OUTLINE OF REMARKS

NATIONAL MACHINE DEALERS

November 5, 1982 - 9 a.m. - Hyatt Regency

I. The Election and the New Congress

A. The basic policy course we have embarked upon is unlikely to change significantly. That means continued movement toward lower spending, lower deficits, restraint over taxes, and a firm anti-inflation program. No one can credibly argue that the people have shown a preference for higher spending, higher taxes, or more inflation.

B. Clearly there will be changes in emphasis. The composition of budget outlays, and priorities in spending cuts, are likely to shift--defense may bear a greater share of the burden. But our job still will be to take a balanced approach to the deficit problem, and all parts of the budget will be open to scrutiny.

C. Center of gravity. The Reagan White House and the Republican Senate remain responsible for proposing and trying to implement a budget and legislative program--the shift in the House doesn't change that. But the shift may mean that the center of gravity in policymaking will move more towards Capitol Hill; the Senate leadership may have to take a more active role in forging a consensus on major decisions that both the Democratic House and the White House can accept.

D. The President is still in charge. President Reagan will continue to take the lead--and he has to do so, because there is no indication that the House leadership, or the Democratic party as a whole, has a coherent alternative to offer. The President is a realistic man, and he will do what he has to do to get the job done. But he will work on the basis of the principles he believes in, and persuade Congress to the best of his ability to go along. There will be successes and failures, but it is unlikely there will be a radical change in direction.

E. It is no surprise that high unemployment causes voter dissatisfaction. What is more interesting--and probably more important in the long run--is the fact that the voters appear to understand that our economic problems were a long time in the making, and that there are no instant cures. According to the CBS/New York Times voter exit polls, voters by a 5 to 4 margin blame our economic problems on past Democratic policies rather than on President Reagan.

II. The Economy.

A. Prognosis. Now that all the election-year rhetoric has been cleared away, we can realistically assess the state of the economy and the prospects for the next few years. The fact is that the groundwork has been laid for a stable and lasting recovery, without inflation. It is absolutely crucial that we proceed with care at this point, and not throw away the gains already made.

1. Inflation has been cut to about 5 percent this year from 12.4 percent in 1980. This is the first time inflation has fallen below 6 percent since President Ford took office.

2. Interest rates are down and still falling. The prime rate ranges between 11 1/2 to 12 percent, way down from the 21 percent that prevailed when President Reagan took office. Home mortgage rates are down 2-2 1/2 points since last year. Long-term rates for business loans are off 3 to 4 points from a year ago.

3. Government spending growth rate is down to 11.2 percent this year from 17.4 percent in 1980. The 1983 budget resolution projects the growth rate of government to fall to 7.5 percent by 1985.

4. Lower taxes with major improvements in tax equity will help buoy the recovery, both on the consumer side and on the investment side. The combined effect of the 1981 and 1982 tax bills has been to lower individual taxes over three years by $344 billion, as well as improve compliance and tax fairness. Lower individual rates boost personal income and restore incentive, while favorable capital cost recovery rules should spur investment. Already a significant result of the tax changes has been to boost the savings rate to about 7 percent: additional savings we need to build the capital pool to finance recovery.

B. The Unemployment Problem. Unemployment, of course, is the major negative in the economic picture, and it may continue to rise in the near term. High unemployment costs the government in lost revenue and lost production, and it has to come down. But it has to come down and stay down without inflationary stimulus--that is what we have failed to do in the past.

- Clearly there is a bipartisan consensus for more jobs. But resuming the inflationary policies of the past will not create lasting jobs, just an illusion of prosperity that leaves us worse off the next time we try to get 'off the wagon.'

- That means the most important thing we must do is judge carefully the degree of stimulus the economy can and should take, consistent with a firm anti-inflation policy. The Federal Reserve will play a key role, and has already shown a willingness to adjust its short-term goals based on an assessment of the weakness of the economy. We will not allow the recession to continue, but we will not reinflate the economy, either.

- While the main emphasis must remain on the long-term goals of growth with low inflation, there are steps we can take in the short term to deal with the plight of the unemployed. Many things have already been done:

-a new federal supplemental unemployment compensation program was passed with the 1982 tax bill, providing additional unemployment benefits to about 2 million workers in 38 States.

-The President signed into law the new Job Training Partnership Act, which emphasizes training for permanent employment rather than make-work jobs. Training will focus on the economically disadvantaged, particularly youth, and on displaced workers who lost jobs due to plant closures or force reductions.

-The targeted jobs tax credit, which was extended for two years by the 1982 tax bill, gives employers a real incentive to hire the disadvantaged--about 600,000 workers are certified under the program.

-The enterprise zone legislation reported by the Finance Committee can provide us with an experiment in private-sector job creation in depressed areas, through a combination of Federal tax incentives and State and local efforts to target an area for development with regulatory and tax relief, neighborhood participation, and capital and other improvements.

C. The Deficit and Interest Rates.

1. All our economic difficulties are, of course, related-- high interest rates and slow growth boost the deficit, and higher deficits create greater uncertainty in the business community as to our future course; will there be more inflation, or less credit available for business expansion?

2. Because of this, it makes sense first of all to chart a path that is most likely to bring stable growth without inflation. Higher growth boosts revenues and cuts unemployment costs, thereby reducing the deficit as well.

3. In the short term, in addition, it makes sense to continue to review every part of the Federal budget to achieve whatever savings are possible in an effort to bring the deficit down. This means both defense and entitlements must be under scrutiny to maximize the efficiency of every dollar spent. A balanced deficit reduction program is still our goal.

4. Continued efforts to restrain the deficit be controlling Federal spending will give the Federal Reserve a bit more room to accommodate the room for real growth that exists in the economy without inflationary pump-priming. But restraint in both fiscal and monetary policy is crucial if we want to maintain long-term confidence in the economic program. That means long-range goals must be carefully reconciled with efforts to respond to particular weaknesses in the economy. Radical attempts to reverse course would be self-defeating and must be resisted.

III. Conclusion.

The months and years ahead must not be dominated by rigid ideologies on either side--but neither can the President or the Republican leadership be expected to cast aside the principles of government the American people so soundly endorsed in 1980. Those principles--a more restrained government, a freer economy, greater accountability to the American people--are as valid today as they ever were, and there is no indication that the people have changed their commitment to these same principles. Guided by these principles, we will try to work together to build on the sound foundation for recovery that has already been laid. The recent performance of the stock market indicates that this is what the investment community expects us to do--that is a bright sign for the future, and we have to follow through.