCTION THROUGH BLOCK GRANTS TO THE STATES.

-- ESTABLISHMENT OF EDUCATION SAVINGS ACCOUNTS THAT WILL GIVE MIDDLE- AND LOWER-INCOME FAMILIES AN INCENTIVE TO SAVE FOR THEIR CHILDREN'S COLLEGE EDUCATION AND, AT THE SAME TIME, ENCOURAGE A REAL INCREASE IN SAVINGS FOR ECONOMIC GROWTH.

-- PASSAGE OF TUITION TAX CREDITS FOR PARENTS WHO WANT TO SEND THEIR CHILDREN TO PRIVATE OR RELIGIOUSLY-AFFILIATED SCHOOLS.

-- A CONSTITUTIONAL AMENDMENT TO PERMIT VOLUNTARY SCHOOL PRAYER; GOD NEVER SHOULD HAVE BEEN EXPELLED FROM AMERICA'S CLASSROOMS.

#### ASSURING A FAIR SOCIETY

OUR COMMITMENT TO FAIRNESS MEANS THAT WE MUST ASSURE LEGAL AND ECONOMIC EQUITY FOR WOMEN, AND ELIMINATE, ONCE AND FOR ALL, ALL TRACES OF UNJUST DISCRIMINATION AGAINST WOMEN FROM THE U.S. CODE. WE WILL NOT TOLERATE WAGE DISCRIMINATION BASED ON SEX AND WE INTEND TO STRENGTHEN ENFORCEMENT OF CHILD SUPPORT LAWS TO ENSURE THAT SINGLE PARENTS, MOST OF WHOM ARE WOMEN, DO NOT SUFFER UNFAIR FINANCIAL HARDSHIP. WE WILL ALSO TAKE ACTION TO REMEDY INEQUITIES IN PENSIONS. THESE INITIATIVES WILL BE JOINED BY OTHERS TO CONTINUE OUR EFFORTS TO PROMOTE EQUITY FOR WOMEN.

ALSO IN THE AREA OF FAIRNESS AND EQUITY, WE WILL ASK FOR EXTENSION OF THE CIVIL RIGHTS COMMISSION WHICH IS DUE TO EXPIRE THIS YEAR. THE COMMISSION IS AN IMPORTANT PART OF THE ONGOING STRUGGLE FOR JUSTICE IN AMERICA, AND WE STRONGLY SUPPORT ITS REAUTHORIZATION. EFFECTIVE ENFORCEMENT OF OUR NATION'S FAIR HOUSING LAWS IS ALSO ESSENTIAL TO ENSURING EQUAL OPPORTUNITY. IN THE YEAR AHEAD, WE WILL WORK TO STRENGTHEN ENFORCEMENT OF FAIR HOUSING LAWS FOR ALL AMERICANS.

#### PROTECTING OUR PEOPLE AGAINST CRIME

THE TIME HAS ALSO COME FOR MAJOR REFORM OF OUR CRIMINAL JUSTICE STATUTES AND ACCELERATION OF THE DRIVE AGAINST ORGANIZED CRIME AND DRUG TRAFFICKING. IT IS HIGH TIME WE MAKE OUR CITIES SAFE AGAIN. THIS ADMINISTRATION HEREBY DECLARES ALL-OUT WAR ON BIG-TIME ORGANIZED CRIME AND THE DRUG RACKETEERS WHO ARE POISONING OUR YOUNG PEOPLE. WE WILL ALSO IMPLEMENT RECOMMENDATIONS OF OUR TASK FORCE ON VICTIMS OF CRIME, WHICH WILL REPORT TO ME THIS WEEK.

#### ASSISTING AMERICA'S FARMERS

AMERICAN AGRICULTURE, THE ENVY OF THE WORLD, HAS BECOME THE VICTIM OF ITS OWN SUCCESSES. WITH ONE FARMER NOW PRODUCING ENOUGH FOOD TO FEED HIMSELF AND 77 OTHER PEOPLE, AMERICA IS CONFRONTED WITH RECORD SURPLUS CROPS AND COMMODITY PRICES BELOW THE COST OF PRODUCTION. WE MUST STRIVE, THROUGH INNOVATIONS LIKE THE PAYMENT-IN-KIND "CROP-SWAP" APPROACH, AND AN AGGRESSIVE EXPORT POLICY, TO RESTORE HEALTH AND VITALITY TO RURAL AMERICA. MEANWHILE, I HAVE INSTRUCTED THE DEPARTMENT OF AGRICULTURE TO WORK INDIVIDUALLY WITH FARMERS WITH DEBT PROBLEMS TO HELP THEM THROUGH THESE ROUGH TIMES.

#### MOBILIZING THE PRIVATE SECTOR

OVER THE PAST YEAR, OUR TASK FORCE ON PRIVATE SECTOR INITIATIVES HAS SUCCESSFULLY FORGED A WORKING PARTNERSHIP INVOLVING LEADERS OF BUSINESS, LABOR, EDUCATION AND GOVERNMENT TO ADDRESS THE TRAINING NEEDS OF AMERICAN WORKERS. THANKS TO THE TASK FORCE, PRIVATE SECTOR INITIATIVES ARE NOW UNDERWAY IN ALL 50 STATES OF THE UNION AND THOUSANDS OF WORKING PEOPLE HAVE BEEN HELPED IN MAKING THE SHIFT FROM DEAD-END JOBS AND LOW-DEMAND SKILLS TO THE GROWTH AREAS OF HIGH TECHNOLOGY AND THE SERVICE ECONOMY.

ADDITIONALLY, A MAJOR EFFORT WILL BE FOCUSED ON ENCOURAGING THE EXPANSION OF PRIVATE COMMUNITY CHILD CARE. THE NEW ADVISORY COUNCIL ON PRIVATE SECTOR INITIATIVES WILL CARRY ON AND EXTEND THIS VITAL WORK OF ENCOURAGING PRIVATE INITIATIVE IN 1983.

#### MAKING HEALTH CARE MORE AFFORDABLE

IN THE COMING YEAR WE WILL ALSO ACT TO IMPROVE THE QUALITY OF LIFE FOR AMERICANS BY CURBING THE SKYROCKETING COST OF HEALTH CARE THAT IS BECOMING AN UNBEARABLE FINANCIAL BURDEN FOR SO MANY. AND WE WILL SUBMIT LEGISLATION TO PROVIDE CATASTROPHIC ILLNESS INSURANCE COVERAGE FOR OLDER AMERICANS.

#### ENHANCING FEDERALISM

I WILL ALSO SHORTLY SUBMIT A COMPREHENSIVE FEDERALISM PROPOSAL THAT WILL CONTINUE OUR EFFORTS TO RESTORE TO STATES AND LOCAL GOVERNMENTS THEIR ROLES AS DYNAMIC LABORATORIES OF CHANGE IN A CREATIVE DEMOCRACY.

DURING THE NEXT SEVERAL WEEKS, I WILL SEND TO THE CONGRESS A SERIES OF DETAILED PROPOSALS ON THESE AND OTHER TOPICS AND LOOK FORWARD TO WORKING WITH YOU ON THE DEVELOPMENT OF THESE INITIATIVES.

#### KEEPING FAITH WITH THE FUTURE

SO FAR, I HAVE CONCENTRATED MAINLY ON THE PROBLEMS POSED BY THE FUTURE. BUT IN ALMOST EVERY HOME AND WORKPLACE IN AMERICA, WE ARE ALREADY WITNESSING REASON FOR GREAT HOPE -- THE FIRST FLOWERING OF THE MAN-MADE MIRACLES OF HIGH TECHNOLOGY, A FIELD PIONEERED AND STILL LED BY OUR COUNTRY.

TO MANY OF US NOW, COMPUTERS, SILICON CHIPS, DATA PROCESSING, CYBERNETICS AND ALL THE OTHER INNOVATIONS OF THE DAWNING HIGH TECHNOLOGY AGE ARE AS MYSTIFYING AS THE WORKINGS OF THE COMBUSTION ENGINE MUST HAVE BEEN WHEN THAT FIRST MODEL-T RATTLED DOWN MAIN STREET U.S.A.

BUT, AS SURELY AS AMERICA'S PIONEER SPIRIT MADE US THE INDUSTRIAL GIANT OF THE 20TH CENTURY, THE SAME PIONEER SPIRIT TODAY IS OPENING UP ANOTHER VAST FRONTIER OF OPPORTUNITY -- THE FRONTIER OF HIGH TECHNOLOGY. IN CONQUERING THIS FRONTIER WE CANNOT WRITE OFF OUR TRADITIONAL INDUSTRIES, BUT WE MUST DEVELOP THE SKILLS AND INDUSTRIES THAT WILL MAKE US A PIONEER OF TOMORROW. THIS ADMINISTRATION IS COMMITTED TO KEEPING AMERICA THE TECHNOLOGICAL LEADER OF THE WORLD NOW AND INTO THE 21ST CENTURY.

#### AMERICA AND THE WORLD

LET US TURN BRIEFLY TO THE INTERNATIONAL ARENA. AMERICA'S LEADERSHIP ROLE IN THE WORLD CAME TO US BECAUSE OF OUR OWN STRENGTH AND BECAUSE OF THE VALUES WHICH GUIDE US AS A SOCIETY: FREE ELECTIONS, A FREE PRESS, FREEDOM OF RELIGIOUS CHOICE, FREE TRADE UNIONS, AND, ABOVE ALL, FREEDOM FOR THE INDIVIDUAL AND REJECTION OF THE ARBITRARY POWER OF THE STATE. THESE VALUES ARE THE BEDROCK OF OUR STRENGTH. THEY UNITE US IN A STEWARDSHIP OF PEACE AND FREEDOM WITH OUR ALLIES AND FRIENDS IN NATO, IN ASIA, IN LATIN AMERICA AND ELSEWHERE. THEY ARE ALSO THE VALUES WHICH IN THE RECENT

PAST SOME AMONG US HAD BEGUN TO DOUBT AND VIEW WITH A CYNICAL EYE.

FORTUNATELY, WE AND OUR ALLIES HAVE REDISCOVERED THE STRENGTH OF OUR COMMON DEMOCRATIC VALUES. AND WE ARE APPLYING THEM AS THE CORNERSTONE OF A COMPREHENSIVE STRATEGY FOR PEACE WITH FREEDOM. IN LONDON LAST YEAR, I ANNOUNCED THE COMMITMENT OF THE UNITED STATES TO DEVELOPING THE INFRASTRUCTURE OF DEMOCRACY THROUGHOUT THE WORLD. WE INTEND TO PURSUE THIS DEMOCRATIC INITIATIVE VIGOROUSLY. THE FUTURE BELONGS NOT TO GOVERNMENTS AND IDEOLOGIES WHICH OPPRESS THEIR PEOPLES BUT TO DEMOCRATIC SYSTEMS OF SELF-GOVERNMENT WHICH ENCOURAGE INDIVIDUAL INITIATIVE AND GUARANTEE PERSONAL FREEDOM.

#### STRENGTHENING THE WORLD ECONOMY

BUT OUR STRATEGY FOR PEACE WITH FREEDOM MUST ALSO BE BASED ON STRENGTH -- ECONOMIC STRENGTH AND MILITARY STRENGTH. A STRONG AMERICAN ECONOMY IS ESSENTIAL TO THE WELL-BEING AND SECURITY OF OUR FRIENDS AND ALLIES. THE RESTORATION OF A STRONG, HEALTHY AMERICAN ECONOMY HAS BEEN AND REMAINS ONE OF THE CENTRAL PILLARS OF OUR FOREIGN POLICY. THE PROGRESS I HAVE BEEN ABLE TO REPORT TO YOU TONIGHT WILL, I KNOW, BE AS WARMLY WELCOMED BY THE REST OF THE FREE WORLD AS IT IS BY THE AMERICAN PEOPLE.

WE MUST ALSO RECOGNIZE THAT OUR OWN ECONOMIC WELL-BEING IS INEXTRICABLY LINKED TO THE WORLD ECONOMY. WE EXPORT OVER 20 PERCENT OF OUR INDUSTRIAL PRODUCTION, AND 40 PERCENT OF OUR FARMLAND PRODUCES FOR EXPORT. WE WILL CONTINUE TO WORK CLOSELY WITH THE INDUSTRIALIZED DEMOCRACIES OF EUROPE AND JAPAN AND WITH THE INTERNATIONAL MONETARY FUND TO ENSURE IT HAS ADEQUATE RESOURCES TO HELP BRING THE WORLD ECONOMY BACK TO STRONG, NON-INFLATIONARY GROWTH. AS THE LEADER OF THE WEST AND AS A COUNTRY THAT HAS BECOME GREAT AND RICH BECAUSE OF ECONOMIC FREEDOM, AMERICA MUST BE AN UNRELENTING ADVOCATE OF FREE TRADE. AS SOME NATIONS ARE TEMPTED TO TURN TO PROTECTIONISM, OUR STRATEGY CANNOT BE TO FOLLOW THEM BUT TO LEAD THE WAY TOWARD FREER TRADE. TO THIS END, IN MAY OF THIS YEAR, AMERICA WILL HOST AN ECONOMIC SUMMIT MEETING IN WILLIAMSBURG, VIRGINIA.

#### RESTORING AMERICA'S DEFENSES

AS WE BEGIN OUR THIRD YEAR, WE HAVE PUT IN PLACE A DEFENSE PROGRAM THAT REDEEMS THE NEGLECT OF THE PAST DECADE. WE HAVE DEVELOPED A REALISTIC MILITARY STRATEGY TO DETER THREATS TO THE PEACE, AND TO PROTECT OUR FREEDOM IF DETERRENCE FAILS. OUR ARMED FORCES ARE FINALLY PROPERLY PAID, AFTER YEARS OF NEGLECT, ARE WELL-TRAINED, AND BECOMING BETTER EQUIPPED AND SUPPLIED -- AND THE AMERICAN UNIFORM IS ONCE MORE WORN WITH PRIDE. MOST OF THE MAJOR SYSTEMS NEEDED FOR MODERNIZING OUR DEFENSES ARE ALREADY UNDERWAY AND WE WILL BE ADDRESSING ONE KEY SYSTEM -- THE MX MISSILE -- IN CONSULTATION WITH THE CONGRESS IN A FEW MONTHS.

#### A BIPARTISAN POLICY FOR PEACE

AMERICA'S FOREIGN POLICY IS ONCE AGAIN BASED ON BIPARTISANSHIP -- ON REALISM, STRENGTH, FULL PARTNERSHIP AND CONSULTATION WITH OUR ALLIES, AND CONSTRUCTIVE NEGOTIATION WITH POTENTIAL ADVERSARIES. FROM THE MIDDLE EAST TO

SOUTHERN AFRICA TO GENEVA, AMERICAN DIPLOMATS ARE TAKING THE INITIATIVE TO MAKE PEACE AND LOWER ARMS LEVELS. WE SHOULD BE PROUD OF OUR ROLE AS PEACEMAKERS.

IN THE MIDDLE EAST LAST YEAR, THE UNITED STATES PLAYED THE MAJOR ROLE IN ENDING THE TRAGIC FIGHTING IN LEBANON, AND NEGOTIATED THE WITHDRAWAL OF THE PLO FROM BEIRUT.

LAST SEPTEMBER, I OUTLINED PRINCIPLES TO CARRY ON THE PEACE PROCESS BEGUN SO PROMISINGLY AT CAMP DAVID. ALL THE PEOPLE OF THE MIDDLE EAST SHOULD KNOW THAT, IN THE YEAR AHEAD, WE WILL NOT FLAG IN OUR EFFORTS TO BUILD ON THAT FOUNDATION TO BRING THEM THE BLESSINGS OF PEACE.

IN CENTRAL AMERICA AND THE CARIBBEAN BASIN, WE ARE LIKewise ENGAGED IN A PARTNERSHIP FOR PEACE, PROSPERITY AND DEMOCRACY. FINAL PASSAGE OF THE REMAINING PORTIONS OF OUR CARIBBEAN BASIN INITIATIVE, WHICH PASSED THE HOUSE LAST YEAR, IS ONE OF THIS ADMINISTRATION'S TOP LEGISLATIVE PRIORITIES FOR 1983.

THE SECURITY AND ECONOMIC ASSISTANCE POLICIES OF THIS ADMINISTRATION, IN LATIN AMERICA AND ELSEWHERE, ARE BASED ON REALISM AND REPRESENT A CRITICAL INVESTMENT IN THE FUTURE OF THE HUMAN RACE. THIS UNDERTAKING IS A JOINT RESPONSIBILITY OF THE EXECUTIVE AND LEGISLATIVE BRANCHES, AND I AM COUNTING ON THE COOPERATION AND STATESMANSHIP OF THE CONGRESS TO HELP US MEET THIS ESSENTIAL FOREIGN POLICY GOAL.

#### U.S.-SOVIET RELATIONS AND ARMS REDUCTION

AT THE HEART OF OUR STRATEGY FOR PEACE IS OUR RELATIONSHIP WITH THE SOVIET UNION.

THE PAST YEAR SAW A CHANGE IN SOVIET LEADERSHIP. WE ARE PREPARED FOR A POSITIVE CHANGE IN SOVIET-AMERICAN RELATIONS. BUT THE SOVIET UNION MUST SHOW, BY DEEDS AS WELL AS WORDS, A SINCERE COMMITMENT TO RESPECT THE RIGHTS AND SOVEREIGNTY OF THE FAMILY OF NATIONS. RESPONSIBLE MEMBERS OF THE WORLD COMMUNITY DO NOT THREATEN OR INVADE THEIR NEIGHBORS AND THEY RESTRAIN THEIR ALLIES FROM AGGRESSION.

FOR OUR PART, WE ARE VIGOROUSLY PURSUING ARMS REDUCTIONS NEGOTIATIONS WITH THE SOVIET UNION. SUPPORTED BY OUR ALLIES, WE HAVE NOW PUT FORWARD DRAFT AGREEMENTS PROPOSING SIGNIFICANT WEAPONS REDUCTIONS TO EQUAL AND VERIFIABLE LOWER LEVELS. WE INSIST ON AN EQUAL BALANCE OF FORCES. AND, GIVEN THE OVERWHELMING EVIDENCE OF SOVIET VIOLATIONS OF INTERNATIONAL TREATIES CONCERNING CHEMICAL AND BIOLOGICAL WEAPONS, WE ALSO INSIST THAT ANY AGREEMENT WE SIGN CAN AND WILL BE VERIFIABLE.

IN THE CASE OF INTERMEDIATE-RANGE NUCLEAR FORCES, WE HAVE PROPOSED THE COMPLETE ELIMINATION OF THE ENTIRE CLASS OF LAND-BASED MISSILES. WE ARE ALSO PREPARED TO CAREFULLY EXPLORE SERIOUS SOVIET PROPOSALS. AT THE SAME TIME, LET ME EMPHASIZE THAT ALLIED STEADFASTNESS REMAINS A KEY TO ACHIEVING ARMS REDUCTIONS.

WITH FIRMNESS AND DEDICATION, WE WILL CONTINUE TO NEGOTIATE. DEEP DOWN, THE SOVIETS MUST KNOW IT IS IN THEIR INTEREST AS WELL AS OURS TO PREVENT A WASTEFUL ARMS RACE. AND ONCE THEY RECOGNIZE OUR UNSHAKEABLE RESOLVE TO MAINTAIN ADEQUATE DETERRENCE, THEY WILL HAVE EVERY REASON TO JOIN US IN THE SEARCH FOR GREATER SECURITY AND MAJOR ARMS REDUCTIONS. WHEN THAT MOMENT COMES -- AND I AM CONFIDENT THAT IT WILL -- WE WILL HAVE TAKEN AN IMPORTANT STEP TOWARD A MORE PEACEFUL FUTURE FOR ALL THE WORLD'S PEOPLE.

A VISION OF HOPE

A VERY WISE MAN, BERNARD BARUCH, ONCE SAID THAT AMERICA HAS NEVER FORGOTTEN THE NOBLER THINGS THAT BROUGHT HER INTO BEING AND THAT LIGHT HER PATH. OUR COUNTRY IS A SPECIAL PLACE BECAUSE WE AMERICANS HAVE ALWAYS BEEN SUSTAINED, THROUGH GOOD TIMES AND BAD, BY A NOBLE VISION -- A VISION NOT ONLY OF WHAT THE WORLD AROUND US IS TODAY, BUT OF WHAT WE, AS A FREE PEOPLE, CAN MAKE IT BE TOMORROW.

WE ARE REALISTS; WE SOLVE OUR PROBLEMS INSTEAD OF IGNORING THEM; NO MATTER HOW LOUD THE CHORUS OF DESPAIR AROUND US.

BUT WE ARE ALSO IDEALISTS, FOR IT WAS AN IDEAL THAT BROUGHT OUR ANCESTORS TO THESE SHORES FROM EVERY CORNER OF THE WORLD.

RIGHT NOW WE NEED BOTH REALISM AND IDEALISM. MILLIONS OF OUR NEIGHBORS ARE WITHOUT WORK. IT IS UP TO US TO SEE THEY ARE NOT WITHOUT HOPE. THIS IS A TASK FOR ALL OF US. AND MAY I SAY AMERICANS HAVE RALLIED TO THIS CAUSE PROVING ONCE AGAIN THAT WE ARE THE MOST GENEROUS PEOPLE ON EARTH.

WE WHO ARE IN GOVERNMENT MUST TAKE THE LEAD IN RESTORING THE ECONOMY. THE SINGLE THING THAT CAN START THE WHEELS OF INDUSTRY TURNING AGAIN IS FURTHER REDUCTION OF INTEREST RATES. ANOTHER ONE OR TWO POINTS CAN MEAN TENS OF THOUSANDS OF JOBS. RIGHT NOW, WITH INFLATION AS LOW AS IT IS, 3.9 PERCENT, THERE IS ROOM FOR INTEREST RATES TO COME DOWN.

ONLY FEAR PREVENTS THEIR REDUCTION. A LENDER, AS WE KNOW, MUST CHARGE AN INTEREST RATE THAT RECOVERS THE DEPRECIATED VALUE OF THE DOLLARS LOANED. THAT DEPRECIATION IS, OF COURSE, THE AMOUNT OF INFLATION. TODAY, INTEREST RATES ARE BASED ON FEAR THAT GOVERNMENT WILL RESORT TO MEASURES, AS IT HAS IN THE PAST, THAT WILL SEND INFLATION ZOOMING AGAIN.

WE WHO SERVE HERE IN THIS CAPITAL MUST ERASE THAT FEAR BY MAKING IT ABSOLUTELY CLEAR THAT WE WILL NOT STOP FIGHTING INFLATION; THAT, TOGETHER, WE WILL DO ONLY THOSE THINGS THAT WILL LEAD TO LASTING ECONOMIC GROWTH.

YES, THE PROBLEMS CONFRONTING US ARE LARGE AND FORBIDDING. AND, CERTAINLY, NO ONE CAN OR SHOULD MINIMIZE THE PLIGHT OF MILLIONS OF OUR FRIENDS AND NEIGHBORS WHO ARE LIVING IN THE BLEAK EMPTINESS OF UNEMPLOYMENT. BUT WE MUST AND CAN GIVE THEM GOOD REASON TO BE HOPEFUL.

BACK OVER THE YEARS, CITIZENS LIKE OURSELVES HAVE GATHERED WITHIN THESE WALLS WHEN OUR NATION WAS THREATENED; SOMETIMES WHEN ITS VERY EXISTENCE WAS AT STAKE. ALWAYS, WITH COURAGE AND COMMON SENSE, THEY MET THE CRISES OF THEIR TIME AND LIVED TO SEE A STRONGER, BETTER, AND MORE PROSPEROUS COUNTRY.

THE PRESENT SITUATION IS NO WORSE AND IN FACT IS NOT AS BAD AS SOME OF THOSE THEY FACED. TIME AND AGAIN, THEY PROVED THAT THERE IS NOTHING WE AMERICANS CANNOT ACHIEVE AS FREE MEN AND WOMEN.

YES, WE STILL HAVE PROBLEMS -- PLENTY OF THEM. BUT IT IS JUST PLAIN WRONG -- UNJUST TO OUR COUNTRY AND UNJUST TO OUR PEOPLE -- TO LET THOSE PROBLEMS STAND IN THE WAY OF THE MOST IMPORTANT TRUTH OF ALL: AMERICA IS ON THE MEND.

WE OWE IT TO THE UNFORTUNATE TO BE AWARE OF THEIR PLIGHT AND TO HELP THEM IN EVERY WAY WE CAN. NO ONE CAN QUARREL WITH THAT -- WE MUST AND DO HAVE COMPASSION FOR ALL

THE VICTIMS OF THIS ECONOMIC CRISIS. BUT THE BIG STORY ABOUT AMERICA TODAY IS THE WAY THAT MILLIONS OF CONFIDENT, CARING PEOPLE -- THOSE EXTRAORDINARY "ORDINARY" AMERICANS WHO NEVER MAKE THE HEADLINES AND WILL NEVER BE INTERVIEWED -- ARE LAYING THE FOUNDATION, NOT JUST FOR RECOVERY FROM OUR PRESENT PROBLEMS, BUT FOR A BETTER TOMORROW FOR ALL OUR PEOPLE.

FROM COAST TO COAST, ON THE JOB AND IN CLASSROOMS AND LABORATORIES, AT NEW CONSTRUCTION SITES AND IN CHURCHES AND COMMUNITY GROUPS, NEIGHBORS ARE HELPING NEIGHBORS. AND THEY'VE ALREADY BEGUN THE BUILDING, THE RESEARCH, THE WORK, AND THE GIVING THAT WILL MAKE OUR COUNTRY GREAT AGAIN.

I BELIEVE THIS BECAUSE I BELIEVE IN THEM -- IN THE STRENGTH OF THEIR HEARTS AND MINDS, IN THE COMMITMENT EACH OF THEM BRINGS TO THEIR DAILY LIVES, BE THEY HIGH OR HUMBLE. THE CHALLENGE FOR US IN GOVERNMENT IS TO BE WORTHY OF THEM -- TO MAKE GOVERNMENT A HELP, NOT A HINDRANCE TO OUR PEOPLE IN THE CHALLENGING BUT PROMISING DAYS AHEAD.

IF WE DO THAT, IF WE CARE WHAT OUR CHILDREN AND OUR CHILDREN'S CHILDREN WILL SAY OF US, IF WE WANT THEM ONE DAY TO BE THANKFUL FOR WHAT WE DID HERE IN THESE TEMPLES OF FREEDOM, WE WILL WORK TOGETHER TO MAKE AMERICA BETTER FOR OUR HAVING BEEN HERE -- NOT JUST IN THIS YEAR, OR IN THIS DECADE, BUT IN THE NEXT CENTURY AND BEYOND.

END TEXT

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EXCERPTS:

STATE OF THE UNION FACT SHEET

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A "FACT SHEET" ISSUED BY THE WHITE HOUSE IN ADVANCE OF PRESIDENT REAGAN'S STATE OF THE UNION ADDRESS TO CONGRESS JANUARY 25 GAVE ADDITIONAL DETAILS ON SEVERAL OF THE PRESIDENT'S PROPOSALS.

FOLLOWING ARE EXCERPTS FROM THE FACT SHEET DEALING WITH THE CONTINGENCY TAX PROPOSAL, JOBS AND UNEMPLOYMENT PROGRAMS, AND TRADE POLICY:

SUMMARY

IN HIS SECOND STATE OF THE UNION ADDRESS, PRESIDENT REAGAN PRESENTED A SWEEPING SET OF INITIATIVES TO BRING LONG-TERM ECONOMIC GROWTH AND PUT AMERICANS BACK TO WORK. AMONG THE KEY ELEMENTS WERE A FOUR-PART BUDGET PLAN, A PROGRAM TO ATTACK STRUCTURAL UNEMPLOYMENT, AND A BROADENED TRADE STRATEGY. IN ADDITION, THE PRESIDENT OUTLINED A SERIES OF OTHER STEPS THAT HE PROPOSES IN THE AREAS OF EDUCATION, HEALTH CARE, CRIME, WOMEN'S RIGHTS, AND CIVIL RIGHTS. FINALLY, THE PRESIDENT REAFFIRMED THE NATION'S COMMITMENT TO PEACE, ARMS CONTROL AND NATIONAL SECURITY. THROUGHOUT THE ADDRESS, THE PRESIDENT EMPHASIZED THE NEED FOR BIPARTISANSHIP IN ADDRESSING THE NATION'S CHALLENGES....

INSURANCE POLICY AGAINST HIGH DEFICITS IN OUTYEARS  
FINALLY, IN ORDER TO PROTECT THE COUNTRY AGAINST HIGH DEFICITS IN THE OUTYEARS, THE PRESIDENT SAID HE WOULD PROPOSE A STANDBY TAX PROGRAM. THE STANDBY MEASURE WOULD BE LIMITED IN SIZE (1 PERCENT OF GNP (GROSS NATIONAL PRODUCT) AND IN DURATION (TO LAST NO MORE THAN THREE YEARS, BEGINNING ON OCTOBER 1, 1985). FURTHERMORE, THE NEW PROGRAM WOULD BE TRIGGERED ONLY IF (1) THE CONGRESS PREVIOUSLY AGREED TO OTHER SPENDING RESTRAINTS, INCLUDING THE BUDGET FREEZE; (2) THE FY (FISCAL YEAR) 1986 FEDERAL DEFICIT FORECAST BY THE ADMINISTRATION ON JULY 1, 1985 EXCEEDS 2.5 PERCENT OF GNP; AND (3) THE NATION, ON THAT SAME DATE, HAS A GROWING ECONOMY. ALL THREE CONDITIONS MUST BE MET BEFORE THE PROGRAM BECOMES EFFECTIVE.

THE CONTINGENCY TAXES WOULD CONSIST OF:

-- A SURCHARGE ON INDIVIDUALS AND CORPORATIONS APPROXIMATELY EQUIVALENT TO ONE PERCENT OF TAXABLE INCOME; AND,

-- AN EXCISE TAX ON OIL, BOTH DOMESTICALLY PRODUCED AND IMPORTED, THAT WILL RAISE REVENUES OF ABOUT FIVE DOLLARS PER BARREL.

AS THE PRESIDENT SAID, THIS IS AN INSURANCE PROGRAM TO PROTECT AGAINST HIGH DEFICITS IN FUTURE YEARS....

THE PRESIDENT ALSO MADE IT CLEAR IN HIS ADDRESS THAT HE IS ACTIVELY INTERESTED IN WAYS TO SIMPLIFY THE FEDERAL TAX SYSTEM. HE IS DIRECTING THE SECRETARY OF THE TREASURY TO UNDERTAKE STUDIES TO DETERMINE HOW THAT MIGHT BE DONE.



## ADDRESSING STRUCTURAL UNEMPLOYMENT

THE PRESIDENT ANNOUNCED THAT HE WOULD SHORTLY SEND TO THE CONGRESS A COMPREHENSIVE EMPLOYMENT BILL TO ATTACK THE SPECIAL PROBLEMS OF THE LONG-TERM UNEMPLOYED AND OF YOUNG PEOPLE.

-- OF THE ROUGHLY 111 MILLION AMERICANS IN THE LABOR FORCE, OVER 12 MILLION WERE UNEMPLOYED AT THE END OF 1982.

-- DURING 1983, IT IS LIKELY THAT SOMEWHAT OVER 3 MILLION PEOPLE WILL EXHAUST ALL UNEMPLOYMENT COMPENSATION BENEFITS.

-- HEADS OF HOUSEHOLDS ACCOUNT FOR LESS THAN 42 PERCENT OF THE UNEMPLOYED. PERSONS 16 TO 24 YEARS OLD ACCOUNT FOR APPROXIMATELY 40 PERCENT AND TEENAGERS MAKE UP NEARLY 18 PERCENT OF THE UNEMPLOYED.

-- DURING NON-RECESSION TIMES, PERSONS WHO QUIT THEIR JOBS, NEW LABOR MARKET ENTRANTS, AND RETIREES ACCOUNT FOR MORE OF THE UNEMPLOYED THAN THOSE WHO LOSE THEIR JOBS. UNEMPLOYMENT FOR MOST WORKERS IS OF RELATIVELY SHORT DURATION -- ABOUT 10 WEEKS. HOWEVER, A SMALL BUT GROWING FRACTION OF THE LABOR FORCE IS EXPERIENCING LONGER DURATIONS OF UNEMPLOYMENT. IT IS ESTIMATED THAT ONE-FOURTH OF THOSE UNEMPLOYED WILL EXPERIENCE UNEMPLOYMENT FOR LONGER THAN SIX MONTHS IN 1983.

-- THIS CONDITION IS DUE IN PART TO THE LENGTH AND DEPTH OF THE RECESSION, BUT MORE IMPORTANTLY TO STRUCTURAL FACTORS. THESE FACTORS INCLUDE BARRIERS TO LABOR MARKET ENTRY, THE MISMATCH IN THE SKILLS REQUIRED IN AVAILABLE JOBS VERSUS THOSE AVAILABLE TO FILL THEM, AND FUNDAMENTAL STRUCTURAL CHANGES IN THE U.S. ECONOMY.

-- IN 1982 THE ADMINISTRATION PROPOSED, AND THE CONGRESS ENACTED, A MAJOR NEW PIECE OF LEGISLATION TO PROVIDE TRAINING FOR THOSE MOST IN NEED OF ACQUIRING SKILLS TO FIND PRODUCTIVE EMPLOYMENT. THE MULTI-BILLION (THOUSAND MILLION) DOLLAR JOB TRAINING PARTNERSHIP ACT BRINGS THE PUBLIC AND PRIVATE SECTORS TOGETHER IN PROVIDING TRAINING FOR OVER ONE MILLION AMERICANS ANNUALLY.

-- YOUTH UNEMPLOYMENT POSES A SPECIAL PROBLEM. EXPERIENCE SUGGESTS THAT YOUTHS WHO HAVE DIFFICULTY IN THE FIRST YEAR OR TWO IN SECURING EMPLOYMENT RUN A HIGHER RISK OF LONG-TERM UNEMPLOYMENT. IT IS IMPORTANT FOR NEW WORKERS TO BE ABLE TO RECEIVE ON-THE-JOB TRAINING WHICH PROVIDES THE SKILLS TO ENABLE THEM TO SECURE A LASTING ATTACHMENT TO THE LABOR FORCE.

TO ATTACK THE SPECIAL PROBLEMS OF THE LONG-TERM UNEMPLOYED AND YOUNG PEOPLE THE PRESIDENT'S EMPLOYMENT BILL WILL PROPOSE:

-- EXTENDING FOR SIX MONTHS THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM FOR THOSE WHO HAVE EXHAUSTED THEIR REGULAR AND EXTENDED UNEMPLOYMENT INSURANCE BENEFITS. (THE FEDERAL SUPPLEMENTAL COMPENSATION PROGRAM IS CURRENTLY SCHEDULED TO EXPIRE ON MARCH 31, 1983).

-- PROVIDING SPECIAL INCENTIVES IN THE FORM OF TAX CREDITS TO EMPLOYERS WHO HIRE THE LONG-TERM UNEMPLOYED;

-- PROVIDING ADDITIONAL FUNDS FOR PROGRAMS BENEFITTING DISPLACED WORKERS UNDER TITLE III OF THE JOBS TRAINING PARTNERSHIP ACT.

-- PERMIT STATES TO USE A PORTION OF THEIR UNEMPLOYMENT INSURANCE TRUST FUNDS TO PROVIDE RETRAINING AND RELOCATION ASSISTANCE.

-- IMPROVING THE INCENTIVES FOR HIRING YOUTHS DURING THE SUMMER.

-- IN 1982, PRESIDENT REAGAN PROPOSED ENTERPRISE ZONES LEGISLATION TO CREATE JOBS FOR THE DISADVANTAGED AND REVITALIZE URBAN AND RURAL AREAS THAT WAS FAVORABLY REPORTED BY THE SENATE FINANCE COMMITTEE, BUT NOT ACTED ON FURTHER BY THE CONGRESS. THE PRESIDENT WILL PROPOSE LEGISLATION BASED ON THE BILL REPORTED OUT BY THE SENATE FINANCE COMMITTEE IN THE LAST CONGRESS.

THESE AND OTHER PROPOSALS TO REDUCE STRUCTURAL UNEMPLOYMENT WILL BE OUTLINED IN DETAIL WHEN THE PRESIDENT'S PROPOSED EMPLOYMENT ACT OF 1983 IS SUBMITTED.

A FAIR SHAKE FOR AMERICA'S FARMERS AND WORKERS IN THE WORLD MARKET PLACE

THE PRESIDENT ANNOUNCED THAT HE WILL PROPOSE A BROADER TRADE STRATEGY TO PROMOTE FREE TRADE AND THE INCREASED FLOW OF AMERICAN GOODS AND SERVICES GIVING A FAIR SHAKE TO AMERICA'S FARMERS AND WORKERS.

-- ADMINISTRATION NEGOTIATING SUCCESSES IN SETTING MINIMUM RATES FOR GOVERNMENT EXPORT CREDITS, COUPLED WITH THE DECLINE IN U.S. INTEREST RATES, HAVE REDUCED THE ASYMMETRY IN FINANCING COSTS.

-- TO MEET INCREASED DEMAND FOR CREDIT, PARTICULARLY FROM THE DEVELOPING COUNTRIES, EX-IM BANK'S GUARANTEE AUTHORITY WILL BE INCREASED.

-- THE ADMINISTRATION WILL ALSO SEEK AN INCREASE IN DIRECT LENDING AUTHORITY, IF THE PRESIDENT DETERMINES THAT IT IS NEEDED TO COUNTER INAPPROPRIATE FOREIGN GOVERNMENT EXPORT FINANCING PRACTICES.

-- EXISTING TRADE NEGOTIATING AUTHORITY UNDER SECTION 102 OF THE TRADE ACT OF 1974, AS AMENDED, PROVIDES FOR NEGOTIATIONS TO REDUCE NON-TARIFF BARRIERS AND "OTHER RESTRICTIONS," BUT IS INSUFFICIENT TO COVER TARIFF REDUCTIONS OR NEW AGREEMENTS ON SERVICES, INVESTMENT, AND HIGH TECHNOLOGY.

-- THE ADMINISTRATION WILL PROPOSE LEGISLATION AUTHORIZING NEW NEGOTIATING AUTHORITY COVERING THESE IMPORTANT TRADE AREAS. SUBSEQUENT NEGOTIATIONS SHOULD ENHANCE U.S. FIRMS' ABILITY TO EXPORT AMERICAN PRODUCTS AND SERVICES STIMULATING NEW PRODUCTION AND EMPLOYMENT.

-- FULLY CAPABLE PORTS AND CHANNELS ARE ESSENTIAL TO MAKE U.S. COAL EXPORTS COMPETITIVE IN WORLD MARKETS. IN 1981, THE ADMINISTRATION PROPOSED A SYSTEM OF USER FEES FOR EXISTING PORT MAINTENANCE AND NEW PORT CONSTRUCTION. LOCAL GOVERNMENTS WOULD BE EMPOWERED TO SET UP THEIR OWN FINANCING ARRANGEMENTS FOR THE IMMEDIATE CONSTRUCTION OF FACILITIES IN THEIR AREAS.

-- THE ADMINISTRATION WILL WORK WITH THE 98TH CONGRESS TO PROVIDE FOR TIMELY AND EFFICIENT PORT CONSTRUCTION. DISCUSSIONS IN THE LAST CONGRESS CENTERED ON FUNDING FORMULAS WHICH WOULD NOT PENALIZE LOW-VOLUME PORTS. THE PRINCIPLE OF SELF-FINANCING FOR NEW FACILITIES HAS BEEN GENERALLY ACCEPTED.

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